



**DEPARTMENT OF
EDUCATION**

**UPPER SECONDARY
SCHOOL CERTIFICATE
EXAMINATIONS**

ECONOMICS

Monday

21 October 2013

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

EC

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 **11** 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.**

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

The price of one currency in terms of another country's currency is the

- A. exchange rate.
- B. term of trade.
- C. currency valuation.
- D. price of kina.

QUESTION 2

The Papua New Guinea Government placed a limit on the amount of lamb flaps that can be imported into the country.

This is an example of a/an

- A. export subsidy.
- B. tariff.
- B. quota.
- D. dumping.

QUESTION 3

The main advantage of trade between two countries is that

- A. trade makes both countries more self-sufficient.
- B. employment on both countries will increase.
- C. both countries move out beyond their previous resource and productivity constraints.
- D. trade will lead to a more equitable distribution of income in both countries.

QUESTION 4

The government will implement an Expansionary Monetary Policy if there is _____ in the economy.

- A. high inflation
- B. low unemployment
- C. high unemployment
- D. more employment

QUESTION 5

The economic decision-making is influenced by the following except

- A. what to produce.
- B. how much to produce.
- C. where to produce.
- D. how to produce.

QUESTION 6

A market is said to be efficient when

- A. there is a surplus situation created.
- B. there is a shortage situation created.
- C. neither surplus nor shortage situation is created.
- D. consumer surplus is greater than the producer surplus.

QUESTION 7

The basic economic problem of scarcity arises because of the following.

- A. Needs of resources are greater than wants.
- B. Limited resources with unlimited needs and wants.
- C. Unlimited resources with limited needs and wants.
- D. Wants of resources are greater than needs.

QUESTION 8

Tau used to buy a dozen of Ox & Palm canned meat every two weeks under his previous level of income. With improved wages, Tau doubled the number of Ox & Palm.

For Tau, the Ox & Palm can be

- A. normal good.
- B. inferior good.
- C. ordinary good.
- D. giffen good.

QUESTION 9

The Law of Demand states that

- A. more will be demanded at a higher price.
- B. less will be demanded at a higher price.
- C. less will be demanded at a low price.
- D. less will be supplied at the low price.

QUESTION 10

Supply curve is positively sloping because of a/an

- A. inverse relationship between price and quantity supplied.
- B. inverse relationship between price and quantity demanded.
- C. direct relationship between price and quantity demanded.
- D. direct relationship between price and quantity supplied.

QUESTION 11

The Able Computing Company wants to increase the quantity of computers it sells by 5%. If the price elasticity of demand is -2.5, the company must

- A. increase price by 2.0%.
- B. decrease price by 5%.
- C. increase price by 12.5%.
- D. decrease price by 2.0%

QUESTION 12

The price of sugar has fallen due to low cost of production.

What will happen to demand for tea?

- A. Increase
- B. Contract
- C. Decrease
- D. Extend

QUESTION 13

Brian is specialised in producing slippers. He engaged two local boys to help him using several materials.

What classification in the production process do those local boys come under?

- A. Output
- B. Materials
- C. Inputs
- D. Capital

QUESTION 14

The difference between a country's merchandise exports and its merchandise imports is the

- A. capital account.
- B. current account.
- C. balance of payment.
- D. balance of trade.

QUESTION 15

Which of the following is not a factor of production?

- A. Captain J Loma of Airlines.
- B. Dash 8 aircraft J Loma flies.
- C. The fuel that the aircraft uses.
- D. The salary J Loma receives.

QUESTION 16.

The government in its budget deliberation has decided to increase its spending while maintaining tax levels.

What Fiscal Stance has the government taken?

- A. Expansionary Fiscal Policy
- B. Contractionary Fiscal Policy
- C. Increased Fiscal Policy
- D. Decreased Fiscal policy

QUESTION 17.

The government is going to increase the tax on petrol to raise additional revenue.

