



**DEPARTMENT OF
EDUCATION**

**UPPER SECONDARY
SCHOOL CERTIFICATE
EXAMINATIONS**

Economics

Monday

20 October 2014

Time allowed:

2 hours and 30 minutes

(8:30am – 11:00 am)

NO EXTRA TIME

(NO OTHER TIME)

Candidates are advised to fully
utilise the allocated time

Eco

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 **9** paged answer booklet for part B are inserted in the question booklet.
3. There are two parts in this paper. Answer all questions.

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

This part will be electronically marked.

All answers to the Multiple Choice Part A **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.

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

Write down your name, your school name and complete your 10 digit candidate number on the Part 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. 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 to 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

A firm reaches economies of scale

- A. when its input decreases, its output increases twice than its input and at a reduced average cost.
- B. As its input increases, its output increases twice or greater than its input at a reduced average cost.
- C. when input increases but output is constant and average cost per good is reduced.
- D. when out put decreases and average cost is falling due to decrease in the input.

QUESTION 2

Adams Smith's book called "the wealth of Nation" talks about wealth creation through specialisation.

Which of the following statement is NOT an advantage of specialisation?

- A. Increase efficiency in the production.
- B. People become very skillful.
- C. Boredom due to monotony in their work.
- D. Increases production.

QUESTION 3

An additional cost that is incurred as a result of producing an additional output is known as

- A. average cost.
- B. marginal cost.
- C. variable cost.
- D. total cost.

QUESTION 4

In the short run, all the inputs are fixed except for

- A. Land.
- B. Capital.
- C. Entrepreneurial Skills.
- D. Labor.

QUESTION 5

A company within a five-year period experienced the following production trend.

Year	Labour	Output
1	1	0
2	2	200
3	3	500
4	4	700
5	5	800

From the information above, the company faced diminishing returns to scale when recruiting the

- A. second labour.
- B. third labour.
- C. fourth labour.
- D. fifth labour.

QUESTION 6

Kila’s income increased by 20% while his demand for a particular product decreased by 10%.

This means Kila is demanding a/an

- A. inferior good.
- B. normal good.
- C. luxury good.
- C. ordinary good.

QUESTION 7

The Papua New Guinea Government decides to set the price ceiling for the rental prices of houses. In the short run, the rental prices are set _____ the market price, thus the demand will _____ forcing supply to its equilibrium level.

- A. above, decrease
- B. below, decrease
- C. below, increase
- D. above, increase

QUESTION 8

The law of supply states that

- A. as price increases, supply responded negatively.
- B. as price increases, supply responded positively.
- C. supply and demand are negatively related.
- D. demand and supply are positively related.

QUESTION 9

Which of the following type of pricing system set by the government creates surplus given a demand and supply curve?

- A. Maximum price
- B. Ceiling price
- B. Moderate price
- D. Minimum price

QUESTION 10

Imposing a sales tax on a good with an inelastic demand by the government burdens

- A. the producer more than consumer.
- B. the consumer more than producer.
- C. both consumer and producer.
- D. the producer only.

QUESTION 11

In a two sector circular flow of income model, the households provide_____ to the firms. The firms provide_____ to the households.

- A. finish products, raw materials.
- B. raw materials finish products.
- C. factor payments, goods and services.
- D. goods and services, factor payments.

QUESTION 12

In determining the gross domestic product (GDP), the following are included except for

- A. total consumer expenditure.
- B. the value of finished product.
- C. wage for a baby sitter.
- D. government expenditures.

QUESTION 13

The interest rate for BSP Personal Loan has increased from 18% to 36% per annum.

Given the above, what policy stance has Bank of Papua New Guinea taken?

- A. An expansionary Fiscal Policy
- B. A contractionary Monetary policy
- C. A contractionary Fiscal Policy
- D. An expansionary Monetary policy

QUESTION 14

Which of the following examples do not fall into category of labor force?

