MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2020

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	26
B	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	20
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	24
	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 contain pages 2-15 in the correct order and that none of the pages is 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:

Question A1

Use the information given in the table below to define the Law of Diminishing Marginal Utility.

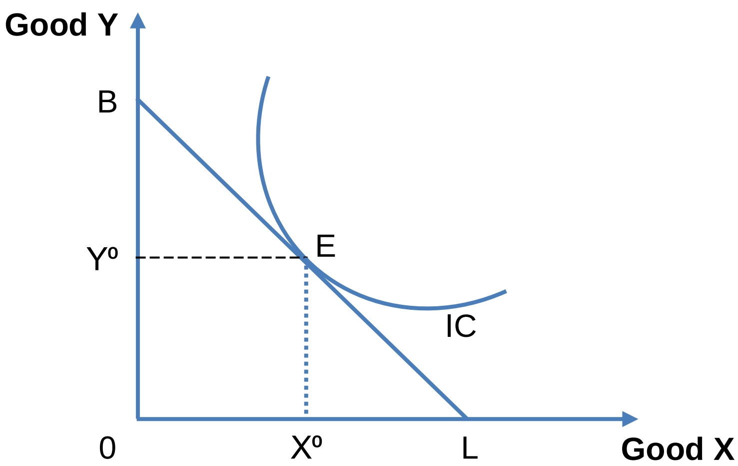
Mary's Total Utility & Marginal Utility from a banana cake

Slices of banana cake	1	2	3	4	5
Total Utility, $	1.5	2.70	3.60	3.60	2.00
Marginal Utility, $	1.50	1.20	0.90	0	-1.60

Skill level 1	
1	
0	
NR	

Question A2

Optimal Purchasing Rule – Budget line (BL) and Indifference curve (IC)



Use the diagram above to define the term "**Optimal Purchasing Rule**".

Skill level 1	
1	
0	
NR	

Question A3

List **TWO** examples of Accounting Costs for a student at the Tonga Institute of Higher Education.

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Skill level 2	
2	
1	
0	
NR	

Question A4

If a producer sold 7 coffee tables for T$1050, what would the Average Revenue be?

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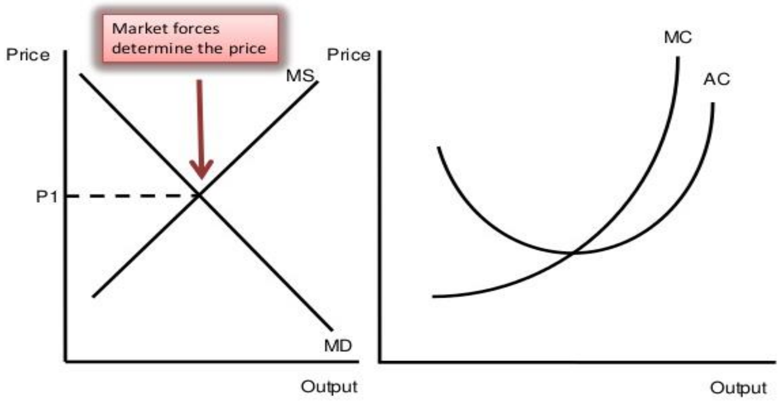
Skill level 2	
2	
1	
0	
NR	

Question A5

The graphs below illustrate the Short Run Equilibrium with Perfect Competition. We assume that firms are seeking to maximize profits.

<u>SHORT RUN PRICE AND OUTPUT</u>



<u>Source</u> : tutor2u

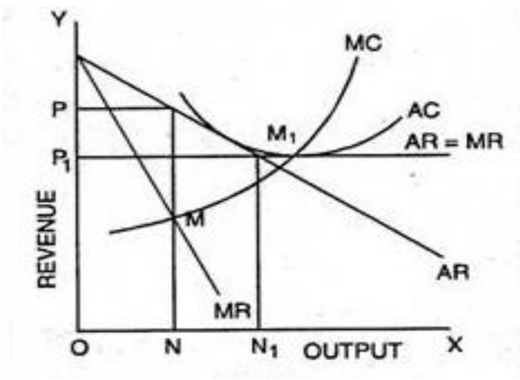
Skill level 2	
2	
1	
0	
NR	

On the graphs above, determine the Short-Run Equilibrium Output by labelling this quantity level as “Q”.

