MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2021

ECONOMICS

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours + 10 minutes reading time

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.

SECTION	STRANDS	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 space 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 - 27** in the correct order and that page 27 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

Question A1

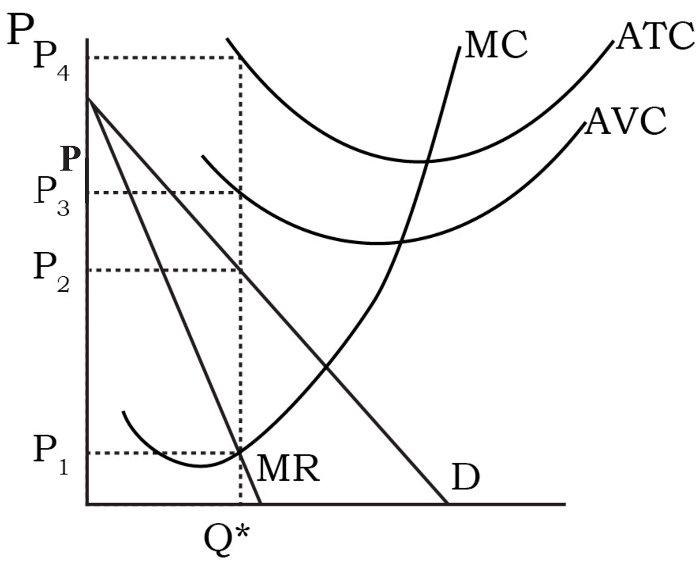
Define '**Perfect Competitive Firms**' in terms of barriers to entry to the market and exit from the market.

Skill level 1	
1	
0	
NR	

Question A2

Use the information on the graph drawn to identify the price level that defines a monopolist.

Imperfect Competitive Firm



Skill level 1	
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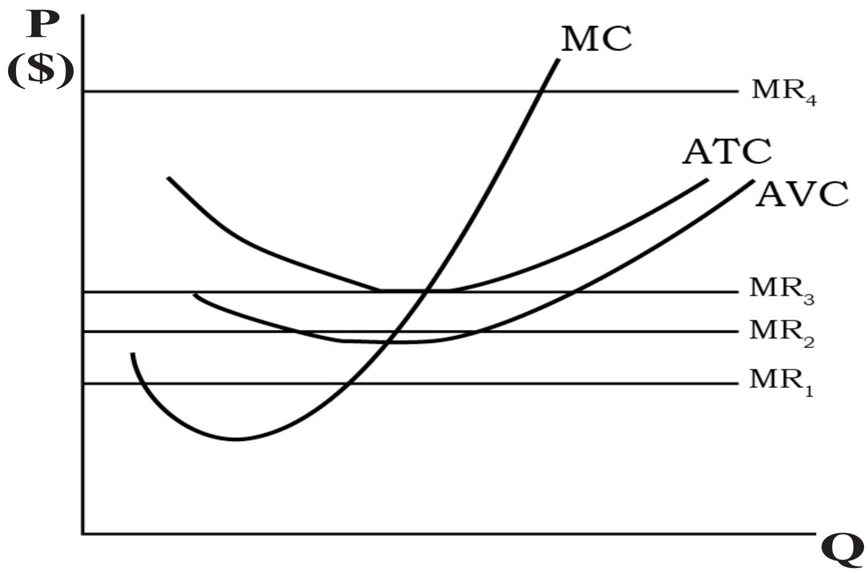
Question A3

Use the information on the graph below to determine the Equilibrium Price for a Perfect Competitor, that will have a Long-Run pressure on this price to rise.

Perfect Competitive Firm



Skill level 2	
2	
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Question A4

Use the data in the table below to calculate the 'Cross Elasticity' of Substitutes (Butter and Margarine).