- A. A recent economic graduate applying for a job in treasury department.
- B. A grade 10 drop out looking for a job in Port Moresby.
- C. A recent grade 12 graduate who decides to baby-sit her small sister.
- D. A 15 year old employed as a casual in TST supermarket.

QUESTION 15

Using the table below, match the leakages and injections.

A	Taxation	D	Investment
B	Export	E	Government Expenditure
C	Savings	F	Imports

- A. $A + B + C = D + E + F$
- B. $A + C + F = E + D + B$
- C. $A + C + D = B + E + F$
- D. $C + D + E = B + F + A$

QUESTION 16

The quantity **or sum** of money created by the banks through the credit creation process depends on

- A. how fast transaction is done.
- B. number of transaction.
- C. government policies.
- D. size of the liquid asset ratio.

QUESTION 17

The real change in GDP is realized when estimating using the

- A. constant prices.
- B. prices for intermediate products.
- C. current prices.
- D. prices for second hand products.

QUESTION 18

Narrow money supply consists of

- A. foreign currency and term deposits.
- B. term deposits and transferable deposits.
- C. transferable deposits and currency in circulation.
- D. currency outside depository corporations and foreign currency.

QUESTION 19

The aid that is provided by the Australian government to the Manus Island directly is known as

- A. Unconditional Aid.
- B. Tied Aid.
- C. Untied Aid.
- D. Voluntary Aid.

QUESTION 20

If one country produces less of one good than the other, then it has _____so it _____produces this good for trade.

- A. no comparative advantage, must not
- B. no comparative advantage, must
- C. comparative advantage, must
- D. comparative advantage, must not

QUESTION 21

The government policy that focuses on decreasing sales tax in order to increase demand is

- A. Monetary policies.
- B. Fiscal Policies.
- C. Supply-side Policies.
- D. Incomes Policies.

QUESTION 22

If there is an appreciation to kina relative to yen, then

- A. Papua New Guineans would need more Kina to buy Japanese goods.
- B. Papua New Guineans get fewer yen per kina on foreign exchange market.
- C. Papua New Guinea goods become more expensive for the Japanese to buy than before.
- D. Papua New Guinea goods become cheaper for the Japanese to buy than before.

QUESTION 23

The price of One Kilogram of rice in Australia is AUD\$2.00. Assume that the exchange rate is AUD\$0.40 per Kina.

How much Kina would a Papua New Guinean need in order to purchase Two Kilograms of rice?

- A. K 4.50 B. K5.00 C. K 9.00 K 10.00

QUESTION 24

If the value of Kina appreciates, Papua New Guinea will _____ in the short run and in the long run, experience balance of payment_____.

- A. decrease import, deficit
- B. increase import, surplus
- C. increase import, deficit
- D. decrease import, surplus

QUESTION 25

When the terms of trade is worsen for a country,

- A. its volume of exports increase more than its volume of imports.
- B. its import prices increase more than its export prices.
- C. its volume of imports increases more than its volume of exports.
- D. its export prices increases more than its import prices.

QUESTION 26

Which of the following is a credit item on the current account.

- A. PNG import Cement from Indonesia.
- B. Purchase of B-Mobile shares by foreign investors.
- C. The overseas earnings of PNG furniture manufactures.
- D. Interest payment by PNG government on a loan given by the World Bank.

QUESTION 27

According to Keynesian Theory, in a period of recession government action to reduce the size of its budget deficit will tend to increase the

- A. rate of economic growth.
- B. level of employment.
- C. level of underemployment of productive resources.
- D. level of full employment of unproductive resources.

QUESTION 28

A measure of response of the quantity of coffee demanded to a change in the price of milo is called

- A. cross price elasticity of demand.
- B. elasticity of substitution.
- C. elasticity of supply
- D. income elasticity

QUESTION 29

Which of the following does not describe a 'macroeconomic activity'?

- A. Determination of tax rate by the government.
- B. The government's fiscal policy stance.
- C. Allocation of resources by a local farmer.
- D. Governments determination of total production in the economy.

