

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2018

ECONOMICS

QUESTION and ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS:

1. Write your **Student Enrolment Number (SEN)** on the top right hand corner of this booklet.
2. This paper consists of **THREE SECTIONS** and is out of 70 Skill Level.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	27
B	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	24
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	19
	TOTAL	70

3. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
4. Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
5. If you need more space for answers, ask the Supervisor for extra paper. Write your **Student Enrolment Number (SEN)** on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.
6. Check that this booklet contains pages **2-15** in the correct order and that none of the pages is blank.

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

SECTION A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM**Question A1**

Define Comparative Advantage.

Skill level 1	
1	
0	
NR	

Question A2

Define Gains to Buyers.

Skill level 1	
1	
0	
NR	

Question A3

Define Price Competition.

Skill level 1	
1	
0	
NR	

Question A4

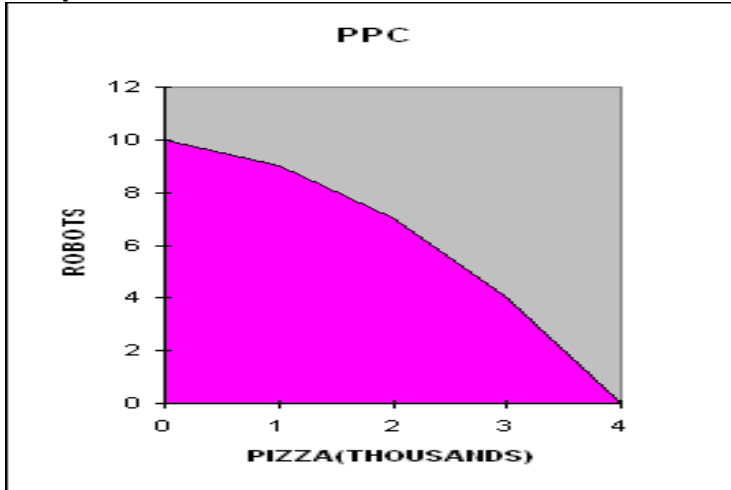
Describe 'product differentiation' strategy as used in a monopolistic competition.

Skill level 2	
2	
1	
0	
NR	

Question A5

Describe the shape of the Production Possibility Curve shown in **Graph 1** below.

Graph 1



Skill level 2	
2	
1	
0	
NR	

Question A6

Describe how the Purchasing Power of a consumer affects his/her buying decision.

Skill level 2	
2	
1	
0	
NR	

Question A7

Describe the Long-Run Equilibrium output for a Monopolist.

Skill level 2	
2	
1	
0	
NR	

Question A8

In terms of both Profit and Production, differentiate between the Shut-Down Point and the Break-Even Point.

Skill level 3	
3	
2	
1	
0	
NR	

Question A9

Suppose the price elasticity of supply for potato is 0.60. Calculate the percentage change in quantity supplied of potatoes if the price of potato increases by 3 percent.