<u>Cross Elasticity of Substitutes</u>

Goods	Original Level before change		New Level after change	
	Price ($)	Quantity (kg)	Price ($)	Quantity (kg)
Margarine (X)	20	400	20	500
Butter (Y)	30	500	40	30

Skill level 2	
2	
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Question A5

Describe the significance of the elasticity of supply.

Skill level 2	
2	
1	
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Question A6

On the axes below, draw the relevant curves to illustrate that a Perfectly Competitive Firm is at the Break-even point.

BREAK-EVEN POINT

Skill level 3	
3	
2	
1	
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Question A7

A firm produces 200 units and the total cost of production is $4000. When they increase output to 220, the cost rises to $4200. What is the marginal cost?

Skill level 2	
2	
1	
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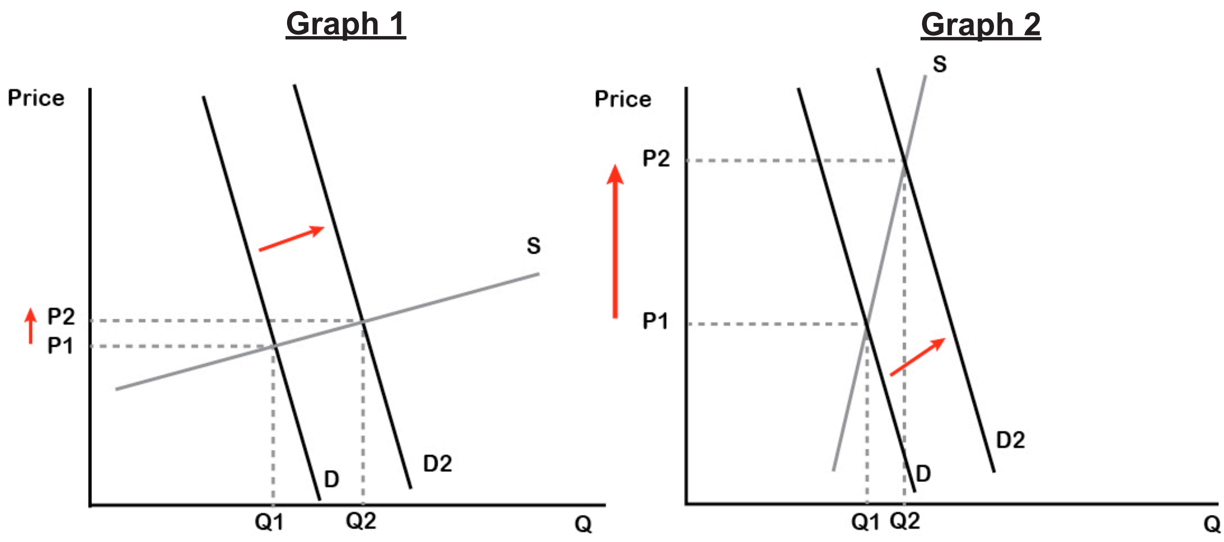
Question A8

Drawn below are two different Price Elasticities of Supply (Elastic Supply and Inelastic Supply) graphs. You are to explain **ONE** clear reason for the difference in the two Elasticities.



Skill level 3	
3	
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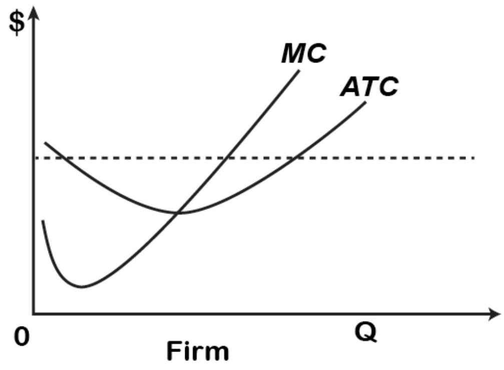
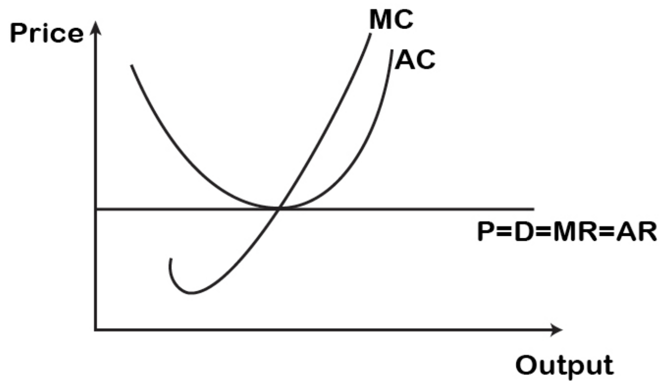
Question A9

