MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA NATIONAL FORM SEVEN CERTIFICATE

2024

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
A	**RESOURCE ALLOCATION VIA THE MARKET SYSTEM**	**30**
B	**RESOURCE ALLOCATION VIA THE PUBLIC SECTOR**	**18**
C	**AGGREGATE ECONOMIC ACTIVITY AND POLICY**	**22**
	TOTAL	**70**

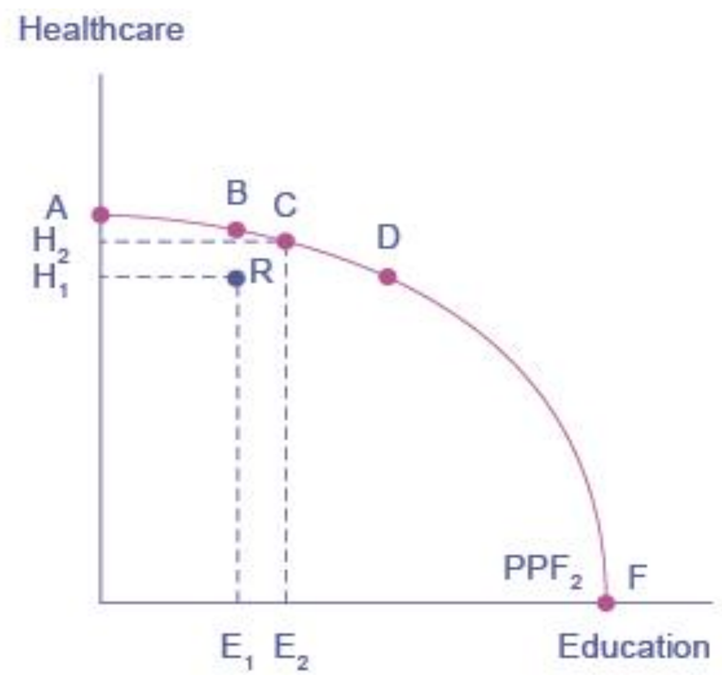
3. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
4. Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
5. If you need more space for answers, ask the supervisor for extra paper. Write your **Student Enrolment Number (SEN)** 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 pages 14-15 have 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

Use the Production Possibility Curve (PPC) below to answer Questions 1 and 2.

The graph below is a Production Possibility Curve for Healthcare and education.



1. Define Allocative Efficiency with reference to the information in the PPC above.

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Skill level 1	
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2. Apply the concept of Allocative Efficiency on the PPC above for a society of younger generation and an old-aged generation.

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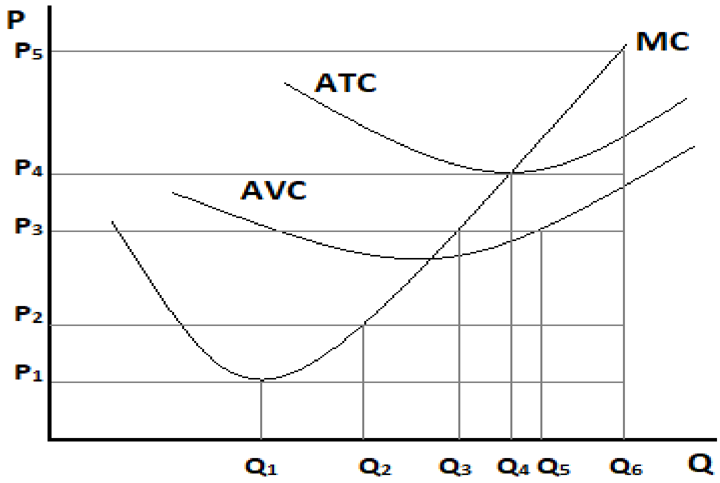
Use the graph below to answer Questions 3 to 7.

The graph below shows the cost curves for a Perfect Competitive Firm.



3. Define the following economic terms:

a. Perfect Competitive Firm

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b. Short-Run Average Cost

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Skill level 1	
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4. Explain the link between a Perfectly Competitive firm's supply curve and marginal cost curve.

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5. On the graph, illustrate the level of output at the shutdown point by labelling it as **Qx**.

Skill level 3	
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6. On the same graph, determine the break-even price by putting a circle on it.

Skill level 2	
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7. Explain how MC and MR are used as the basis of Profit Maximization.

