**TONGA NATIONAL FORM SEVEN CERTIFICATE**

**ECONOMICS**

**2017**

**QUESTION and ANSWER BOOKLET**

Time allowed: Three Hours

**INSTRUCTIONS:**

1. Write your Student Enrolment Number (SEN) on the top right hand corner of this booklet.
2. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
3. If you need more space for answers, ask the Supervisor for extra paper. Write your SEN on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.

<table>
<thead>
<tr>
<th>TOPICS</th>
<th>Pages</th>
<th>Time (mins)</th>
<th>Total Skill Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTION A  Resource allocation via the market system</td>
<td>2-6</td>
<td>81</td>
<td>30</td>
</tr>
<tr>
<td>SECTION B  Resource allocation via the public sector</td>
<td>7-9</td>
<td>36</td>
<td>20</td>
</tr>
<tr>
<td>SECTION C  Aggregate economic activity and policy</td>
<td>10-13</td>
<td>63</td>
<td>20</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>15 pages</td>
<td><strong>180 mins</strong></td>
<td><strong>70 Scores</strong></td>
</tr>
</tbody>
</table>

Check that this booklet contains pages 2-15 in the correct order and that pages 14-15 has been deliberately left blank.

**YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION**
SECTION A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

Question A1
Define Cross Elasticity of Demand.
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Use the following diagram to answer Questions A2 to A5

Question A2
Define Market Demand.
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Question A3
Describe the shift in demand as demonstrated in the graph above.
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Skill level 1
1
0
NR

Skill level 2
2
1
0
NR
Question A4

Explain the shift of the demand curve from $D_1$ to $D_2$.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Question A5

Calculate the price elasticity of demand when price increase from 3 to 4.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Question A6

Differentiate between a Movement Along the Supply Curve and a Shift of the Supply Curve.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

Question A7

Explain the significance of a Price Elasticity of Supply.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________
Question A8
Describe the Short – Run Equilibrium for a Perfect Competitive market.

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

Question A9
Describe the Market Forces that would lead to Market Equilibrium.

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

Question A10
Describe how a monopolistic market use Advertising to increase its revenue and profit.

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________
Question A11

Discuss the significance of ‘Brand Strategy’, a non-price marketing strategy, used by a local oligopolistic firm in Tonga.

In your discussion you should name your local oligopolistic firm and why it is classified as an oligopolistic firm. You should also include a definition of ‘Brand Strategy’, ONE advantage and ONE disadvantage of using this non-price marketing strategy by the firm you have named.
Question A12

Discuss the significance of Product Differentiation to a local firm in a monopolistic market structure.

In your discussion, identify your local monopolistic firm and why is it a monopolistic firm. Also include a definition of product differentiation, how will the firm use this non-pricing strategy, and why is product differentiation significance to the success operation of the firm identified.
SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Question B1
Define Economies of Scale.
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

Question B2
Define Inequality as used in Economics.
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

Question B3
Differentiate between Equity and Equality in Economics.
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________
______________________________________________________________________________________

Skill level 1
1
0
NR

Skill level 3
3
2
1
0
NR
Question B4

Explain the significance of the Lorenz Curve.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Question B5

Describe the Equity/Efficiency Trade-Off.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________

Question B6

Give TWO examples of Equity in Economics.

____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
____________________________________________________________________________________
Question B7

“Perfect competition’ is a condition that must exist for free markets to achieve allocative efficiency. Describe this condition.

Question B8

‘Laws on minimum ages for buying cigarettes’ and ‘Public provisions’ are two common interventions that the Tongan government imposed on the economy. Describe these two types of government intervention.

Question B9

‘Subsidies’ are appropriate types of Government Intervention for Externalities. Discuss the Costs and Benefits of this as a type of Government Intervention.
**SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY**

**Question C1**
Define the Circular Flow Model in Economics.
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________

**Question C2**
Define 'Withdrawals' with reference to the Circular Flow Model.
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________

**Question C3**
With reference to the Five - Sector Circular Flow Diagram, give TWO examples of Injection.
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________

**Question C4**
State ONE approach, other than Expenditure Approach, that is used to calculate the GDP.
_______________________________________________________________________________________
_______________________________________________________________________________________
_______________________________________________________________________________________
Question C5

Use the hypothetical data given in the table below to calculate the GDP using the Expenditure Approach.

### HYPOTHETICAL DATA

<table>
<thead>
<tr>
<th></th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfer Payments</td>
<td>$54</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$150</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$36</td>
</tr>
<tr>
<td>Wages</td>
<td>$67</td>
</tr>
<tr>
<td>Gross Private Investment</td>
<td>$124</td>
</tr>
<tr>
<td>Business Profits</td>
<td>$200</td>
</tr>
<tr>
<td>Indirect Business Taxes</td>
<td>$74</td>
</tr>
<tr>
<td>Rental Income</td>
<td>$75</td>
</tr>
<tr>
<td>Net Exports (X-M)</td>
<td>$18</td>
</tr>
<tr>
<td>Net Foreign Factor Income</td>
<td>$12</td>
</tr>
<tr>
<td>Government Purchases</td>
<td>$156</td>
</tr>
<tr>
<td>Household Consumption</td>
<td>$304</td>
</tr>
</tbody>
</table>

Question C6

Define International Trade.

Skill level 1

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
</tr>
<tr>
<td>NR</td>
<td></td>
</tr>
</tbody>
</table>
Question C7

Explain the significance of International Trade to the Tongan economy.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Question C8

One of the Reserve Bank’s function is a “Bankers bank”. Describe this function.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Question C9

Describe how a ‘decline in Marginal Propensity to Save (MPS) affect the Aggregate Demand (AD) Curve:

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
Question C10

In the Tongan Budget, the parliament allocated financial contributions to each constituency to support local economic activities. Evaluate the impacts of this Budget allocation with regards to your own constituency.

_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

Skill level 4

<table>
<thead>
<tr>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>0</th>
<th>NR</th>
</tr>
</thead>
</table>