The two graphs drawn below show a perfectly competitive firm in Short-Run Equilibrium (SRe) and in the Long-Run Equilibrium (LRe).

Graph A



Graph B



Source: quizlet.com

You are to differentiate the two Equilibriums, SRe and LRe, in terms of :

a. which graph is which and how do you know;

b. profit maximizing level of output (label Q*) and profit maximizing price level (label P*)

c. how will this market make the transition from short-run equilibrium (SRe) to long-run equilibrium (LRe).

Skill level 3	
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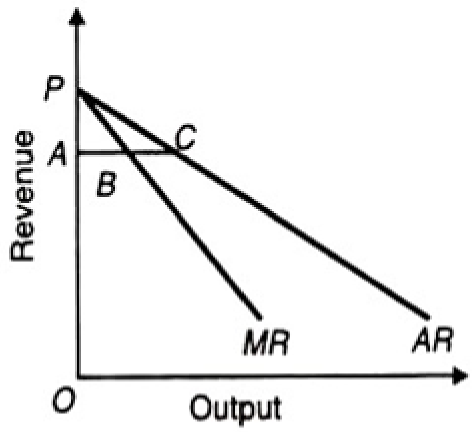
Question A10

Use the information given on the table and on the graph below to explain **ONE** clear relationship between Average Revenue and Marginal Revenue of a Monopolist. Use clear examples from the given information (on the table and graph) to support your explanation.

Relationship between AR and MR of a Monopolist

Quantity (Q)	Average Revenue (AR = P) $	Total Revenue (TR) $	Marginal Revenue (MR) $
1	20	20	20
2	18	36	16
3	16	48	12
4	14	56	8
5	12	60	4
6	10	60	0
7	8	56	-4



