MARKER CODE				

STUDENT ENROLMENT NUMBER									

Tonga National Form Seven Certificate

ECONOMICS

2016

QUESTION and ANSWER BOOKLET

Time allowed: Three Hours

INSTRUCTIONS

1. Write your **Student Enrolment Number (SEN)** on the top right hand corner of this booklet.
2. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
3. If you need more space for answers, ask the Supervisor for extra paper. Write your SEN on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.

TOPICS	Pages	Time (mins)	Total
SECTION A Resource allocation via the market system	2-7	81	30
SECTION B Resource allocation via the public sector	8-10	36	20
SECTION C Aggregate economic activity and policy	11-15	63	20
TOTAL	**15 pages**	**180 mins**	**70 marks**

Check that this booklet contains pages 2 - 15 in the correct order

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION

SECTION A: **RESOURCE ALLOCATION VIA THE MARKET SYSTEM** **30 SKILL LEVEL**

Question 1

Define Marginal Utility

Skill level 1	
1	
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Question 2

Define Short-Run Average Total Costs.

Skill level 1	
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0	
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Question 3

Describe the Law of Diminishing Returns.

Skill level 2	
2	
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Question 4

Give **TWO** (2) examples of Economic Models.

Skill level 2	
2	
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Question 5

Describe the Production Possibilities Schedule.

Skill level 2	
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Question 6

Describe the effect on the supply curve, price and equilibrium quantity of beef if government subsidize beef production (ceteris paribus).

Skill level 2	
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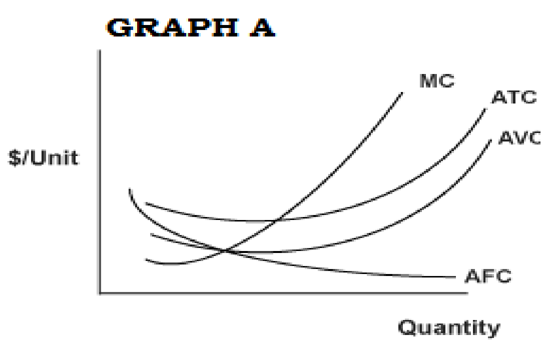
Question 7

With the help of the **GRAPH A**, explain the relationship between Short-Run Average Fixed Cost, Short-Run Average Variable Cost, Marginal Cost, and Average Total Cost.



Skill level 3	
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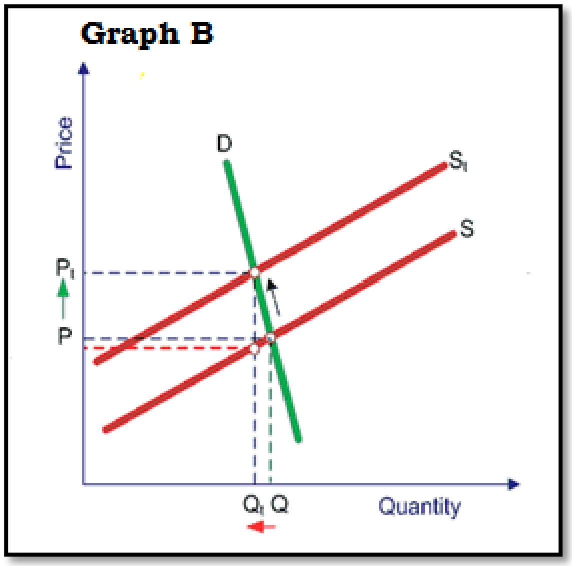
Use **Graph B** to answer **Question 8**.

Question 8

ELASTICITY OF DEMAND AND INCIDENCE OF SALES TAX



Source: www.google.com

Graph B illustrates the impact of sales tax on a commodity with relatively Inelastic demand.

Analyse the incidence of the sales tax illustrated in the graph.

