



**DEPARTMENT OF
EDUCATION**

**UPPER SECONDARY
SCHOOL CERTIFICATE
EXAMINATIONS**

ECONOMICS

Monday

22 October 2012

Time allowed:

2 hours and 30 minutes

(8:00am – 10:30 am)

NO EXTRA TIME

(NO OTHER TIME)

Candidates are advised to fully
utilise the allocated time

INSTRUCTIONS TO CANDIDATES

To be read by the external invigilator to all candidates.

1. The subject code for Economics is **10**.
2. There are **14** printed pages in the question booklet. An electronic answer sheet for part A and **7** paged answer booklet for part B are inserted in the question booklet.
3. There are two sections in this paper. Answer all questions.

Section A: Multiple Choice (Questions 1-30) 30 Marks

This section will be electronically marked.

All answers to the Multiple Choice Section **MUST** be answered on the **ELECTRONIC ANSWER SHEET** provided.

Carefully following the instructions, fill in your Candidate Information and Subject Information.

If you make a mistake, rub the shading out completely using an eraser and shade in your alternative clearly.

Section B: Short Answer (Questions 31- 40) 70 Marks

Write down your name, your school name and complete your 10 digit candidate number on the Section B Answer Sheet Provided.

4. You are required to only write the correct answer in the space provided.
5. Calculators may be used.
6. Answer all questions on the answer sheet. Answers on any other paper including rough work paper and the question paper **will not be marked.**
7. **ALL** working must be shown step by step to get full marks. You may lose marks for writing down final answers only.
8. Correction fluid is **not allowed** on the answer sheet. Where you have made an error, cross out all the working and start on a new line.

Penalty For Cheating Or Assisting To Cheat In National Examinations Is Non-Certification.

**DO NOT TURN OVER THE PAGE
AND DO NOT WRITE
UNTIL YOU ARE TOLD TO START.**

EC

PART A: MULTIPLE CHOICE (QUESTIONS 1 - 30) 30 MARKS

Answer each question by shading in with HB pencil the circle directly below the correct alternatives: A, B, C, or D on the electronic ANSWER SHEET provided.

If you make a mistake, erase the shading completely with an eraser and shade in your alternative clearly.

QUESTION 1

Land, labour, capital and entrepreneurship are known as society's

- A. financial and capital investment.
- B. man-made resources.
- C. factors of production.
- D. natural resources.

QUESTION 2

Positive economics differs from Normative economics as it

- A. identifies problems and prescribes solutions.
- B. studies the outcomes and results of how the economy works.
- C. analyses opinions and relates them to accepted economic theory.
- D. makes value judgments of what ought to be of the economy.

QUESTION 3

The two main distinguishing features of an economic system are

- A. production systems of producers and the consumption pattern of consumers.
- B. extent of government intervention and market freedom in the factor markets.
- C. the kind of factors of production owned by the government and its entities.
- D. the mechanism of resource allocation and the mode of resource ownership.

QUESTION 4

Which of the following is not a factor payment in a basic two-sector economy consisting of households and firms?

- A. Shares and debentures
- B. Rent and royalties
- C. Interests and dividends
- D. Wages and salaries

QUESTION 5

The costs of production attributed to the factor inputs that are independent of changes in the level of production output are

- A. marginal costs. B. fixed costs.
C. variable costs. D. explicit costs.

QUESTION 6

When the long-run average cost increases as production increases, the firm is experiencing

- A. diminishing returns. B. increasing returns to scale.
C. constant returns to scale. D. diseconomies of scale.

For questions 7 and 8, refer to the table below.

The following production figures show the relationship between inputs and outputs.

Land	Labour	Total Physical Product
1	1	5
1	2	10
1	3	17
1	4	22
1	5	25
1	6	28
1	7	28

QUESTION 7

At which level of output does diminishing returns occur?

- A. 1 B. 2 C. 3 D. 4

QUESTION 8

When the total output physical product (output) is maximum, the value of marginal product is

- A. 0. B. -1. C. 2. D. 1.