The government will be able to raise more revenue from the tax if the demand for petrol is

- A. relatively inelastic.
- B. perfectly elastic.
- C. unitarily elastic.
- D. relatively elastic.

QUESTION 21

Country A would have an absolute advantage over country B in the production of corn if

- A. country A uses fewer resources to produce corn than country B.
- B. corn can be produced at lower costs in terms of other goods than it could be in country B.
- C. corn sells for a higher price in country A than in country B.
- D. production of corn uses more resources in country A than in country B.

Questions 22 and 23 refer to the following information.

Below are some Economic activities.

- I. Australian tourist visiting Fiji.
- II. Increase in government expenditure.
- III. Titus and Ben exported 10 bags of Coffee
- IV. Titus deposits K 1200 into his bank account
- V. Julie bought Babra's ice block
- VI. Agatha invested K 5 000 in her chicken poultry.

QUESTION 22

Which of the above is neither injections nor leakage?

- A. I and II
- B. II and IV
- C. I and V
- D. II and VI

QUESTION 23

Which of the above is an injection?

- A. I and II
- B. II and III
- C. II and IV
- D. III and V

QUESTION 24

If the equilibrium exchange rate is K5 per US dollar and the Bank of Papua New Guinea fixes the exchange rate at K7 per US dollar.

We can conclude that the Kina is

- A. appreciated.
- B. depreciated.
- C. revalued.
- D. devalued.

QUESTION 25

Which of the following will lead to excess demand/demand-pull inflation?

- A. Kimbe Oil Palm has just given into the workers demand for higher wages settlement.
- B. Soft drink industry just found out that the prices of its raw materials have increased.
- C. PNG-LNG is increasing its cost of production but will surely retrieve all its cost through its export.
- D. Due to mining boom in the country for the last 10 years level of employment has continue to increase.

QUESTION 26

Listed below are assets of the commercial bank.

I	Money in the term deposit account
II	Government Stock on hands
III	Money in the cheque account
IV	Cash on hand

Which of the above is in the correct order of most to least liquid?

- A. I, IV, III and II
- B. IV, III, I and II
- C. IV, III, II and I
- D. IV, I, III and III

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

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

QUESTION 31

A computer business sells 10 laptops a week at an average price of K1000. Regardless of the price, each laptop pays an import duty of K150. However, price of the laptop has increased by 20% in two years.

- a. What is the total value of the import duty
 - i. before the increase in price? (1 Mark)
 - ii. after the increase in price? (1 Mark)
- b. What type of indirect tax is imposed on the laptops? (1 Mark)
- c. How will 20% increase in price affect the real value of tax revenue? (1 Mark)
- d. What type of indirect tax keeps up with inflation? (1 Mark)
- e. Identify at least two rates of tax. (2 Mark)

QUESTION 32

- a. What is a minimum wage? (1 Mark)
- b. Explain the purpose of setting a minimum wage. (1 Mark)
- c. Explain the effect of setting a minimum wage in contrast to equilibrium wage rate on
 - i. demand and supply of labour using the proper diagram. (2 Marks)
 - ii. level of employment. (1 Mark)
- d. How will an increase in the enrolment in schools due to free education and subsidy affect
 - i. size of labour force? (1 Mark)
 - ii. unemployment? (1 Mark)

QUESTION 33

The demand for vehicle has increased tremendously in the last two years. The reason being the recent resource boom in the mineral and the gas industries in Papua New Guinea.

- a. Graphically show what will happen to the demand for fuel (2 Marks)
- b. Given the high influx of vehicles, the government is forced to raise import duty on vehicles.
 - i. Explain the effect of import duty on demand for vehicles using the graph. (2 Marks)
 - ii. Using the graph, explain the effect of import duty on domestic supply in Papua New Guinea. (2 Marks)
 - iii. What will happen to demand for fuel? (1 Mark)

