MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2019

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 page.
2. This paper consists of **THREE SECTIONS** and is out of 70 weighted scores.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	29
B	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	21
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	20
	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 spaces for answers, ask the supervisor for extra paper. Write your **Student Enrolment Number (SEN)** on each additional sheet, number the questions clearly and insert them in the appropriate places in this booklet.
6. Check that this booklet contains pages 2-19 in the correct order and that pages 18-19 has been deliberately left blank.

YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.

SECTION A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

In Economics, define the following terms:

1. Inferior Goods

Skill level 1	
1	
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2. Market Forces

Skill level 1	
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3. Oligopoly

Skill level 1	
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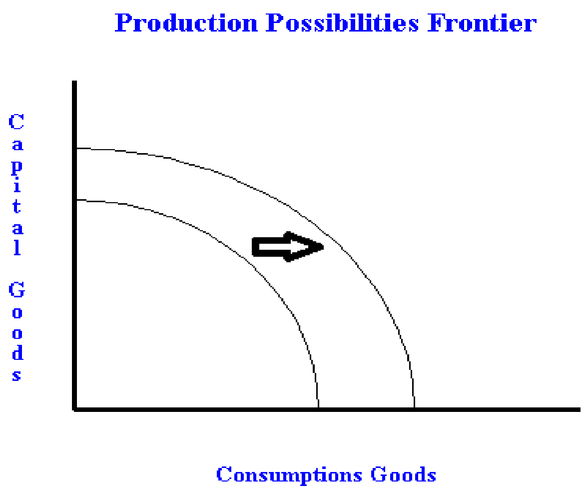
4. Describe the shift of the Production Possibilities Frontier as illustrated by the graph below.



Skill level 2	
2	
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5. Suppose Lola, Loleini, and Litia all purchase wall-hanging clocks for their rooms for $15 each. Lola's willingness to pay was $35, Loleini's willingness to pay was $25, and Litia's willingness to pay was $30. Calculate the TOTAL CONSUMER SURPLUS for these three, Lola, Loleini, and Litia.

Skill level 2	
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6. Calculate the percentage change in demand if the disposable incomes rises by 5% and the income elasticity of demand is 0.5.

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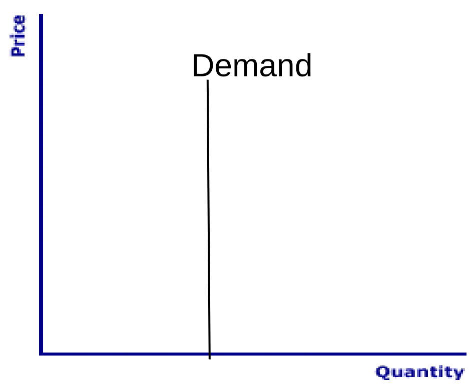
7. Describe the price elasticity of demand as illustrated by the graph below.

Price Elasticity of Demand



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8. Explain why an Inferior Good has an Income Elasticity of Demand less than 0 while Income Elasticity of Demand for Normal Goods is greater than 0.