Question A6

Using the Marginal Analysis, **explain** the Output and Pricing Decisions of a monopolist. Your explanation should be made with reference to the graph given below.

Monopoly Market

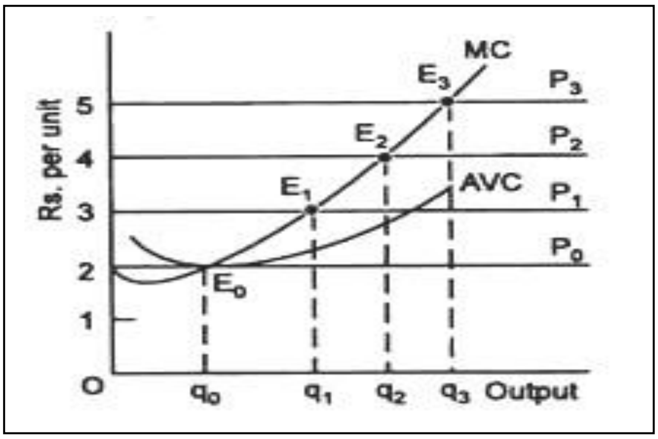


Skill level 3	
3	
2	
1	
0	
NR	

Question A7

Use the graph below to determine the Shut-Down Price and Quantity for this Price-Taking Firm by circling the price and quantity levels of this situation.

A Price-Taking Firm

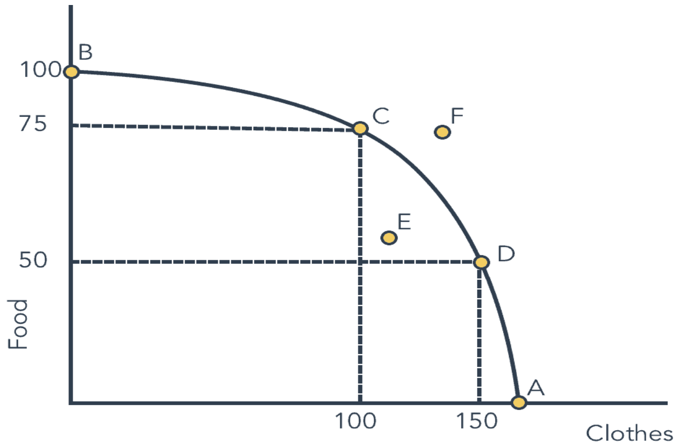


Skill level 2	
2	
1	
0	
NR	

Question A8

Explain how the concept of ‘Scarcity’ is applied on the Production Possibility Curve drawn below.

Production Possibility Curve



Skill level 3	
3	
2	
1	
0	
NR	

Question A9

Differentiate between the Movements Along a Demand Curve and the Shifts of a Demand Curve.

