MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2023

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	28
TWO	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	19
THREE	AGGREGATE ECONOMIC ACTIVITY AND POLICY	23
	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 2-15 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.

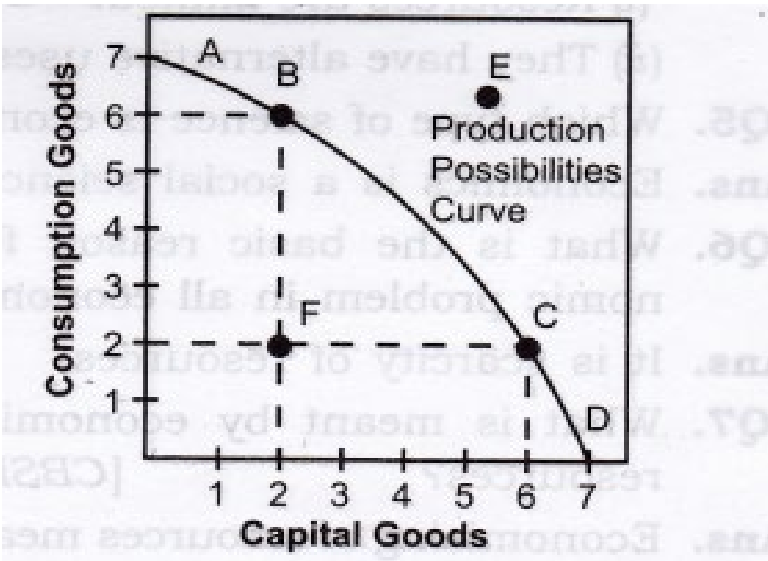
SECTION ONE: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

1. Give the example of opportunity cost from the given information.

> If Samuela Sosefo has three jobs to select from: Job A is available at $5,000 per month, Job B with $6,000 per month and Job C with $7,000 per month and suppose Samuela Sosefo decides to choose Job C.

Skill level 1	
1	
0	
NR	

Use the Production Possibility Curve below to answer questions 2. and 3.



2. Describe the shift from **Point F** to **Point C** in the context of productive efficiency.

Skill level 2	
2	
1	
0	
NR	

3. Describe what **Point E** on the diagram indicates.

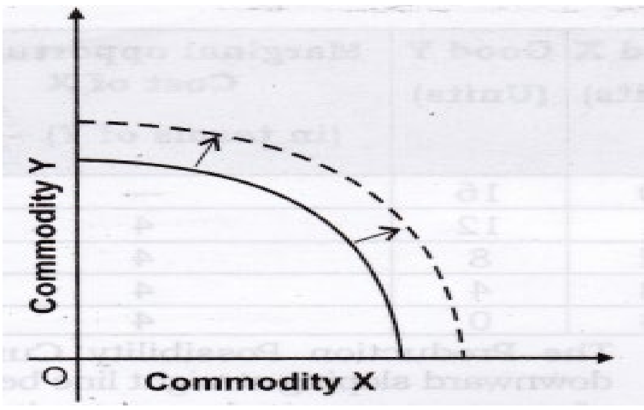
Skill level 2	
2	
1	
0	
NR	

4. Explain the shape of the PPC with help from the information in the table below.

Good X (Units)	Good Y (Units)	Marginal opportunity Cost of X (in terms of Y) $\frac{\Delta Y}{\Delta X}$
0	10	—
1	9	1
2	7	2
3	4	3
4	0	4

Skill level 3	
3	
2	
1	
0	
NR	

5. Explain the shift of the PPC in the figure below as an impact of new foreign investments into the economy.



Skill level 3	
3	
2	
1	
0	
NR	

6. Define Price Elasticity of Demand in terms of the price and quantity of a good.

Skill level 1	
1	
0	
NR	

7. Describe why tap water is relatively inelastic

Skill level 2	
2	
1	
0	
NR	

8. Calculate the Price Elasticity of demand for watermelon if a firm increases its price from $8 to $12 and sees the demand for the product fall by 20%.