Skill level 3	
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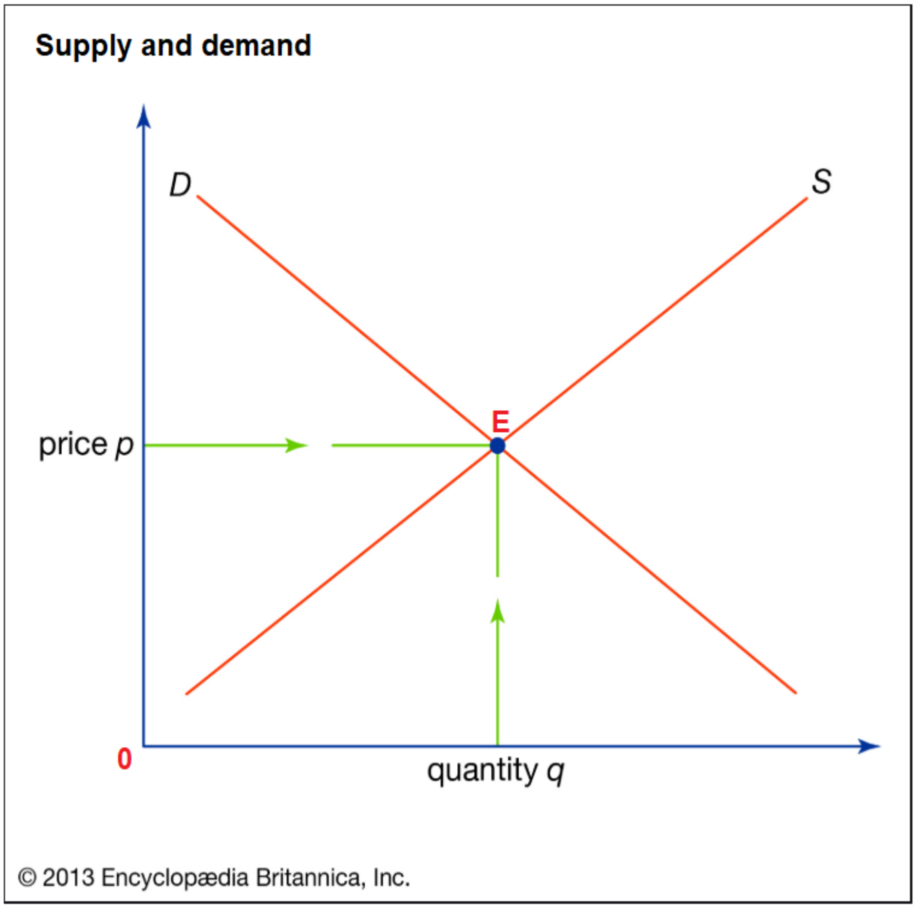
9. Below is a Supply and Demand graph for Product “Y”. The rectangle ***0pEq*** shows the total revenue received by the producer of Product “Y”. Explain what will happen to total revenue if demand for product “y” is elastic and price increases.



Skill level 3	
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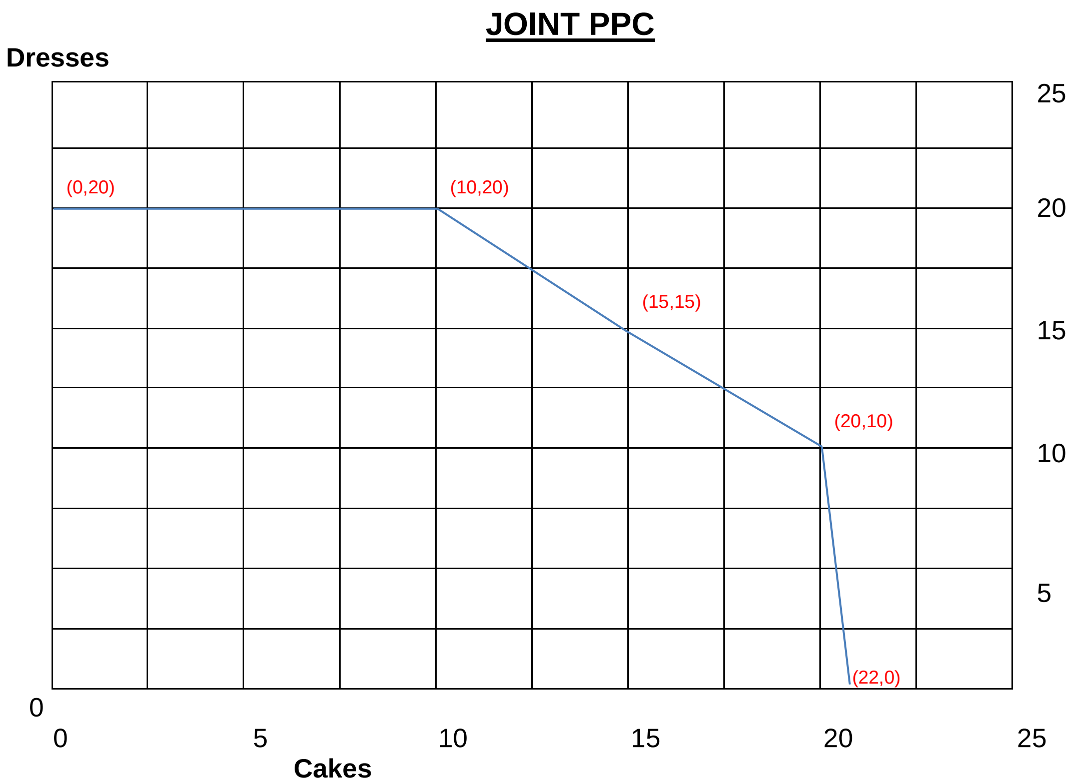
10. Pamela and Seini split their time between sewing dresses and baking cakes. Their production possibilities are shown by the joint PPC below.