QUESTION 9

The main reason why a capitalist economy is efficient in allocating resources than other economic systems is due to

- A. leakages being equal to injections.
- B. government intervention in the market.
- C. the price mechanism.
- D. output market being equal to input market.

QUESTION 10

In a perfectly competitive market, producers and consumers trade at

- A. zero opportunity costs.
- B. equilibrium prices.
- C. minimum consumer and producer surpluses.
- D. efficient dead weight losses.

QUESTION 11

Assuming that the market for a certain good is initially in equilibrium and there is an increase in the cost of producing the good, the effect on the market would be

- A. price increases and quantity increases.
- B. price decreases and quantity decreases.
- C. price decreases and quantity increases.
- D. price increases and quantity decreases.

QUESTION 12

If good A and good B are substitutes, the fall in the price of good B can be demonstrated as

- A. a leftward shift of the demand curve of good A.
- B. a rightward shift of the demand curve of good A.
- C. a leftward shift of the demand curve of good B.
- D. an upward movement along the demand curve of good B.

QUESTION 13

In the calculation of cross price elasticity of demand; if the final result is a negative value, the goods in question are

- A. substitutes.
- B. complements.
- C. inferior goods.
- D. giffen goods.

QUESTION 14

When a government subsidises the consumption of a merit good in the economy, the effect would be demonstrated as a

- A. rightward shift of a supply curve.
- B. leftward shift of a demand curve.
- C. rightward shift of a demand curve.
- D. leftward shift of a supply curve.

QUESTION 15

Which of the following is NOT a government intervention in the market?

- A. Price intervention
- B. Social security
- C. Taxes and subsidies
- D. Quantity (output) regulation

QUESTION 16.

In the long run a monopolistically competitive firm does not realize all the economies of scale available.

Which condition below best describes this outcome?

- A. Average fixed cost is greater than average revenue.
- B. Price is greater than marginal revenue.
- C. Average total cost is not minimized.
- D. Price is greater than marginal cost.

QUESTION 17

Which of the following concept is applied to an oligopoly more than any other market structure?

- A. Homogeneous product and perfect information.
- B. Concentration and interdependence.
- C. Advertising and product differentiation.
- D. Economies of scale and significant barriers to entry.

QUESTION 18

In a perfectly competitive market, the level of short run and long run economic profits are determined by

- A. other firms entering and exiting the industry.
- B. accepting the prevailing market price.
- C. selling a differentiated product and charging at different price levels.
- D. colluding with other firms to determine pricing and output.

QUESTION 19

When determining the gross domestic product (GDP) of an economy, which method incorporates the value of factor payments as its basis for GDP calculation?

- A. Value added method
- B. Income method
- C. Production method
- D. Expenditure method

QUESTION 20

In a two-sector economy comprising of a government and firms, a macroeconomic disequilibrium resulting from a net leakage in the economy can be corrected by

- A. increasing savings.
- B. reducing transfer payments.
- C. increasing taxes.
- D. increasing investments.

QUESTION 21

The important instrument used by financial institutions that determines the level of savings and investments in the capital market is

- A. Kina facility rate.
- B. Financial derivatives.
- C. Interest rate.
- D. Austerity measures.

QUESTION 22

All countries have a government that manages the economy by performing certain functions to promote economic growth and development.

Which of these is not an important function of the government?

- A. Maximisation
- B. Distribution
- C. Stabilisation
- D. Allocation

QUESTION 23

In any economy, overall macroeconomic stability can be achieved by addressing both the internal factors and external factors affecting the economy.

What are the main external factors of concern?

- A. Inflation and unemployment.
- B. Balance of payments and exchange rate stability.
- C. Trade and investment.
- D. Budget deficit and terms of trade.

QUESTION 24

An increase in government expenditure that leads to a decrease in aggregate demand in the macro economy in the long run is commonly known as the

- A. multiplier effect.
- B. voracity effect.
- C. crowding-out effect.
- D. collateral effect.

QUESTION 25

The government of PNG has decided to reduce aggregate demand and inflation in the domestic economy by altering its fiscal policy. The medium by which the government can implement this policy is through the

- A. National Economic and Fiscal Commission.
- B. Central Bank of Papua New Guinea.
- C. Department of National Planning and Monitoring.
- D. National Budget.