QUESTION 34

- a. Explain the difference between Fixed Exchange Rate and Floating Exchange Rate with the help of the proper diagrams. (2 Marks)
- b. State the Purchasing Power Parity theory and explain why it is better preferred than the exchange rate figures. (2 Marks)
- c. Assume the exchange rate for PNG kina alters from 32 to 43 Japanese Yen, what will happen to the PNG kina relative to the Japanese Yen. (1 Mark)
- d. In terms of cost, what will happen to the Japanese import? (1 Mark)
- e. In terms of volume, what will happen to the Japanese import? (1 Mark)

QUESTION 35

- a. Identify three sectors in a three-sector circular flow diagram. (3 Marks)
- b. Explain the relationship between the firms labeled (a.i) and (a.iii) on the answer sheet. (2 Marks)
- c. Name the two injections that are incurred when capital and overseas sector are added onto the circular flow. (2 Marks)

QUESTION 36

The following represents flows in the economy in millions of kina.

	Millions of Kina
Savings	400
Consumption of Domestic Goods	3100
Income tax revenue	1500
Indirect Tax Revenue	950
Import Expenditure	1200
Export Expenditure	1700
Government Expenditure	1800
Investment	1150

- a. Calculate the level of leakages. (1 Mark)
- b. What is the level of aggregate demand? (2 Mark)
- c. Assume injection is greater than leakage, what will be the effect on the national income? (1 Mark)
- d. Assume the population is 7 million, calculate GDP per capita for this economy. (1 Mark)
- e. State the outcome of the budget. (1 Mark)
- f. How will budget deficit affect aggregate demand? (1 Mark)

QUESTION 37

PNG can be classed under different market structures depending on the nature of economic activity that takes place within the economy. For example, the communication sector and PNG Power.

- a. Identify the two market structures the two examples of firms mentioned above fall under. (2 Marks)
- b. Explain the difference between the two market structures under which PNG Power and communication sector are operating. (4 Marks)
- c. Under which market structure does coffee or copra producers operate? (1 Market)

QUESTION 38

What type of unemployment does each of these situations describe?

- a. The introduction of robot in manufacturing. (1 Mark)
- b. The economy moves into recession. (1 Mark)
- c. Legislation is passed guaranteeing everyone a minimum wage rate that is 60 percent of the average. (1 Mark)
- d. The development of single market in the Pacific heads to a movement of capital to the centre of gravity in the Pacific. (1 Mark)
- e. The government freezes recruitment of public servants in an attempt to save money. (1 Mark)
- f. The government raises interest rates. (1 Mark)
- g. More working people are forced to take annual holiday. (1 Mark)

QUESTION 39

The table below shows a firm's various costs.

Out put	Fixed Cost (K)	Variable Cost	Total Cost (K)	Average Cost (K)
1	10	10	20	
2	10	20		15
3	10	30	40	
4	10	40	50	
5	10	70		

- a. Complete the table by calculating total cost and average cost of a firm. (3 Marks)
- b. Construct all the four cost curves in the table above. (2 Marks)
- c. Indicate on the graph at which level of output, the firm is experiencing
 - i. economies of scale? (1 Mark)
 - ii. diseconomies of scale? (1 Mark)

QUESTION 40

High lending interest rates probed.

Prime Minister Peter O'Neill has encouraged Papua New Guineans to learn to save their money for the future instead of borrowing due to very high interest rates charged by banks and finance companies. He called on the banks and financial institutions to improve their efficiency in order to pass the savings to the customers.

Prime Minister O'Neill was responding to questions from the South Waghi MP about high interest rates that is forcing small people on the verge of bankruptcy. The prime minister agreed that the interest rates are far too high despite high liquidity of around K7 billion that is circulating in the finance system.

The prime minister also said that he will ask the treasurer to bring it up with the governor of Central Bank.