With reference to the Joint PPC graph above, describe the opportunity cost of producing the first 5 cakes.

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Skill level 2	
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11. Explain why economists prefer to use models to explain the world.

Skill level 3	
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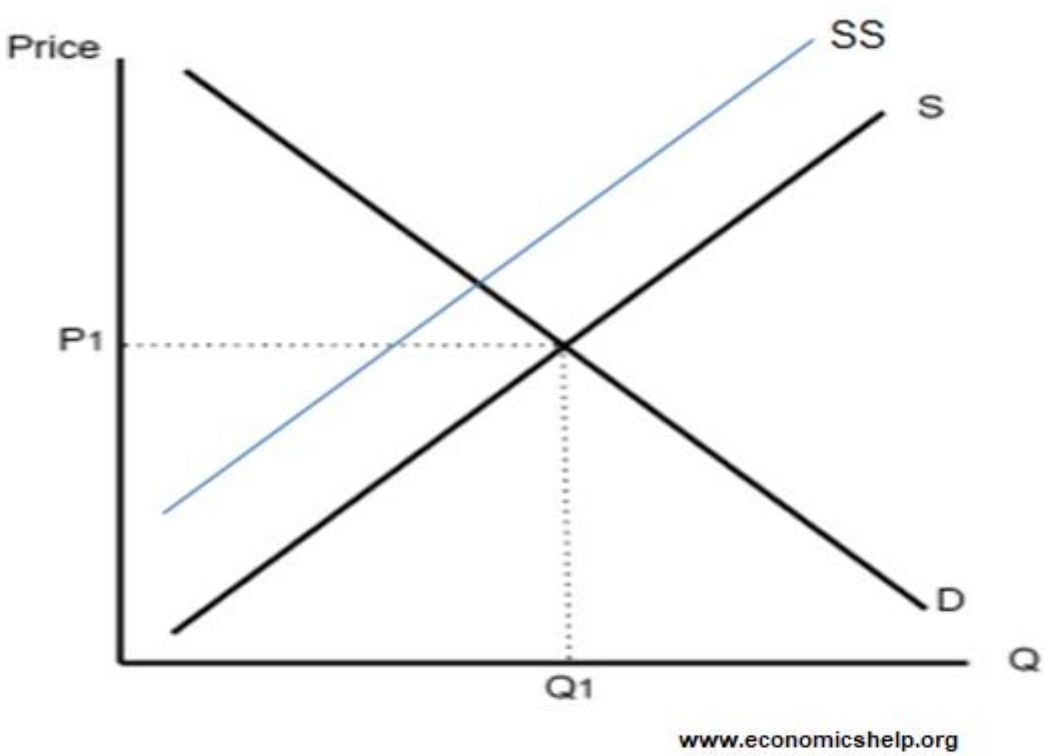
12. On the graph of demand and supply curves provided below, clearly illustrate the impact of the shift in Supply Curve (from S to SS) on the Consumer Surplus and Producer Surplus.