QUESTION 30

A foreigner buying shares in Papua New Guinea is recorded under Papua New Guinea's Balance of Payment accounts.

Which of the following small accounts under Balance of Payment account will the transaction above be recorded?

- A. Capital Account
- B. Current Account
- C. Traders account
- D. Savings account

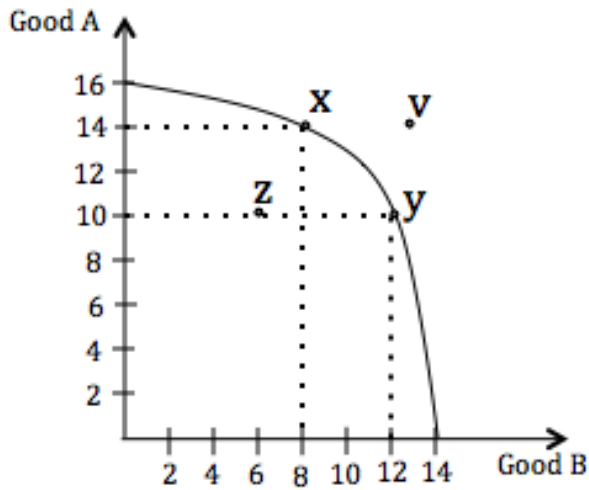
PART B: SHORT ANSWER (QUESTION 31 to 40) 70 MARKS

Write all the answers to the questions on the Answer Booklet provided.

QUESTION 31

Use the following diagram to answer the following question.

The Production Possibility Curve.



- a. What are Points X and Y known as? (1 Mark)
- b. What is the opportunity cost of moving from Point 'X' to 'Y'? (Calculate) (2 Marks)
- c. Explain Point 'Z' (1 Mark)
- d. How would you explain Point 'V'? (1 Mark)
- e. Is it possible to move to point 'V'? Explain (2 Marks)

QUESTION 32

Case Study: Buai Ban in NCD has major impact.

The betelnut ban in Port Moresby has been helping on a general level in keeping the city clean. But on a larger scale there are certain chain of effects that comes with it. Most substantial buai sellers are not formally educated to be in the workforce, so basically their every day survival depends on their buai sales profit. When the buai ban was ordered, many buai sellers suffered tremendously. The government never had an alternative income source structure in place to cater for the buai sellers, but this means breaking another market barrier, that is competitively in place.

For a buai seller to resort to selling veggies in the market would mean starting from ground zero again.

Different market, different competition; they will have to get themselves acquitted with the new market they are entering.

The government should create the opportunities for such transition to take place before and after imposing buai ban.

To create such substitute opportunity means building new market areas and maintaining old ones that can cater and create more substitute competition.

On another note, there are some stubborn betelnut sellers who refuse to abide by the law. Commercialising may be the only solution.

Source: Post Courier, June 2 2014

- a. What is the difference between private cost and social or external cost? (2 Mark)
- b. Identify one social or external benefits of Buai Ban in NCD mentioned in the article (1 Mark)
- c. List one private benefit of buai ban in the city. (1 Mark)
- d. List two private cost of buai ban in the city. (2 Marks)
- e. List one social cost of buai ban in the city. (1 Mark)

QUESTION 33

Gross Domestic production for 2006

Items	Kina in Million
Compensation of Employees	2 550.9
Private Consumption	7 959.0
Fixed Capital Formation	2 652.6
Gross Operating Surplus	11 994.5
Domestic Factor Incomes	985.0
Government Consumption	2 837.6
Net Exports	3 447.3

- a. Calculate Gross Domestic Product (GDP) using the Expenditure Method (2 Marks)
- b. Calculate Gross National Product (GNP) if Net Factor Payment is K4325.5 Million Kina. (2 Marks)
- c. Define
- (i) Gross Domestic Product (1 Mark)
- (ii) Gross National Product (1 Mark)
- d. Explain the difference between GDP and GNP? (1 Mark)

QUESTION 34

- a. In a complete Circular Flow of Income Model, state the sectors that make up the
- (i) microeconomic component. (2 Mark)
- (ii) macroeconomic component. (1 Mark)
- b. If the tax increases, how will the domestic consumption level be affected? (1 Mark)
- c. What is the role of the financial institution in a circular flow of income model? (1 Mark)
- d. List the leakages in a complete circular flow of income model? (1 Mark)
- e. Explain why it is important for Papua New Guinea to have a balanced export-import scenario? (1 Mark)

QUESTION 35

Refer to a bank's balance sheet below and answer the questions accordingly.

