MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2022

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.

SECTION	STRANDS	TOTAL SKILL LEVEL
ONE	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	29
TWO	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	17
THREE	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 2-19 in the correct order and that pages 18-19 have been deliberately left blank.

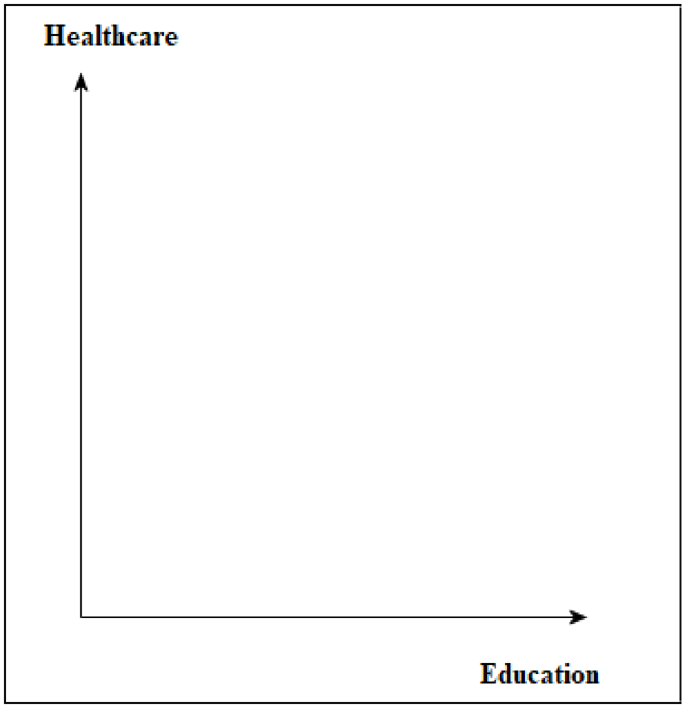
YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.

SECTION ONE: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

Question One

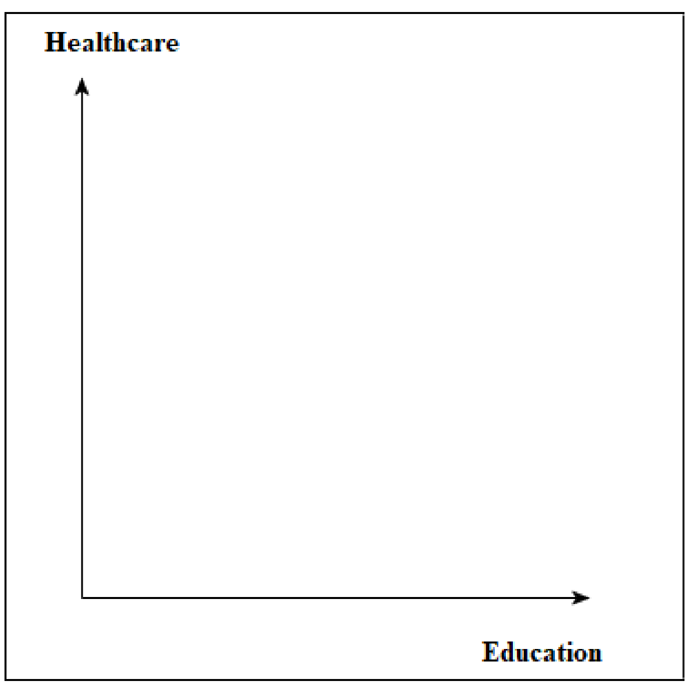
Define the economic terms in questions a. and b. using the production possibility curve provided.

a. Production Efficiency



Skill level 1	
1	
0	
NR	

b. Perfect Substitution of Resources.



Skill level 1	
1	
0	
NR	

Question Two

Use the information given in the table below to answer the question that follows.

Countries	Kava Powder (tons)	Fish (tons)
Fiji	20	40
Tonga	60	20

Describe the Absolute Advantage situation for Fiji in terms of the two goods.

Skill level 2	
2	
1	
0	
NR	

Question Three

Calculate the Comparative Advantage for both countries in the production of Kava Powder to identify who has the comparative advantage in the production of Kava powder.

Skill level 2	
2	
1	
0	
NR	

Question Four

A recent research work found that ‘sea weed’ or ‘limu’ cures one type of cancer disease. Describe the shifts of the Demand Curve for ‘limu’.

Skill level 2	
2	
1	
0	
NR	

Question Five

Describe the shift of the Supply Curve for new homes if the timber costs are increasing.

Skill level 2	
2	
1	
0	
NR	

Question Six

Describe the short-run equilibrium of a perfect competitive market.