Skill level 3	
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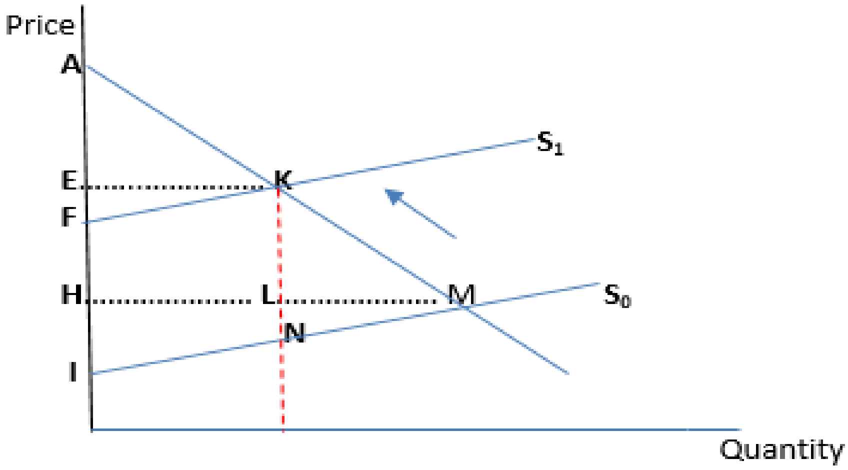
Use the graph below to answer Questions 8 to 11.

SUPPLY AND DEMAND CURVES FOR GOOD X



8. Define Market Supply Curve.

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Skill level 1	
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9. Describe the shifts of the supply curve above.

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10. Describe the market forces that would lead to Market Equilibrium.

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Skill level 2	
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11. Supposed the government is imposing sales tax to discourage consumers from consuming Good X. Using the letters on the graph, determine the incidences of the sales tax on the consumers and label the area of tax that are paid by those consumers.

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Skill level 2	
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12. Describe **ONE (1)** significance of the Elasticity of Supply.

Skill level 2	
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13. Using the concept of Elasticity of Supply, discuss why the supply is more responsive in the Long-Term than in the Short-Term situations.

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

Natural monopolies such as the distribution of water and electricity in Tonga may be regarded as socially undesirable.

1. Define Natural Monopoly.

Skill level 1	
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2. Explain why natural monopolies in Tonga may be socially undesirable.

Skill level 3	
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3. Explain how the Government of Tonga can influence a Natural Monopoly by nationalization or taking public ownership.

Skill level 3	
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4. Discuss how electricity consumers in Tonga benefits when the government takes over the ownership of Electricity Supply to households.

Skill level 4	
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Define the following economic terms:

5. a. Equity:

Skill level 1	
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b. Equality:

Skill level 1	
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6. Give **TWO (2)** examples of equity.

Skill level 2	
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7. Explain why Progressive Tax System, as a government action, can achieve a greater Equality

Skill level 3	
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SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Use the information in the box below to answer Questions 1 and 2.

GDP = C + I + G + (X – M) = 44000 + 14000 + 12000 + (19000 – 20000) = $69000

1. Describe the Approach that is used for the calculation of the GDP above.

Skill level 2	
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2. Describe the **Net Exports** as a component of the GDP.

Skill level 2	
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3. Explain **ONE (1)** major limitation of GDP as a Measure of the Standard of Living.

Skill level 3	
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4. Discuss the contributions of GDP to the growth of the Tongan economy.

Skill level 4	
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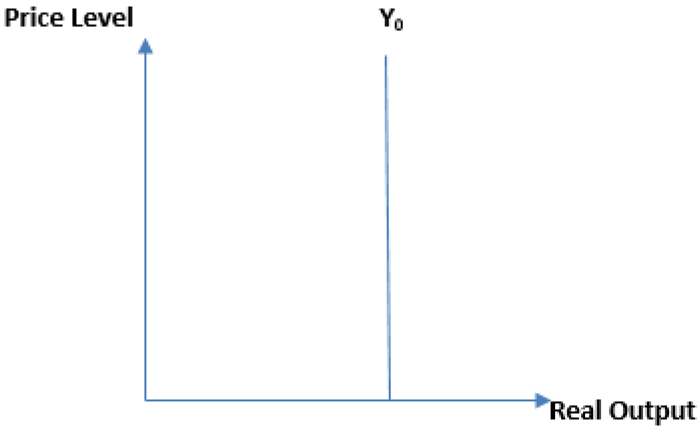
Use the axes below to complete answers for Questions 5 to 8.



5. On the axes above, draw the AD-AS curves to find the Equilibrium Level of Employment. Label it, Y_e .

Skill level 2	
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6. On the same axes above, use AD-AS curves to find the recessionary gap.
Note*:* Y_0 is the Potential Output

Skill level 2	
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7. Using the AD-AS curves above, explain the effect of an increase in Government Expenditure on the Price Level of the Economy.

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Skill level 3	
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8. Demonstrate graphically how recessionary gaps are eliminated by reducing taxes or increasing government spending. .

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