QUESTION 26

In the June 2012 Monetary Policy Statement, the Governor of the Central Bank of Papua New Guinea stated that PNG would be hit by inflation due to high liquidity in the economy. The implication of this statement is that inflation is caused by

- A. increase in cost of goods and services.
- B. fall in the level of supply of goods and services.
- C. increase in the level of money supply.
- D. excess demand for PNG's natural resources.

QUESTION 27

The Philips Curve illustrates that the opportunity cost of increasing inflation in an economy is

- A. deterioration in the terms of trade.
- B. balance of payment deficit.
- C. exchange rate depreciation.
- D. increase in the level of employment.

QUESTION 28

In international trade, the most effective trade instrument used to limit the amount of goods imported into a country is by imposing

- A. an embargo.
- B. a quota.
- C. a tariff.
- D. an import duty.

QUESTION 29

The balance of payment increases due to a net increase in the capital account.

Which of the following will increase according to the circular flow of income model?

- A. Exports
 B. Balance of trade
 C. Investments
 D. Terms of trade

QUESTION 30

Under a fixed exchange rate regime, what would be the effect of a balance of payment surplus on the exchange rate?

- A. Currency flow surplus
 B. Depreciation
 C. Currency flow deficit
 D. Appreciation

PART B: SHORT ANSWER: (QUESTION 31-40) 70 MARKS

Write the answers to the Questions on the Answer Booklet provided.

QUESTION 31

Use the supply and demand schedules for banana to answer the questions that follow.

Price (K)	7	6	5	4	3	2	1
Quantity demanded	2	4	6	8	10	12	14
Quantity Supplied	14	12	10	8	6	4	2

- a. What is the equilibrium price of the market? (1 mark)
- b. If the price of banana decreases from K6 to K5, calculate the price elasticity of supply and state the elasticity coefficient. (2 marks)
- c. If the government imposes a price ceiling of K3, state the market condition that would arise. (1 mark)
- d. Calculate the total revenue at the price ceiling of K3. (1 mark)
- e. Given the initial market situation in the schedule above, if the consumption of bananas increase by 4 units at each corresponding price level, determine the new equilibrium price level and equilibrium quantity of bananas. (2 marks)

QUESTION 32

The production possibility schedule of Premium Furniture is shown below. Assume that the company produces only two goods; chairs and tables. Use the schedule to answer the questions that follow.

Chairs	0	10	18	25	31	36	40	43	41
Tables	36	35	33	30	26	21	15	8	0

- a. The company is producing 26 tables and 31 chairs.
How many more chairs can be produced by sacrificing 11 tables? (1 mark)
- b. If the company was producing 18 chairs and 33 tables, what is the opportunity cost of producing 7 more chairs? (1 mark)
- c. Which level of production represents complete specialisation in the production of either products for the company? (2 marks)
- d. If technological advancement leads to increasing the total output of chairs by half, what quantity of chairs would correspond to 21 tables? (2 marks)
- e. What does the negative slope of the production possibility curve represent? (1 mark)

QUESTION 33

- a. Except for the Oligopoly market, what is the profit-maximising condition for the other three market structures; Monopoly, Monopolistic competition and Perfect competition firms? (1 mark)
- b. In a perfectly competitive market, who determines the selling price of individual firms? (1 mark)
- c. When a firm is experiencing short-run losses and shuts down operations, which cost is the firm trying to control? (1 mark)
- d. Which market structure uses advertising and product differentiation as its important marketing strategy? (2 marks)
- e. State the market structure that will arise when a group of profit maximizing oligopolies colludes on price and output. (2 marks)

QUESTION 34.

Read part of the newspaper article below and answer the questions follow.

The next government faces a big challenge in managing a **K500 million-budget deficit** for the year, according to Treasurer Don Polye. Polye told journalists last Friday that the reason for the shortfall was because key exports – gold and copper – were trading well below the 2012 budget projections. “The price of gold is 13% lower than what we thought

it would be and the price of copper is 6% lower”, he said.