Skill level 3	
3	
2	
1	
0	
NR	

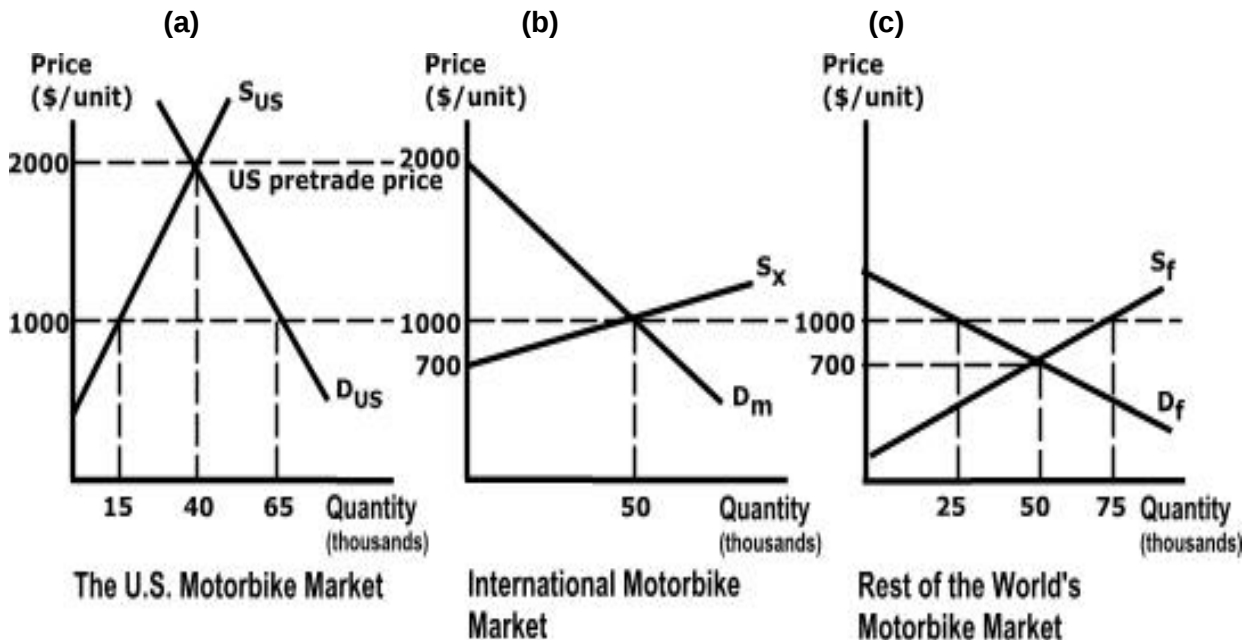
Question A10

The three graphs below illustrate the international market for motorbike. Graphs (a) & (c) show that in the absence of trade, the price of motorbike is \$2000 in the U.S. and \$700 in the rest of the world. When international trade exists, the world price is \$1000.

On the graphs below, find the EXPORTS and IMPORTS of motorbikes, drawing two-headed arrows in the appropriate places to indicate;

- i. The export quantity
- ii. The import quantity

INTERNATIONAL MARKET FOR MOTORBIKE



Skill level 3	
3	
2	
1	
0	
NR	

Question A11

Using the information given in the table below, compare the relationship between the Average Revenue and the Marginal Revenue under an Imperfect and that of a perfect competitor.

Quantity	Perfect Competitor			Imperfect Competitor		
	AR \$	TR \$	MR \$	AR \$	TR \$	MR \$
1	10	10	10	10	10	10
2	10	20	10	9	18	8
3	10	30	10	8	24	6
4	10	40	10	7	28	4
5	10	50	10	6	30	2
6	10	60	10	5	30	0

Skill level 3	
3	
2	
1	
0	
NR	

Discuss the limitation of the basic circular flow model with reference to the exclusion of the government as an important economic unit in a Mixed Economy. Use the basic circular flow model and discuss clearly, with examples, **ONE** (1) limitation of not including the government in the circular flow model.

SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Question B1

State **ONE** (1) condition of a Free Market.

Skill level 1	
1	
0	
NR	

Question B2

State an appropriate government intervention to internalize (or neutralize) negative externalities of production.

Skill level 1	
1	
0	
NR	

Question B3

Describe **ONE** (1) condition of the Free Market.

Skill level 2	
2	
1	
0	
NR	

Question B4

Describe **TWO** (2) clear examples of goods in Tonga that have Positive Externalities of Production.

Skill level 2	
2	
1	
0	
NR	

Question B5

Describe **TWO** (2) clear examples of services in Tonga that have negative externalities of Production.