Skill level 3	
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13. Discuss how the Price Elasticity of Supply of coffee is more responsive in the Long-Term than in the Short-Term.

Skill level 4	
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SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

1. Define Natural Monopoly.

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Skill level 1	
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2. Define 'Social Preference' in economics.

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Skill level 1	
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3. When government subsidizes education, list **TWO** (2) external benefits to society that education produces.

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Skill level 2	
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4. List **TWO** (2) features of Natural Monopolies.

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Skill level 2	
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5. List **TWO** (2) features of Public Goods.

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Skill level 2	
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6. Explain why the 'Street Lights', in Tonga, is not provided by the Market.

Skill level 3	
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7. Explain how 'Public Goods' are sources of Market Failure.

Skill level 3	
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8. Tonga Water Board supplies Nuku'alofa area with tap-water. Explain how important it is for the government to regulate this Natural Monopoly for the benefit of the consumers.

Skill level 3	
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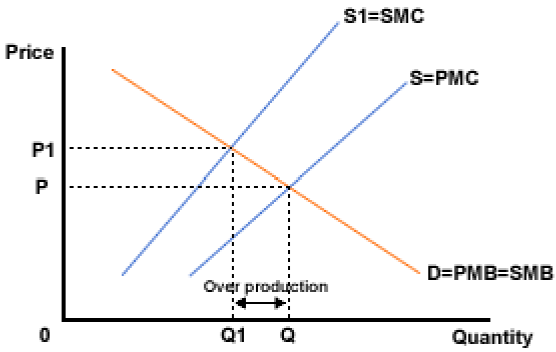
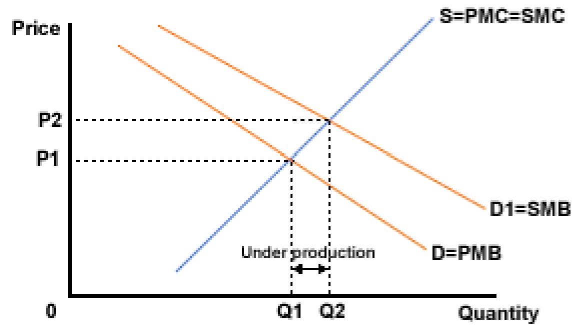
9.

A



B



Each graph above illustrates a government policy that is imposed to internalise either negative or positive externalities of production. You are to study each graph carefully and discuss the impacts of each policy imposed on the society. Your discussion should include an identification of the type of externality illustrated in each graph, naming the government policy imposed, and the impacts that society receives in terms of prices and quantities.

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SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

1. In an economy's system of National Accounts, define Aggregate Demand using its components.

Skill level 1	
1	
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NR	

2. State **ONE** (1) limitation of GDP as a Measure of True Standard of Living.

Skill level 1	
1	
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3. Tonga continues to trade with New Zealand. Suppose, Tonga reduced the value of its Tongan Pa'anga (TOP or T$) against the New Zealand Dollar (NZ$). You are to list ONE impact each on the Export and Import of Tonga as a result of this change in the Exchange Rate.

 a. Export

Skill level 1	
1	
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 b. Import

Skill level 1	
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4. Describe the effect of an increase in Real Interest Rates on Investment.

Skill level 2	
2	
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5. Explain how a commercial bank, such as the ANZ bank, limits its power to create credit.

Skill level 3	
3	
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6. Explain how **specialization** and **division of labour** promote international trade, hence, making international trade significant to the Tongan economy.

Skill level 3	
3	
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7. Discuss positive economic consequences which a rise in GDP may have on the Tongan economy in terms of Production and Standard of Living.

Skill level 4	
4	
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8. Suppose that the Tongan Government decided to reduce the current income tax rate by 2% and to be effective in the next financial year. Discuss the main effects of this fiscal policy on government revenue and employment.

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