Skill level 3	
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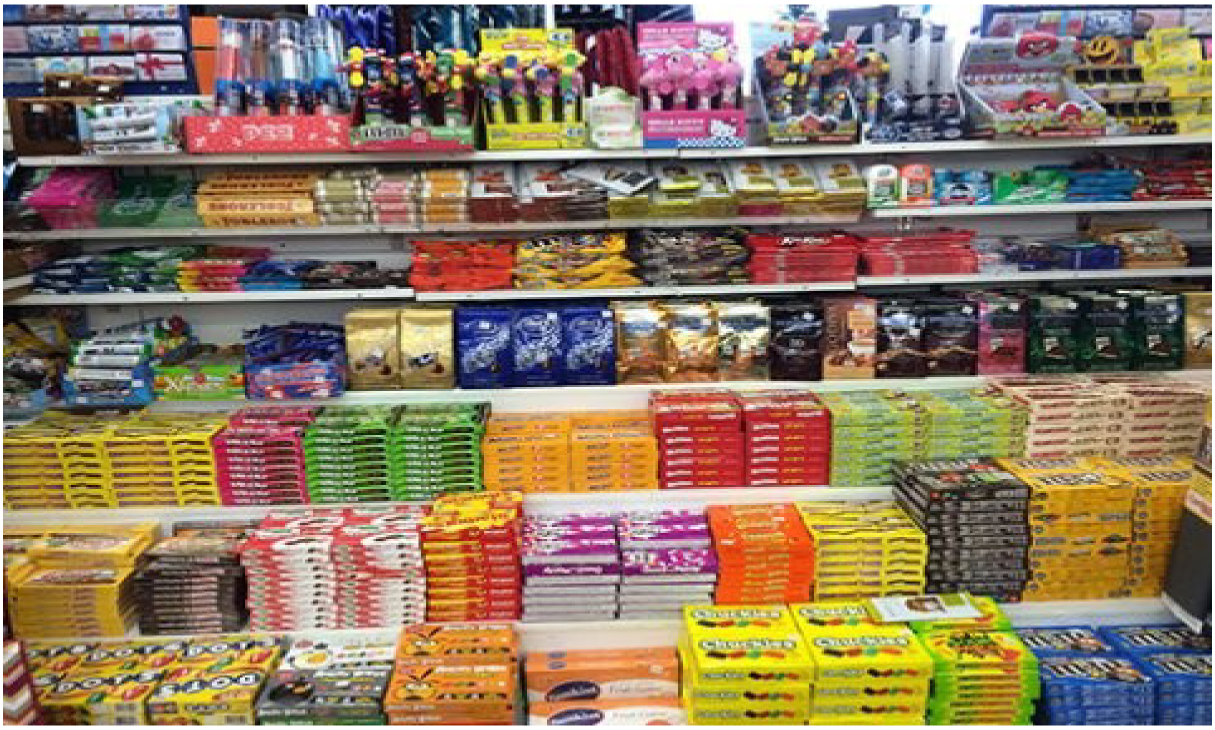
Question A11

The picture below shows how Food retailers, including Chinese Supermarkets, place their sugary candies and chocolate bars (product placement) near the check-out counter.

Discuss the significance of '**location**' or '**in-store display**', as a non-pricing strategy, to local retailers and supermarkets. In your discussion, make references to sales revenue and profitability of the business.



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Skill level 4	
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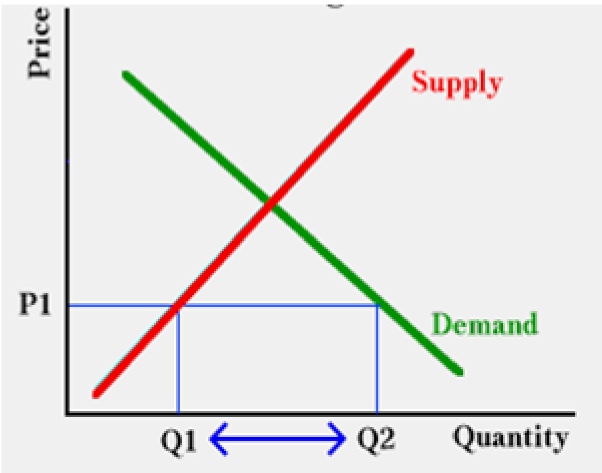
SECTION B: **Resource allocation via the public sector**

Use the information on the graph below to answer questions **BI** to **B3**.

Demand and Supply Curves



Question B1

Use the Demand and Supply Curve above to define **Market Failure**.

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Skill level 1	
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Question B2

Give **TWO** examples for the Market Failure shown in the graph above.

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Skill level 2	
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Question B3

Explain why might the government be involved in a Market Failure situation such as that shown in the graph on page 10.

Skill level 3	
3	
2	
1	
0	
NR	

Use the information in the extracts below to answer questions B4 and B5.

Health

Tonga starts COVID-19 vaccinations.

1. On 24th February, 2021, UNESCO calls for COVID-19 vaccines to be considered a global public good to ensure they are made equitably available in all countries. The United Nations also calls for a "People vaccine" against COVID-19 that would be available to everyone, in all countries, free of charge.
2. The Ministry of Health acknowledges the support from the WHO, the New Zealand and Australian governments, Japan, and partners including the Asian Development Bank (ADB), World Bank and European Union, through COVAX facility, in obtaining safe and efficient vaccines to protect the people of Tonga from COVID-19. This is a historic step towards achieving the goal to ensure equitable distribution of COVID-19 vaccines globally.