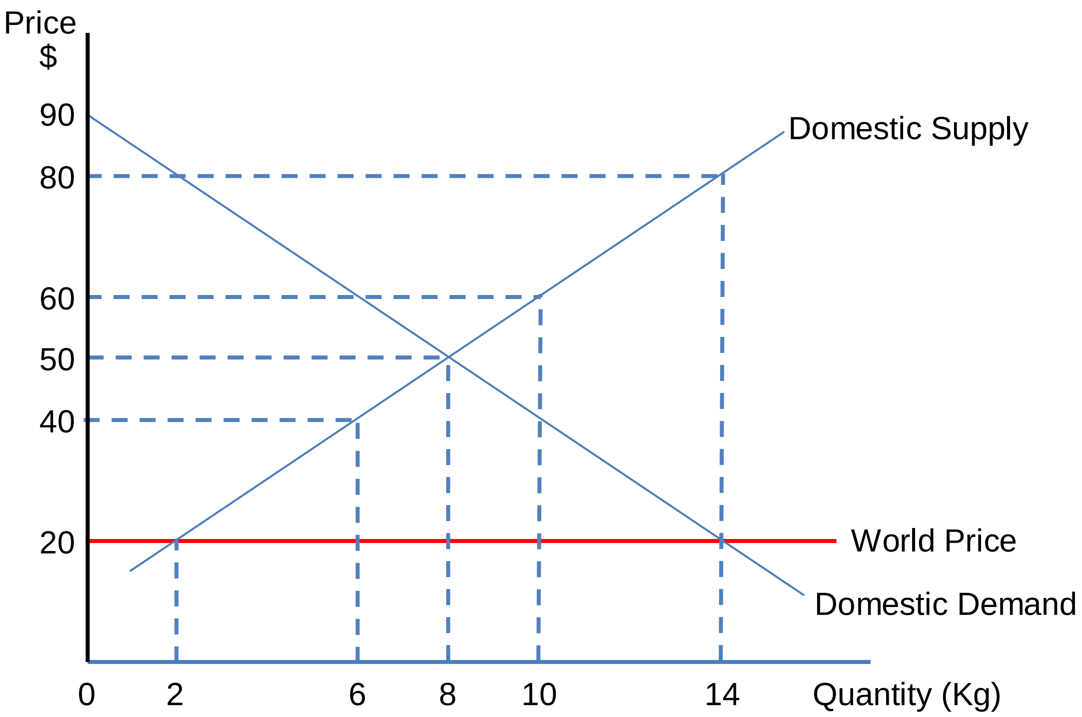
Skill level 3	
3	
2	
1	
0	
NR	

Question A10

Assume that Fonua'eiki (a hypothetical island) is a domestic market and it is a price taker in the world market for Beef Meat. Some of the beef meat consumed in Fonua'eiki is produced domestically while the rest is imported. The world price of beef meat is $20 per kg.

On the graph given below, illustrate with a solid line the volume of beef meat that Fonua'eiki will import from the overseas market. Include the total volume of beef meat that Fonua'eiki will import.

Fonua'eiki's Market for Beef Meat



Total Beef Meat Imported:

Skill level 3	
3	
2	
1	
0	
NR	

Question A11

Use the information and graph in **Question A10** to answer **A11**.

Suppose that the government of Fonua'eiki imposes a tariff of $10 on the imported Beef Meat in-order to protect the domestic producers. Discuss the incidence of this tariff on the Market of Beef Meat in Fonua'eiki.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Use the information in the box below to answer Question B1 to B3.

Goods and Services are classified into Private, Public, Collective, and Mixed Goods/Services, Mixed Goods can be sold and produced, but they involve spillover costs or benefits.

Question B1

Define **Mixed Goods and Services.**

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Skill level 1	
1	
0	
NR	

Question B2

List **TWO** features of private goods and services.

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Skill level 2	
2	
1	
0	
NR	

Question B3

Differentiate between **Collective Goods** and **Collective Provision**.

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Skill level 3	
3	
2	
1	
0	
NR	

Question B4

During every school academic year, the Ministry of Education conducts a number of Teaching Training Programs for school teachers. One purpose is to introduce new teachers to their new teaching jobs and to train them on the skills of the workplace. The Ministry of Education gains the benefit of more highly trained staff and students who enjoy learning from skillful teachers.

Construct a graph consisting of the Marginal Cost Curve and the Marginal Benefit Curve to show positive externalities of production. The graph should reflect the 'spillover benefits' per number of training program to the Ministry of Education and the rest of the society. Label the axes, the market equilibrium and the socially desirable price and quantity clearly.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question B5

Name the government intervention used to internalize the positive externalities in '*Question B4*'.

Skill level 1	
1	
0	
NR	

Question B6

Home schooling trial on June 30 uses variety of platforms Monday, June 29, 2020 - 18:13 All students from Early Childhood Education, Classes 1-6, Forms 1-7, and Tertiary level will learn from home on June 30, for a one-day trial organized by the Ministry of Education and Training, using a variety of platforms, including internet, radio, TV and paper-based distance education.

Source *: Matangi Tonga Online*

Discuss the benefits that students and society will receive from the trial program provided by the Ministry of Education. Your discussion should:

- identify the type of intervention referred to in the trial program;
- significance of the intervention to students,
- spillover benefits to the Ministry of Education and the society.