Skill level 2	
2	
1	
0	
NR	

Question Seven

Explain why Product Differentiation is important to monopolistic firms in Tonga.

Skill level 3	
3	
2	
1	
0	
NR	

Question Eight

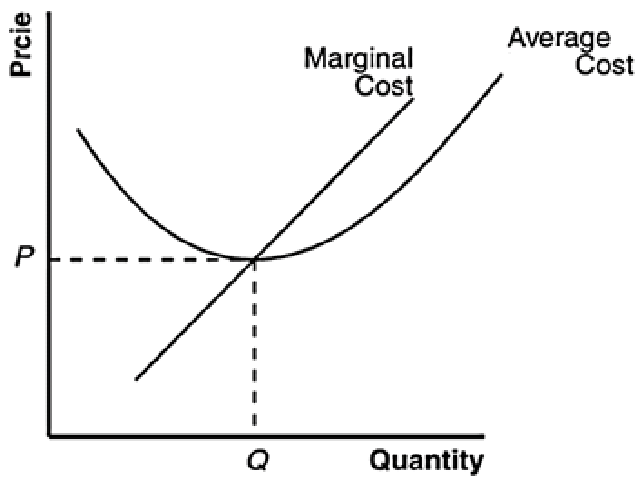
Differentiate between the Short-Term Elasticity of Supply and the Long-Term Elasticity of Supply.

Skill level 3	
3	
2	
1	
0	
NR	

Question Nine

Explain the relationship between the Short-Run Average Costs and Marginal Costs, with the help of the graph drawn below.

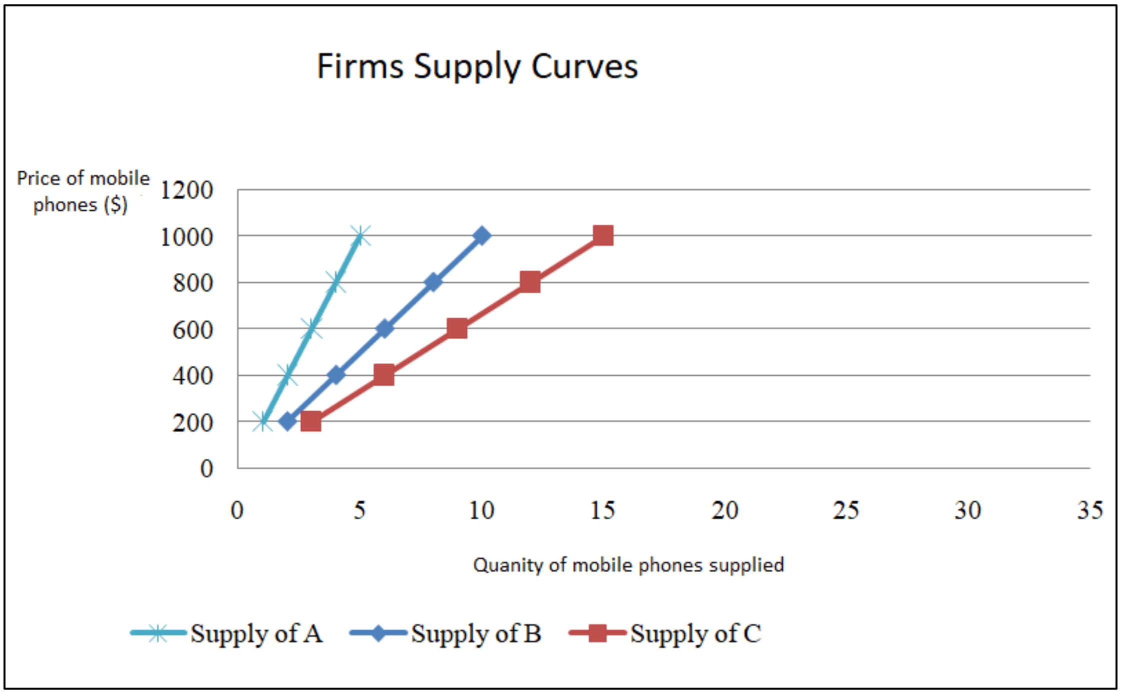
MARGINAL and AVERAGE COST CURVES



Skill level 3	
3	
2	
1	
0	
NR	

Question Ten

Derive the Market Supply Curve for Mobile Phones from the individual firms' supply curves drawn on the graph below. Draw your Market Supply Curve on the same graph indicating the total quantities of Mobile Phones for each price.