Question B4

Based on the calls made by the UNESCO on 24th February, 2021, and the United Nations, describe how 'COVID-19 vaccines' is regarded as a public good in Tonga.

Skill level 2	
2	
1	
0	
NR	

Question B5

The support from the WHO, the New Zealand and Australian governments, Japan, and partners including the Asian Development Bank (ADB), World Bank and European Union, is an alternative method of Collective Provision. .

You are to discuss how this Alternative Method benefits the people of Tonga with regard to COVID-19 vaccines.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question B6

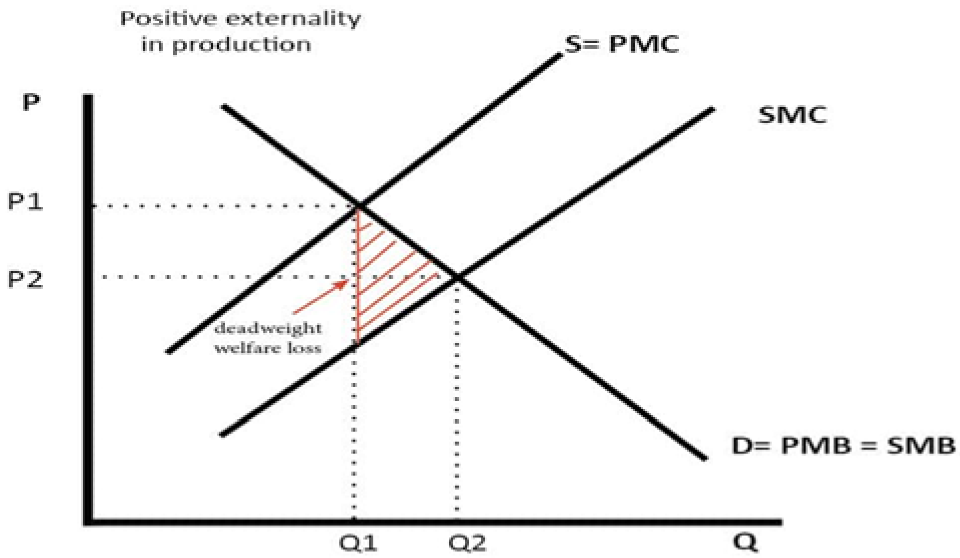
The table below shows a new income tax structure approved by the Government of Tonga for individuals and sole traders and is to be effective on 1st July, 2021.

Chargeable Income (T$)	**Current Tax Deducted (T$)**	**New Tax Deducted (T$)**
12, 000	200	0
15, 000	500	300
35, 000	3, 000	2, 550
60, 000	8, 000	6, 800
68, 000	10, 000	8, 400
80, 000	13, 000	11, 300

You are to evaluate the effectiveness of the Government's action (new income tax rates) to achieve greater Equality (assuming this is Equitable) by its people. Make reference to the current economic situation in Tonga and this prolonged Global Pandemic COVID -19.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Use the graph below to answer question B7.



Question B7

There are two equilibrium situations (P1Q1 and P2Q2) shown in the graph.
Identify the equilibrium that defines the positive externality of production.