He also said the kina has strengthened since the budget was tabled in parliament.

“Based on the lower international prices and stronger kina, we will see a substantial fall in mineral tax we collect”, he said.

- a. How would the fall in the international price of gold and copper affect mineral exports in PNG? (1 mark)
- b. Despite the fall in the price of mineral exports, what has caused the kina value to appreciate on the international exchange rate market? (2 marks)
- c. Without the PNG government altering its fiscal operations, how can the government finance the balance of payments deficit? (1 mark)
- d. What does the strong kina value reflect of PNG’s balance of payment position? (1 mark)
- e. How would the fall in mineral prices affect the government’s fiscal operations? (2 marks)

QUESTION 35

- a. What are the two main accounts of the balance of payment account? (1 mark)
- b. Use the information given below to answer the questions (i-iv)

Items	Kina (Million)
Visible Exports	200
Repayment of Loan	25
Export of Raw Material	50
Shipping Earnings	20
Tourists Earnings	25
Interest Paid Overseas	20
Visible Imports	150
Import of Raw Material	75
Invisible Imports	100

- i. Calculate the value of total visible exports. (1 mark)
- ii. Calculate the value of the invisible balance. (1 mark)
- iii. Calculate the balance on current account. (2 marks)
- iv. Calculate the overall balance of payment. (2 marks)

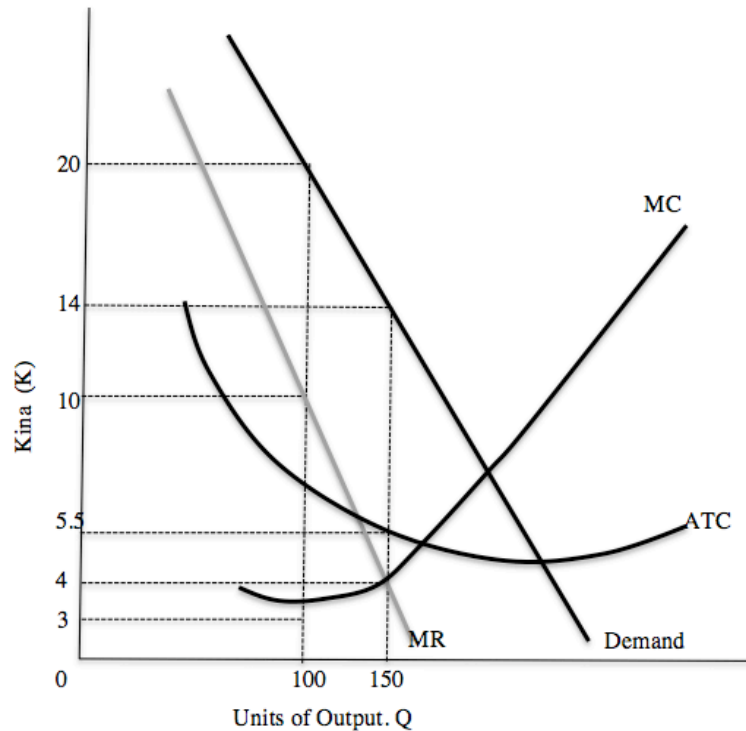
QUESTION 36

- a. State any two of the four basic economic questions that all economies (societies) have to answer in regard to the use of resources. (2 marks)
- b. What is Adam Smith's "Invisible Hand" and in which economic system does it take place? (2 marks)
- c. What is the initial assumption when constructing a normal demand and supply curve? (1 mark)
- d. (i.) Explain why economies (societies) make choices. (1 mark)
- (ii). What are the implications of these choices? (1 mark)

QUESTION 37

Use the graph to answer the questions that follow.

The graph shows the revenue and cost curves for a firm operating in the market.



