

MATRICULATION AND SECONDARY EDUCATION CERTIFICATE EXAMINATIONS BOARD

UNIVERSITY OF MALTA, MSIDA

MATRICULATION EXAMINATION
INTERMEDIATE LEVEL
SEPTEMBER 2016

SUBJECT:	ECONOMICS
DATE:	31st August 2016
TIME:	4:00 p.m. to 7:05 p.m.

Answer **THREE** questions from Section A and **THREE** questions from Section B.

Section A and Section B each carry a total of **50%** of the final grade. The paper is marked out of **120 marks**.

Section A (60 marks)

Answer **THREE** questions in detail from this Section. Each question carries 20 marks.

1. (a) Define the following terms:
 - Scarcity;
 - Opportunity Cost;
 - Free goods. (6 marks)
- (b) Distinguish between ‘needs’ and ‘wants’. (6 marks)
- (c) Use the production possibility boundary to illustrate a situation of economic growth. Explain the concepts that the production possibility boundary depicts. (8 marks)
2. (a) Using a graph, explain what the demand curve represents. (5 marks)
- (b) Show what happens to the demand curve in the following situations:
 - An increase in consumer income;
 - A decrease in the price of a substitute good;
 - A decrease in the price of the good itself;
 - An increase in population. (10 marks)
- (c) What is consumer surplus? Show this graphically. (5 marks)
3. (a) Define the concept of ‘price elasticity of demand’? How is it calculated? (5 marks)
- (b) How are the following elasticities interpreted? (5 marks)
 - Elasticity of zero;
 - Elasticity of one;
 - Elasticity of between zero and one;
 - Elasticity greater than one.
- (c) Illustrate the **four** types of elasticities in 3(b) using graphs. (10 marks)

4. (a) What is the difference between static and dynamic efficiency? (4 marks)
(b) Define productive efficiency and allocative efficiency. (6 marks)
(c) What is market failure? Provide **three** examples. (10 marks)
5. (a) What are the characteristics of a public good? Give **one** example. (6 marks)
(b) Define and explain, using **one** example, the free-rider problem. (4 marks)
(c) What are the arguments that are put forward to justify government intervention in the market? How do governments intervene in the economic system? (10 marks)

Section B (60 marks)

Answer **THREE** questions in detail from this Section. Each question carries 20 marks.

1. (a) What are the main components of aggregate demand? (8 marks)
(b) Explain the main determinants which lead to a shift in the aggregate demand curve. (6 marks)
(c) Define the short run and the long run aggregate supply curves. (6 marks)
2. (a) What are the main components of fiscal policy? (6 marks)
(b) Trace the effects of an increase in government expenditure on economic activity. (8 marks)
(c) In a period of high economic growth and high inflation, explain the type of fiscal policy you would expect government to adopt. (6 marks)
3. (a) Distinguish between voluntary and involuntary unemployment. (4 marks)
(b) Explain how inflation is measured. (8 marks)
(c) Explain the main causes and costs of inflation. (8 marks)
4. (a) Explain the relationship between the business cycle and economic growth. (6 marks)
(b) Briefly define the term 'output gap'. (6 marks)
(c) In addition to economic growth, what are the other factors that influence the standard of living? (8 marks)
5. (a) Briefly define the current account of the balance of payments. (6 marks)
(b) How does an increase in the current account deficit affect the equilibrium output through the aggregate demand curve? (8 marks)
(c) If the euro were to depreciate against the sterling, what would the impact on export and imports of goods and services be? (6 marks)