Skill level 2	
2	
1	
0	
NR	

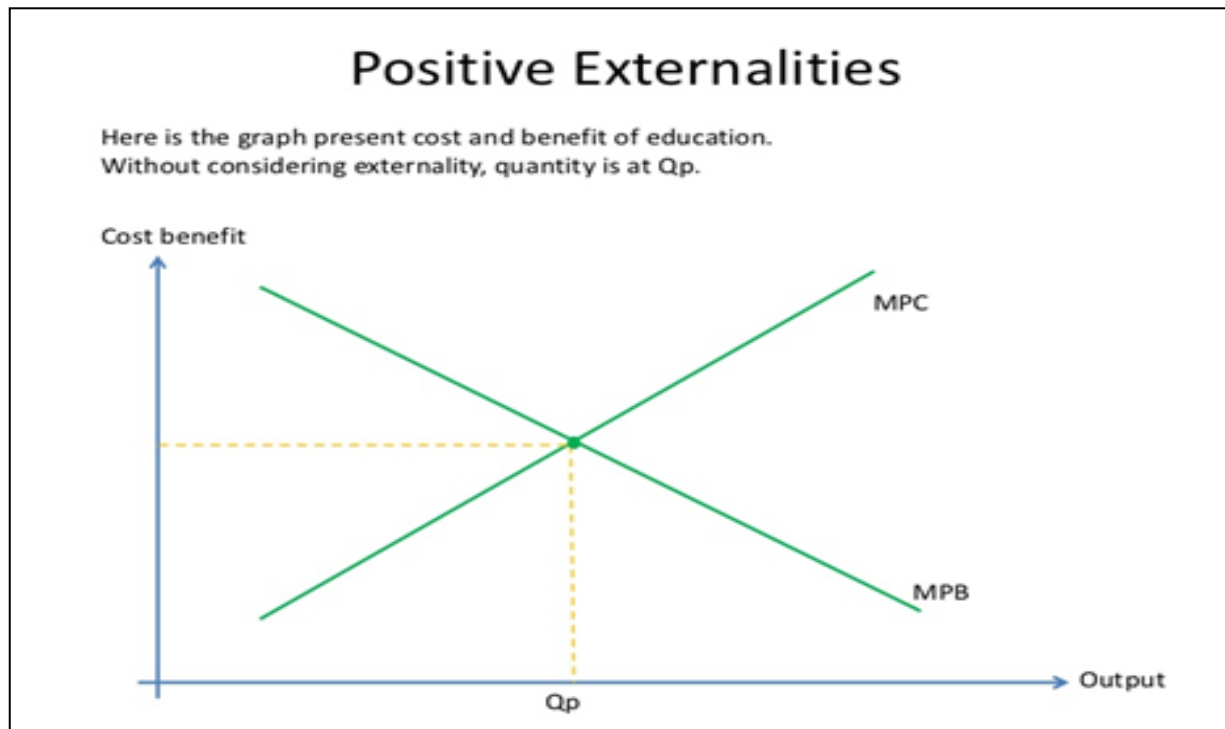
Question B6

Describe **TWO** (2) examples of Economic Inequalities that arises in a Mixed Economy.

Skill level 2	
2	
1	
0	
NR	

Question B7

Below is a diagram illustrating positive externality of production. You are to find out the Social Equilibrium point in this diagram and label it 'SE'. Show the Deadweight loss and also include curves where appropriate and label them clearly. (Check the question – Q4)



Skill level 3	
3	
2	
1	
0	
NR	

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question B10

“Smoking is banned in all public places including local community halls, kava-Tonga clubhouses, church halls and public transportation”.

Evaluate the effectiveness of this government intervention upon the consumption of tobaccos in Tonga.

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Question C1

Name the components of the Current Account section of the Balance of Payments.

Skill level 1	
1	
0	
NR	

Question C2

Name the components of the M1 money supply.

Skill level 1	
1	
0	
NR	

Question C3

Define Capacity Output.

Skill level 1	
1	
0	
NR	

Question C4

Describe how the BSP Bank provides Loans with 'Overdraft'.

Skill level 2	
2	
1	
0	
NR	

Question C5

Describe whether the movements in the Terms of Trade illustrated by the table below are Favorable or Unfavorable.

Year	<i>Export price index</i>	<i>Import price index</i>	<i>Term of Trade</i>
1	100	100	100
2	110	112	99
3	108	102	106
4	109	109	103

Skill level 2	
2	
1	
0	
NR	

Question C6

“Consumers might spend less because government taxes on income have increased.”
Describe the effect of this statement on the Aggregate Demand Curve.

Skill level 2	
2	
1	
0	
NR	

Using the above news report, evaluate the impacts of the stated budget above on local families attempting to fully recover from the effects of Cyclone Gita.