Skill level 2	
2	
1	
0	
NR	

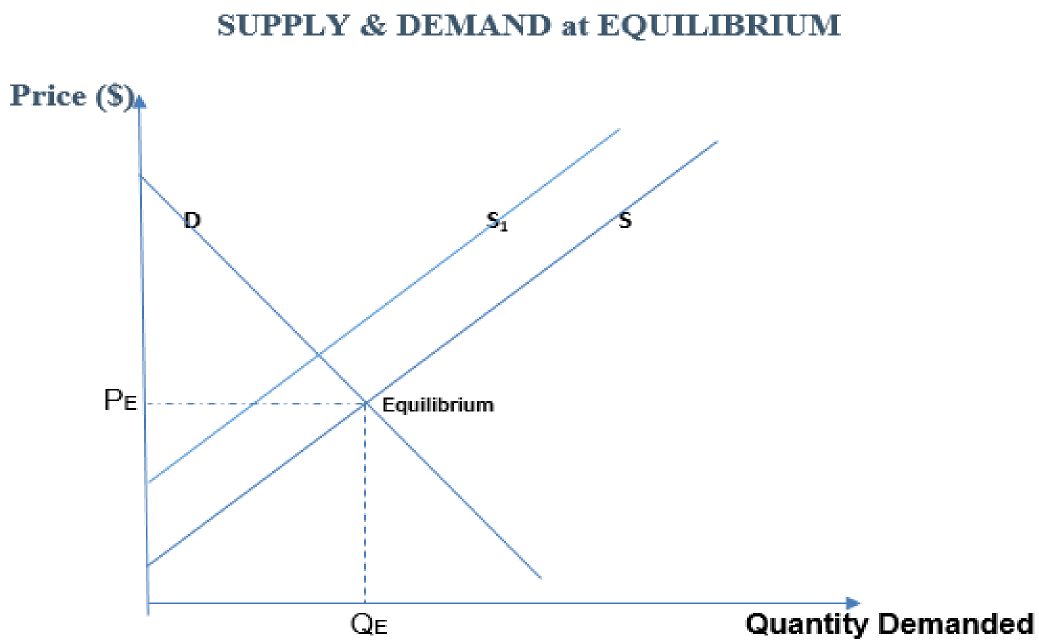
9. Define Economic Cost in terms of the Explicit and Implicit costs of a product.

Skill level 1	
1	
0	
NR	

10. List **TWO** (2) expenses that will be included in the Accounting Costs of a student at Tonga High School.

Skill level 2	
2	
1	
0	
NR	

Use the graph below to help you answer questions 11. and 12.



11. Describe the situation where gains to sellers and gains to buyers are maximized.

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Skill level 2	
2	
1	
0	
NR	

12. Explain how the Gains to Sellers are being affected by the shift in the Supply Curve from S to S_1. P_E and Q_E are the Equilibrium Price and Equilibrium Quantity.

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Skill level 3	
3	
2	
1	
0	
NR	

13. Derive the concept of Price using the concepts of utility and demand.

Skill level 4	
4	
3	
2	
1	
0	
NR	

SECTION TWO: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Use the picture below to answer questions 1. 2. and 3.

1. Define the externality that is evident from the picture above.

Skill level 1	
1	
0	
NR	

2. Explain an appropriate intervention that the government can use to internalize the externality evident from the picture.

Skill level 3	
3	
2	
1	
0	
NR	

3. Discuss the cost implications when the government uses the appropriate intervention explained in question **2.** to internalize the negative externality of consumption from the picture on page 7.

Skill level 4	
4	
3	
2	
1	
0	
NR	

4. Explain how education with positive externality is regarded as a Mixed Good and Service in Tonga.

Skill level 3	
3	
2	
1	
0	
NR	

5. Describe the Alternative Methods of Collective Provision of Public Goods and Services that is summarized in the passage framed below.

> **WASHINGTON, December 10, 2021** – The World Bank's Board of Executive Directors has approved two new projects totaling US$53 million to boost the climate and disaster resilience of Tongan schools, roads, and ports.