Skill level 4	
4	
3	
2	
1	
0	
NR	

Question Eleven

Discuss, with an example, the application of opportunity cost to a school leaver or a student who is deciding on going to university after High School.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION TWO: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Question One

Define the economic terms in a. and b.

a. Private Property Rights

Skill level 1	
1	
0	
NR	

b. Social Marginal Benefit

Skill level 1	
1	
0	
NR	

Question Two

Explain how Economies of Scale leads to a Natural Monopoly.

Skill level 3	
3	
2	
1	
0	
NR	

Question Three

Describe the Lorenz Curve.

Skill level 2	
2	
1	
0	
NR	

Question Four

Use the examples of externalities in the box below to answer a. and b.

1. ***A person smoking a pipe at a football match causes the person sitting behind to passively smoke.***
2. ***A large retail supermarket attracts numerous extra customers to its store, some of whom spend money in other shops in the area.***
3. ***Heavy trucks travel through inner town areas, causing traffic congestion for other commercial road users which raises their production costs.***
4. ***Farmers provide pathways in the countryside which benefit walkers.***
5. ***A private gardener plants an assortment of beautiful plants in her front garden and enhances the environment for her neighbors and passers-by.***

Give **TWO** (2) examples of Positive Externalities of Consumption from those listed in the box.

a.

b.

Skill level 2	
2	
1	
0	
NR	

Question Five

Define Negative Externalities of Consuming Cigarettes.

Skill level 1	
1	
0	
NR	

Question Six

Differentiate between Public goods and Private goods.

Skill level 3	
3	
2	
1	
0	
NR	

Question Seven

Evaluate the effectiveness of the Government of Tonga imposing an indirect taxation on the imported cigarettes to internalize the negative externalities of consuming demerit goods and services.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION THREE: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Question One

Define the economic terms in a. and b.

a. International Trade

Skill level 1	
1	
0	
NR	

b. Aggregate Demand

Skill level 1	
1	
0	
NR	

Question Two

Describe **ONE** (1) importance of a Current Account on the Balance of Payments Account.

Skill level 2	
2	
1	
0	
NR	

Question Three

Describe the importance of ‘interest rates’ on investment.

Skill level 2	
2	
1	
0	
NR	

Question Four

List **TWO** (2) examples of a fiscal policy that are intended to increase aggregate demand.

a. ____

____

b. ____

____

Skill level 2	
2	
1	
0	
NR	

Question Five

Calculate the Total Credit Creation using the information in the box below.

Sione Mafi deposits $10,000 with the Bank of the South Pacific (BSP). The legal reserve ratio that the BSP shall maintain is 15%,

Skill level 3	
3	
2	
1	
0	
NR	

Question Six

Explain the role of the Reserve Bank in the implementation of a Monetary policy to maintain Price Stability.

Skill level 3	
3	
2	
1	
0	
NR	

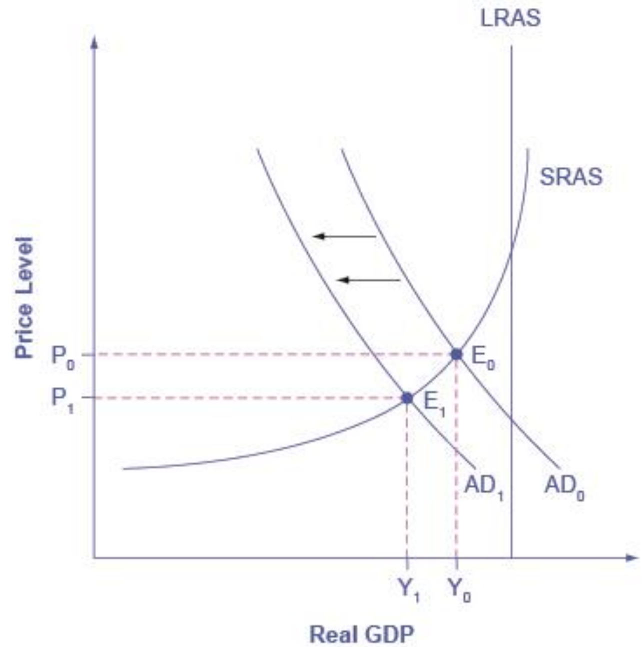
Question Seven

Explain the significance of a government budget to the government.

Skill level 3	
3	
2	
1	
0	
NR	

Question Eight

Explain the effect of the change in Business/ Consumer Confidence on the Price Level using the AD/AS diagram below.



Skill level 3	
3	
2	
1	
0	
NR	

Question Nine

Demonstrate graphically how a lower taxation on consumer income and business profits eliminate a recessionary gap.

Skill level 4	
4	
3	
2	
1	
0	
NR	

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