Skill level 1	
1	
0	
NR	

Question B8

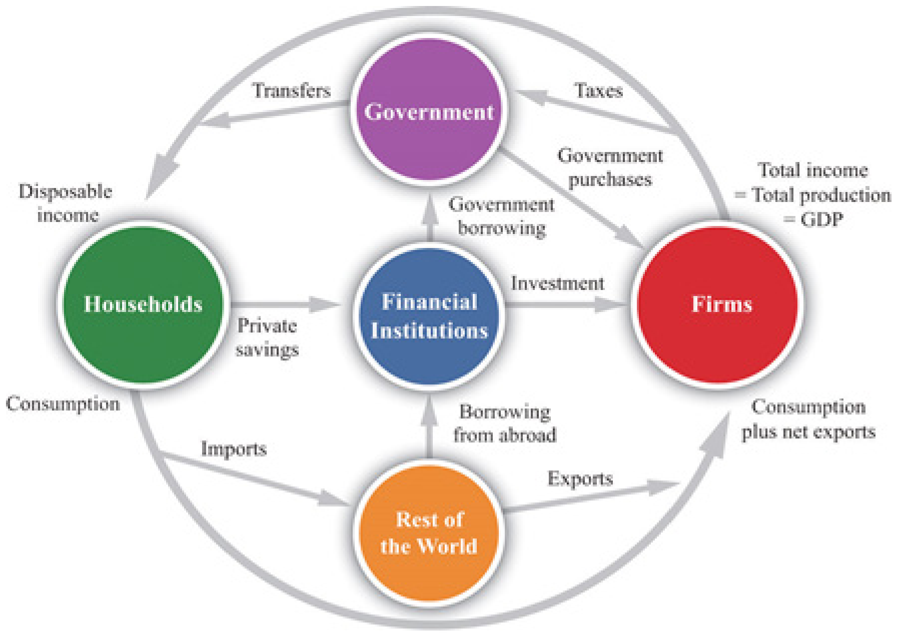
Explain how a subsidy granted by the government is used to internalize positive externalities of consumption.

Skill level 3	
3	
2	
1	
0	
NR	

SECTION C: Aggregate economic activity and policy

Question C1

Use the information on the circular flow diagram below to define the following economic terms.



a. Injections

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Skill level 1	
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NR	

b. Closed economy

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Skill level 1	
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0	
NR	

Question C2

With reference to the Circular Flow Model in C1 above, describe how the model is important to an economy.

Skill level 2	
2	
1	
0	
NR	

Question C3

The table below calculates the Gross Domestic Product (GDP) of a hypothetical nation.

MOANA-LAND NATIONAL ACCOUNTS.

Transactions	$millions
Government consumption	11,026
Increase in stocks	179
Gross fixed capital formation	12,748
Net Exports	1,558
Private consumption	39,795
Gross Domestic Product	**65,306**

State the method or approach that is used for the calculation.

Skill level 1	
1	
0	
NR	

Question C4

Describe Gross fixed capital formation as a Component of the Aggregate Demand (AD) in an Economy's System of National Accounts.

Skill level 2	
2	
1	
0	
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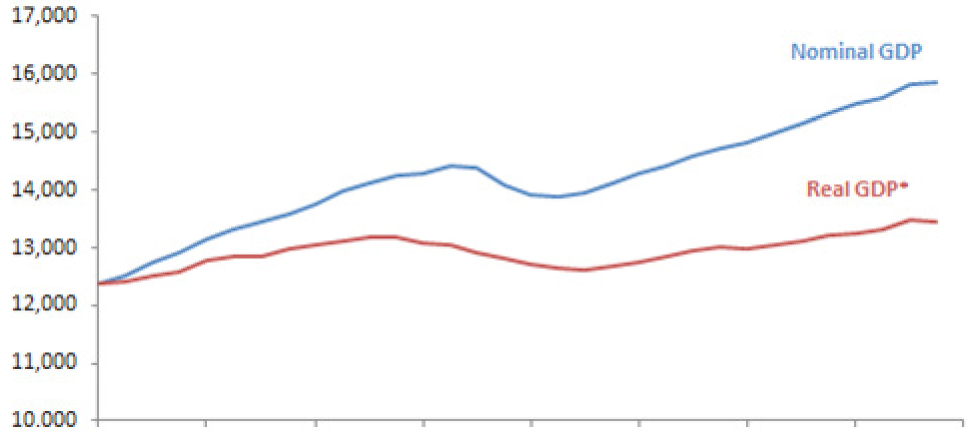
Question C5

Use the information on the graph below to help you differentiate between Nominal GDP and Real GDP.