Source: Post Courier, 23 May 2013

- a. Explain how high interest rate can affect the level of
- i. liquidity in the country. (1 Mark)
 - ii. investment. (1 Mark)
 - iii. GDP. (1 Mark)
 - iv. savings. (1 Mark)
 - v. inflation. (1 Mark)
- b. Explain how the government can address the problem that is caused by high interest rate? (1 Mark)
- c. The prime minister also said that he will ask the treasurer to bring it up with the governor of Central Bank.
- Describe how the Central Bank will address the problem without the use of interest rate policy? (1 Mark)

END OF EXAMINATION

ECONOMICS — 2013

SECTION B-ANSWER BOOKLET

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

Year		Province		School			Candidate No		
1	3								

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)		
i. _____		1
ii. _____		1
b. _____ _____		1
c. _____ _____		1
d. _____		1
e. _____ _____		2
For Markers Use Only	Q31 Total	

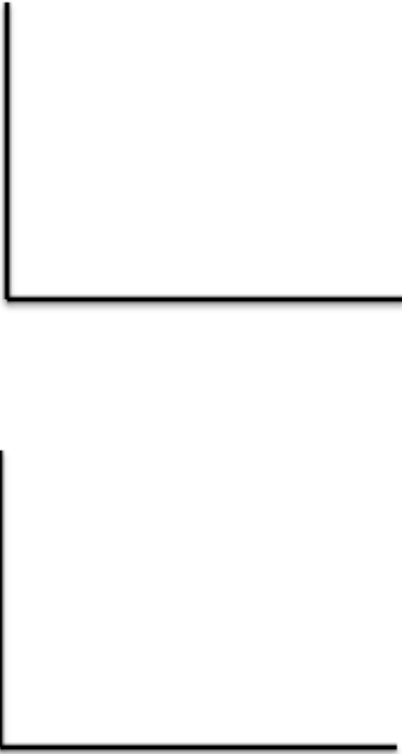
QUESTION 32

a. _____ _____	1
b. _____	1
c i. 	2
ii. _____ _____	1
d. i. _____ _____	1
ii. _____ _____	1
For Markers Use Only	Q32 Total

QUESTION 33

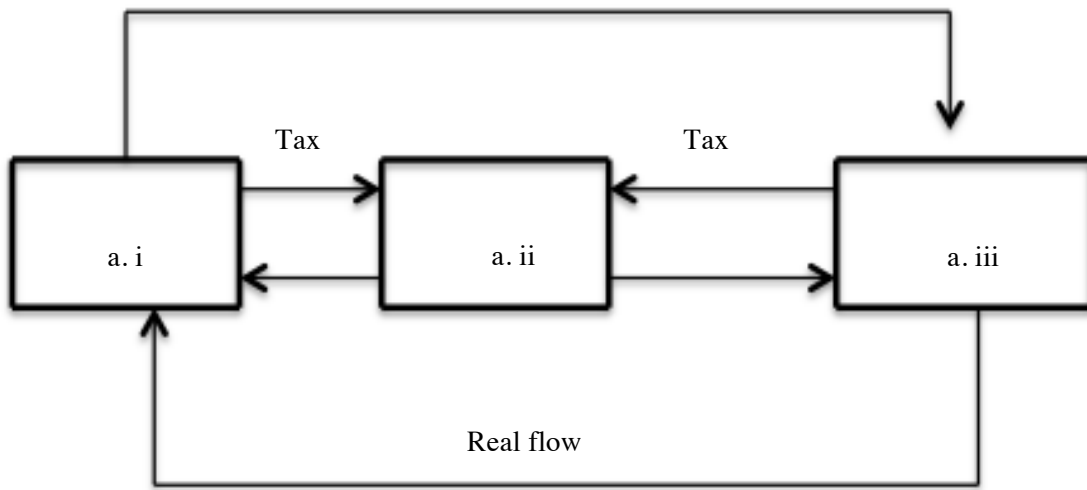
a. 	2
b. i. 	2
ii. 	2
iii. <hr/>	1
For Markers Use Only	Q33 Total

QUESTION 34

<p>a.</p>  <p>b. _____</p> <p>_____</p> <p>c. _____</p> <p>d. _____</p> <p>e. _____</p>	<p>2</p> <p>2</p> <p>1</p> <p>1</p> <p>1</p>
<p>For Markers Use Only</p> <p style="text-align: right;">Q34 Total</p>	

QUESTION 35

a.