Skill level 2	
2	
1	
0	
NR	

6. Construct a graph of Marginal Cost Curve and Marginal Benefit Curve to illustrate the impact of an indirect tax imposed by the government on cigarettes. Label your graph clearly indicating the following:

   1. Axes
   2. Marginal Cost and Marginal Benefit Curves
   3. Market equilibrium and Social equilibrium as E_0 and E_1 respectively
   4. shaded area of deadweight loss (or welfare loss)
   5. external costs including indirect tax imposed
   6. overproduction quantity as Q_Q
   7. efficient price as P*

Skill level 4	
4	
3	
2	
1	
0	
NR	

7. Describe the shape of Social Marginal Benefit Curve.

Skill level 2	
2	
1	
0	
NR	

SECTION THREE: AGGREGATE ECONOMIC ACTIVITY AND POLICY

1. Define Credit Multiplier.

Skill level 1	
1	
0	
NR	

2. State the Gross Domestic Product (GDP) Method that best measures the Economic Growth.

Skill level 1	
1	
0	
NR	

3. Describe the **balance of trade** in the Balance of Payments Account.

Skill level 2	
2	
1	
0	
NR	

4. Differentiate between **Current Account** and the **Capital Account** in the Balance of Payments.

Skill level 3	
3	
2	
1	
0	
NR	

5. Define Aggregate Supply (AS).

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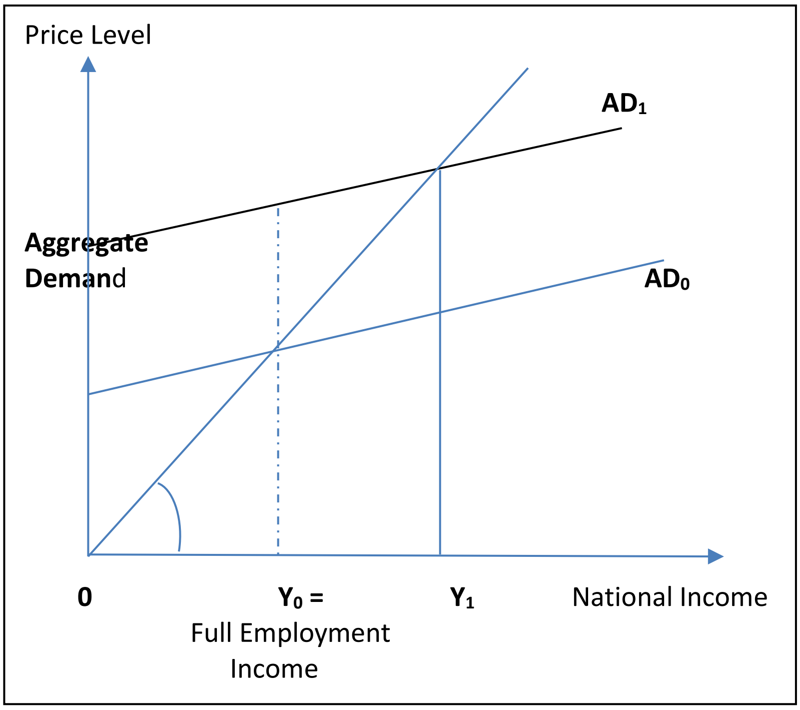
Skill level 1	
1	
0	
NR	

Use the AD and AS graph below to answer questions 6. and 7.

6. Find the inflationary Gap on the graph and label it **AB**



Skill level 2	
2	
1	
0	
NR	

7. Suppose AD_1 is an impact of a 5% Cost of Living Allowances (COLA) imposed by the government on the salaries of the civil servants. Explain the effect of this government fiscal policy on the Price Level of the economy.

Skill level 3	
3	
2	
1	
0	
NR	

8. Explain the role of the Central Bank in controlling the availability of credit by Open Market Operations.

Skill level 3	
3	
2	
1	
0	
NR	

9. Explain the effect and significance of a **depreciation of domestic currency** on exports.

Skill level 3	
3	
2	
1	
0	
NR	

10. Evaluate **ONE** (1) impact of Public debt in the Tongan Government's Budget on the future of the Tongan economy.

Skill level 4	
4	
3	
2	
1	
0	
NR	