Skill level 3	
3	
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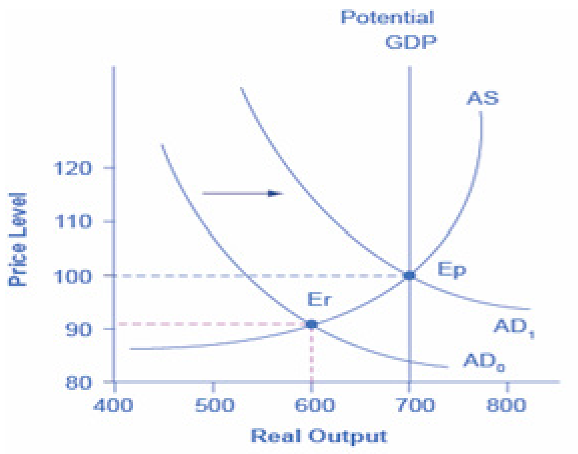
Question C6

Based on the graph below, describe the effect of Real Interest Rate, as an expansionary monetary policy, on Investment.

Effect of an expansionary monetary policy



Skill level 2	
2	
1	
0	
NR	

Question C7

Discuss the contractionary effects of Real Interest Rates on the economy in relation to employment, inflation, and economic growth. You may draw a relevant graph to support your discussion.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question C8

Explain why GDP, in terms of Non-market activity, fails to be a good measure of True Standard of Living.

Skill level 3	
3	
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1	
0	
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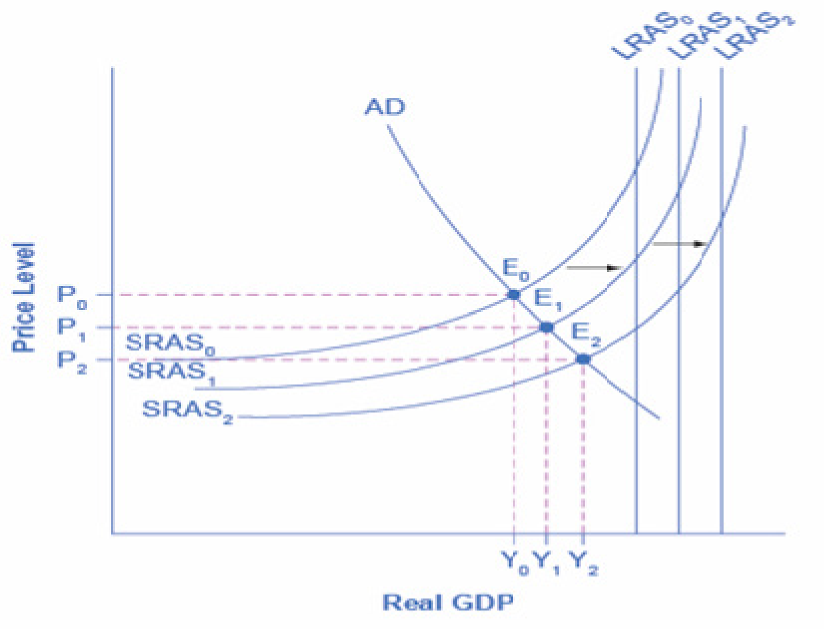
*Use the graph below to answer questions **C9 and C10.***

Aggregate Demand (AD) and Aggregate Suppy (AS) Curves



Question C9

List **TWO** factors that will shift the Aggregate Supply (AS) Curve to the right in the short-run.

Skill level 2	
2	
1	
0	
NR	

Question C10

Explain why the AS Curve becomes steeper as the economy approaches Full Capacity as compared to the far left of the AS Curve. **Note:** LRAS = Economic Capacity.

Skill level 3	
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2	
1	
0	
NR	

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