(Write the name of the three sectors below)

a i. _____

ii. _____

iii. _____

b.

c. _____

1
1
1

2

2

For Markers Use Only

Q35 Total

QUESTION 36

a.	_____	1
b.		
	_____	2
c.	_____	1
d.		
	_____	1
e.	_____	1
f.	_____	1
For Markers Use Only	Q36 Total	

QUESTION 37

a. _____	2
b. i. _____ _____	2
ii. _____ _____ _____ _____	2
c. _____	1
For Markers Use Only	Q37 Total

QUESTION 38

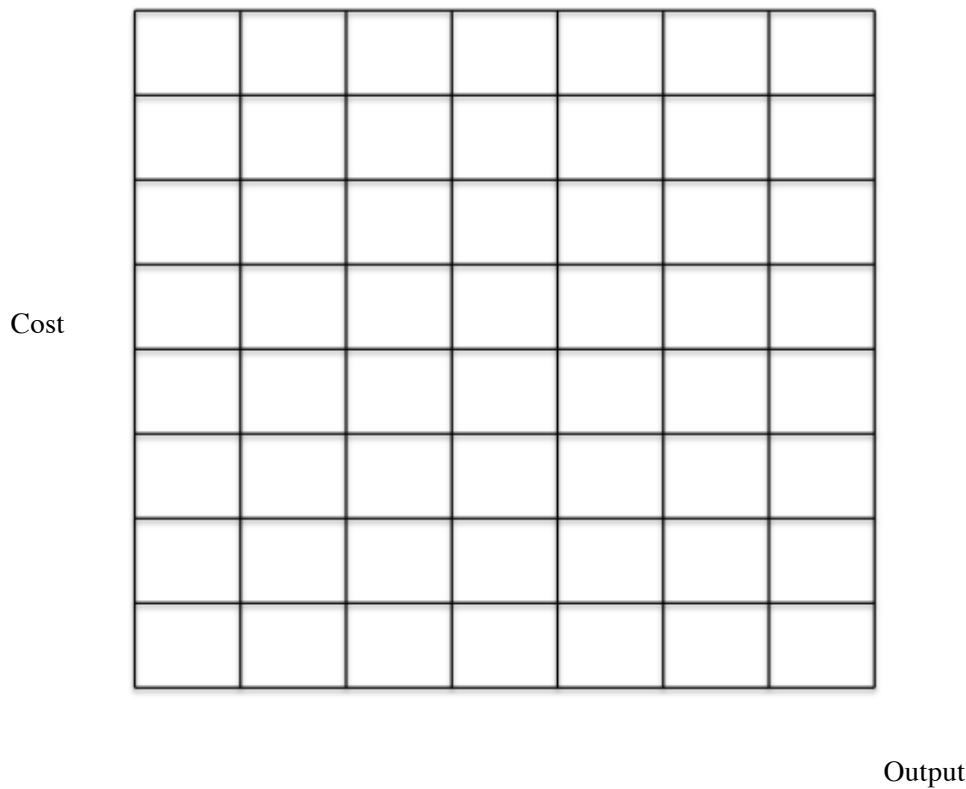
a. _____	1
b. _____	1
c. _____	1
d. _____	1
e. _____	1
f. _____	1
g. _____	1
For Markers Use Only	Q38 Total

QUESTION 39

a.

Out put	Total Fixed Cost	Variable Cost	Total Cost	Average Cost
1	10	10	20	?
2	10	20	?	15
3	10	30	?	?
4	10	40	50	?
5	10	70	?	?

b.



c. (For question ci and cii, show your answer on the curves you have drawn above in question 39 b)

For Markers Use Only

Q39 Total

QUESTION 40

a. i. _____ ii. _____ iii. _____ iv. _____ v. _____ b. _____ _____ _____ c. _____ _____ _____	1 1 1 1 1 1 1 7
For Markers Use Only	Q 40 Total