- What is the marginal cost when the firm produces 100 units of output? (1 mark)
- What is the selling price when the firm produces 100 units of output? (1 mark)
- Calculate the total cost when the firm produces 150 units of output. (1 marks)
- Calculate the level of profit when the firm produces 150 units of output.(2 marks)
- Calculate the price elasticity of demand (using the arc method) of increasing output from 100 units to 150 units. (2 marks)

QUESTION 38

- a. State the main reason why the government imposes minimum wages as its wage policy? (1 mark)
- b. (i) What is wage indexation? (1 mark)
 (ii) Why does the government implement it (wage indexation) as its policy? (1 mark)
- c. State one of the monetary policy instruments and explain how the government can use this instrument to reduce the level of money supply in the economy. (2 marks)
- d. Apart from a balanced budget, what are the two budget outcomes that reflect excess revenue over expenditure and vice versa? (2 marks)

QUESTION 39

- a. Explain why the government implements price support in the economy. (2 mark)
- b. What is the main effect of price support on a market? (1 mark)
- c. How can the problem caused by price support be solved in the economy? (2 marks)
- d. State the cause of a ‘black market’ and explain how it develops. (2 marks)

QUESTION 40

Refer to the balance sheet and answer the questions that follow.

LIABILITIES (K)		ASSETS (K)	
Deposits	4000	Liquid Assets	1000
		Loans	3000
	4000		4000

- a. What is the current liquid assets ratio? (1 mark)
- b. What is the credit creation multiplier? (1 mark)
- c. If the commercial bank completes its full credit creation process, by how much would the money supply increase? (2 marks)
- d. Assuming that if the bank is allowed to keep 10% as its LGS ratio, show how the balance sheet would be affected. (2 marks)
- e. If the bank completes its full credit creation process, by how much would the total deposits be after the implementation of the 10% LGS ratio? (1 mark)

END OF EXAMINATION

ECONOMICS — 2012

SECTION B - ANSWER BOOKLET

Write your name, your province and school codes and your candidate number correctly and clearly in the space provided below.

Year		Province		School			Candidate No		
1	2								

Candidate Name: _____

School Name: _____

Answers written on the QUESTION paper or any other paper will NOT be marked. Write answers in the spaces as provided on this answer booklet.

FOR MARKERS USE ONLY

	Score	Markers Initials	
		M1	M2
Section B:			
Question 31			
Question 32			
Question 33			
Question 34			
Question 35			
Question 36			
Question 37			
Question 38			
Question 39			
Question 40			
FINAL TOTAL			

SECTION B - ANSWERS

Write your answer in the space provided below. Your answers must be clear and precise.

QUESTION 31

a) _____	1
b) _____	2
c) _____	1
d) _____	1
e) _____	2
For Markers Use Only	Q31 Total

QUESTION 32

a _____	1
b _____	1
c _____	2
d _____	2
e. _____	1
For Markers Use Only	Q32Total

QUESTION 33

a. _____	1
b. _____	1
c. _____	1
d. _____	2
e. _____	2
For Markers Use Only	33Total

QUESTION 34

a. _____	1
b. _____ _____	2
c. _____ _____	1
d. _____	1
e. _____ _____	2
For Markers Use Only	Q34Total

QUESTION 35

a	
_____	1
b.	
i	
_____	1
ii	
_____	1
iii)	
_____	2
iv)	
_____	2
For Markers Use Only	Q35 Total

QUESTION 36

a) _____ _____	2
b) _____ _____	2
c) _____ _____	1
d)i. _____	1
ii. _____	1
For Markers Use Only	Q36 Total

QUESTION 37

a. _____	1
b. _____	1
c. _____	1
d. _____	2
e.. _____	2
For Markers Use Only	Q37 Total

QUESTION 38

a _____ _____	1
b. i. _____	1
ii _____	1
c. _____ _____ _____	2
d. _____ _____	2
For Markers Use Only	Q38Total

QUESTION 39

a . _____ _____	2
b. _____ _____	1
c. _____ _____	2
d. _____ _____	2
For Markers Use Only	Q39 Total

QUESTION 40

a. _____	1								
b. _____	1								
c. _____ _____	2								
d. <table border="1"><tr><td> </td><td> </td></tr><tr><td> </td><td> </td></tr><tr><td> </td><td> </td></tr><tr><td> </td><td> </td></tr></table>									2
e. _____	1								
For Markers Use Only	Q40 Total								