Skill level 3	
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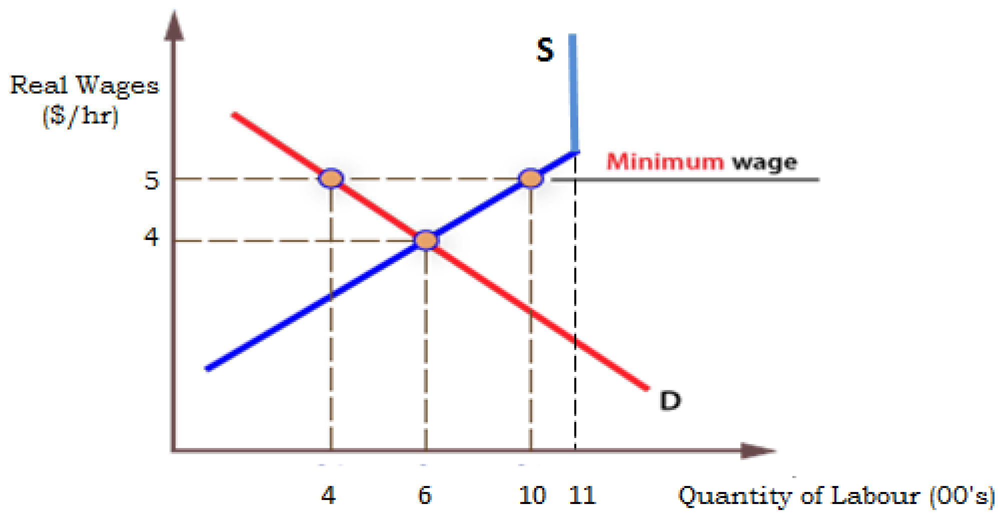
Use **GRAPH C** to answer **Question 9.**

Question 9

GRAPH C **DEMAND AND SUPPLY FOR LABOUR**



With the concepts of Real Wages and Supply/Demand Analysis, explain the effects of the Price Level Changes and Controls in the Labour Market illustrated by the **GRAPH C**.

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Skill level 3	
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Question 10

Suppose Saane‘s cafee sells potato chips and fried fish. The following elasticity were calculated:

- the price elasticity of demand for potato chips is 1.8;
- the cross price elasticity of demand of potato chips for fried fish is -1.5; and
- the income elasticity of demand for potato chips is 1.2.

Use the information above to explain the significance of each type of elasticity of demand calculated to Saane’s Pricing Decision Makings.

Skill level 3	
3	
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Question 11

Discuss the applications of Opportunity Costs in everyday living.

Skill level 4	
4	
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Question 12

Sabrina Vilovilo is a Restaurant in Nuku'alofa that sells BBQ and food dishes which are very similar to many of its competitors.

Explain the significance of Product Differentiation to the successful operation of Sabrina Vilovilo with reference to differentiation by style, by quality, and by location.

Skill level 4	
4	
3	
2	
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SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR 20 SKILL LEVEL

Question 1

Define property rights.

Skill level 1	
1	
0	
NR	

Question 2

A Registered tax allotment in Tonga gives the landowner the rights to that property. Explain the significance of Property Rights to land owners.

Skill level 3	
3	
2	
1	
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NR	

Question 3

Give **TWO** (2) local examples of goods with Negative Externalities of Consumption.

Skill level 2	
2	
1	
0	
NR	

Question 4

Give **TWO** (2) examples of Market Failure.

Skill level 2	
2	
1	
0	
NR	

Question 5

Give **TWO** (2) local examples of services with Positive Externalities of Consumption.

Skill level 2	
2	
1	
0	
NR	

Question 6

Imposing tax, charging or fines, regulations, and *providing subsidies* are ways in which the Tongan government intervene in the operation of the market system.

Discuss the effectiveness of implementing the Government Intervention.

Skill level 4	
4	
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Question 7

Define a 45 degree line Lorenz Curve.

Skill level 1	
1	
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NR	

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Question 8

Give **TWO** (2) local examples of a Natural Monopoly.

Skill level 2	
2	
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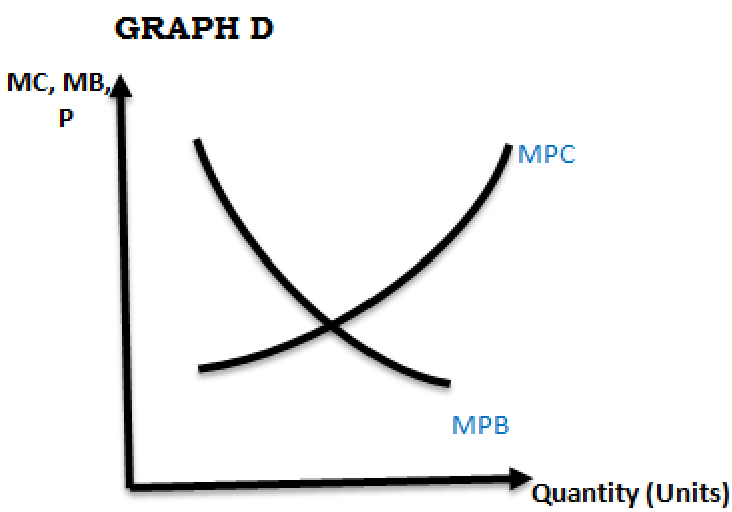
Use **GRAPH D** to answer **Question 9.**

Question 9



Skill level 3	
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On **GRAPH D** above, derive a Social Marginal Cost (MSC) Curve to include the pollution from racing cars on the main road. Clearly indicate the followings on the graph:

a. Market equilibrium – Price as **Pm** and Quantity as **Qm**.

b. Social equilibrium - Price as **Ps** and Quantity as **Qs**.

SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY 20 SKILL LEVEL

Question 1

Define Money Supply, **M1.**

Skill level 1	
1	
0	
NR	

Question 2

In terms of GDP, state the best measure of Economic Growth.

Skill level 1	
1	
0	
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Question 3

There are three Accounts in a Balance of payments, namely Current, Capital and Financial Accounts. Describe the Capital Account.

Skill level 3	
2	
1	
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Question 4

Name the major components of Tonga Government Budget.

Skill level 1	
1	
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Question 5

Define **Injections** as it is used in the economics circular flow model.

Skill level 1	
1	
0	
NR	

Question 6

With reference to the 5-Sector Flow model, give **TWO** (2) examples of Withdrawals.

Skill level 2	
2	
1	
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Question 7

The table below contains the Terms of Trade for Tongaland. Use the information in the table to describe the general movement in the terms of trade for Tongaland over the seven year period.

Tongaland's Terms of Trade (2003 = 100)	
2004	112
2005	78
2006	72
2007	79
2008	78
2009	86
2010	79

Skill level 2	
2	
1	
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Question 8

Differentiate between a model of a closed economy and an open economy.

Skill level 3	
3	
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Question 9

The following data is based on the Fiscal Year period 2006/2007 to 2015/16 taken from the Tonga Government Budget.

Use the data and your own knowledge to evaluate the trends over the ten year period.

	06/07 T$m	07/08 T$m	08/09 T$m	09/10 T$m	10/11 T$m	11/12 T$m	12/13 T$m	13/14 T$m	14/15 T$m	15/16 T$m
Debt Management	18.99	18.92	20.75	26.39	24.39	18.94	21.04	19.24	20.17	22.6
Maintenance & Operations	5.88	6.07	12.29	6.05	6.11	7.49	15.43	28.44	20.34	45.9
Government of Tonga funding	158.29	152.63	198.77	156.38	140.08	142.27	161.59	185.21	183.09	228.54
TOTAL BUDGET	**232.35**	**281.82**	**265.64**	**238.01**	**285.63**	**298.59**	**273.65**	**304.52**	**365.73**	**496.32**

Other Information:

1. All amounts are rounded to two decimal places.
2. All values are revised amount except for 2007/2008, and 2015/2016, which are the estimated amount.
3. Debt Management and Maintenance & Operations are two categories of Government Expenditure.
4. Government of Tonga Funding is a Category of Sources of Funds.
5. Other Sources of Funds include Overseas Donor Funding (Cash & In kind), Local Community Contribution (Cash), Revolving Fund, Tonga Trust, Budget Support from Overseas Donor.

Skill level 4	
4	
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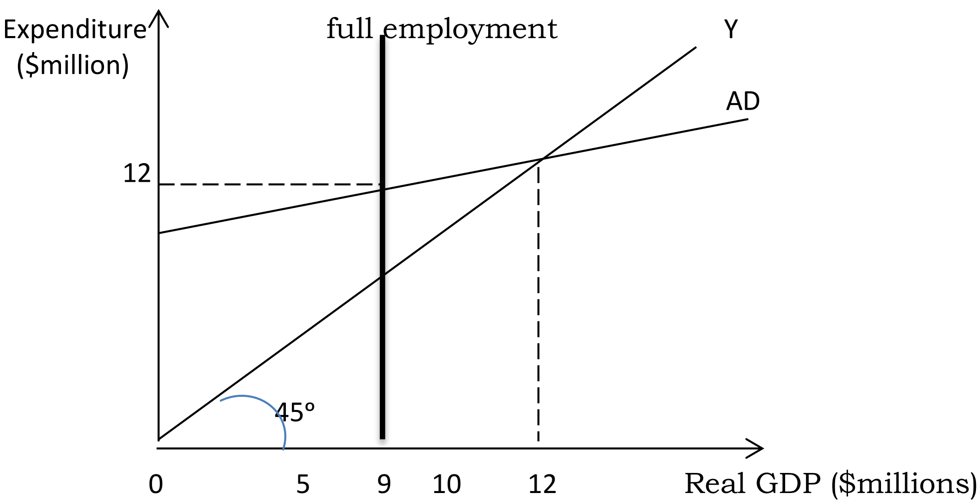
Question 10

Use **Graph E** to answer the following questions.

Indicate the equilibrium level of aggregate output and label as **Ye**,
Indicate the Inflationary gap with a double arrow and calculate the inflationary gap.

Graph E: **FULL EMPLOYMENT**



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