Skill level 4	
4	
3	
2	
1	
0	
NR	

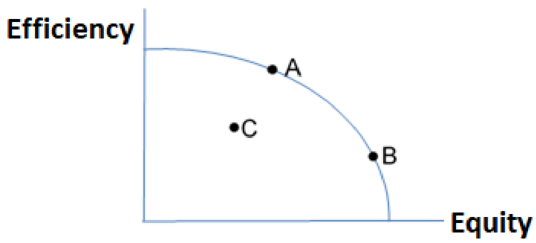
Question B7

Describe a Lorenz Curve.

Skill level 2	
2	
1	
0	
NR	

Question B8

Efficiency/Equity Trade-Off



Explain what the Production Possibility Curve is demonstrating about the Efficiency/ Equity Trade-off.

Skill level 3	
3	
2	
1	
0	
NR	

SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Question C1

Define Consumer Price Index.

Skill level 1	
1	
0	
NR	

Question C2

Describe the nature of Consumer Price Index.

Skill level 2	
2	
1	
0	
NR	

Question C3

Define an Appreciation of New Zealand dollar in terms of Tongan Pa'anga.

Skill level 1	
1	
0	
NR	

Question C4

Explain how a 'Floating Exchange Rate' operates in the Foreign Exchange Market using the Supply and Demand Analysis.

Skill level 3	
3	
2	
1	
0	
NR	

Question C5

Complete the table below by calculating the Terms of Trade for each year.

<u>TERMS OF TRADE</u> *Base Year : 2010 = 100*

Year	Export Price Index	Import Price Index	Terms of Trade
2014	130	140	
2015	165	147	
2016	185	165	
2017	169	218	
2018	208	288	

Skill level 2	
2	
1	
0	
NR	

Question C6

Using the Terms of Trade (TOT) calculated for 2015 and 2016, list **TWO** impacts of TOT on export receipts and import payments between the two years (**ONE** impact on export receipts and **ONE** impact on import payments).

Export Receipts:

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Import Payments :

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Skill level 2	
2	
1	
0	
NR	

Question C7

Discuss the difference between improvement in terms of trade and improvement in the Balance of Payments.

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Skill level 4	
4	
3	
2	
1	
0	
NR	

Question C8

Identify a **MAJOR** expenditure of the Tonga Government Budget 2020-2021 Fiscal Year.

Skill level 1	
1	
0	
NR	

Question C9

Describe ONE **major** fiscal policy that is included in the Tonga Government Budget 2020-2021 Fiscal Year.

Skill level 2	
2	
1	
0	
NR	

Question C10

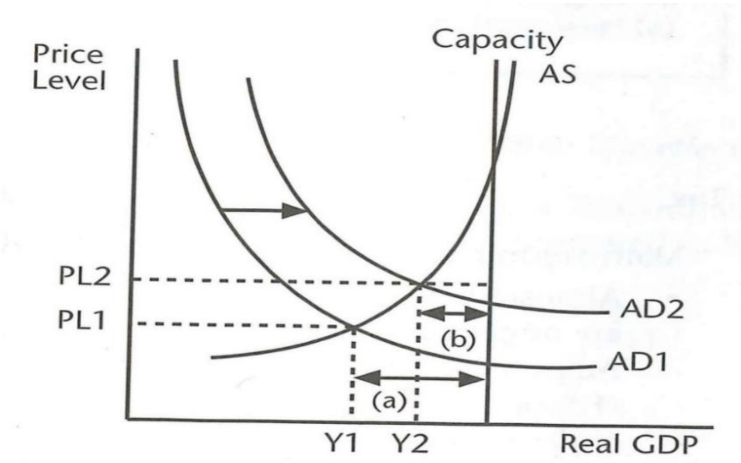
Explain how government spending on improving public roads solve any of its economic goals.

Skill level 3	
3	
2	
1	
0	
NR	

Question C11

Use the information in the graph below to help you explain how a reduction in income tax affects the Aggregate Demand.

AD/AS Curves and Income Tax



Skill level 3	
3	
2	
1	
0	
NR	