Liabilities (thousand kina)		Assets (thousand kina)	
Deposits	500	Liquid Assets	125
		Loan	425
500		500	

- (a) Define liquid asset ratio requirement. (1 Mark)
- (b) Calculate liquid asset ratio? (1 Mark)
- (c) At the end of the credit creation process, how much will the bank be able to create? (1 Mark)
- (d) If the central bank wants to decrease the money supply, how should it manipulate its liquid asset ratio? (2 Marks)
- (e) If the new liquid asset ratio were 20%, how much would the bank be able to create after the credit creation process stops? (2 Marks)

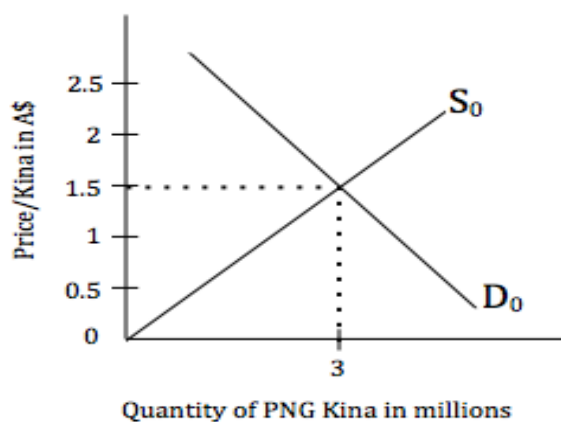
QUESTION 36

- a. Indicate in each case whether an inflow or outflow is involved.
- (i) The purchase of a vehicle from United States (1 Mark)
- (ii) A Papua New Guinea family on holiday in London (1 Mark)
- (iii) Profit received by Bank South Pacific operating in Fiji (1 Mark)
- (iv) Digicel company setting up a new Digicel tower in Kimbe (1 Mark)
- b. State in each of the case whether the transaction would be recorded in the capital account or current account.
- (i) Apa exporting Goroka coffee to Germany. (1 Mark)
- (ii) Repayment of international loan. (1 Mark)
- (iii) Paying for insurance cover to a British insurance company. (1 Mark)

QUESTION 37

Refer to the diagram and answer all the questions below.

Exchange rate



- a) Define exchange rate. (1 Mark)
- b) Sketch a new exchange rate diagram and label it as D_1 or S_1 if our merchandise exports to Australia is increased. (2 Marks)
- c) Explain the difference between appreciation and revaluation in exchange rate. (2 Marks)
- d) If the government fixes our exchange rate at \$1, what would be the effect
 - (i) on our exports? (1 Mark)
 - (ii) on our Balance of Payments? (1 Mark)

QUESTION 38

Demand Schedule for milk powder (200g Packet)

Price (K)	Quantity demanded (units)
2	80
3	75
5	65
8	50
12	30

- a) What is the price elasticity of demand for milk powder as price increases from K2 to K3? (2 Marks)
- b) What is the price elasticity of demand for milk powder as price increases from K5 to K8? Interpret result. (2 Marks)
- c) Draw the demand curve for the above product. (2 Marks)
- d) Interpret the demand curve in terms of elasticity. (1 Mark)

QUESTION 39**Supply and Demand schedule for Kaukau**

Price (Kina)	2	4	6	8	10	12	14
Qty. Supply (kg)	10	20	30	40	50	60	70
Qty. demanded (kg)	70	60	50	40	30	20	10

- (a) Sketch the supply and demand curve (price on the vertical and quantity on the horizontal axis) (2 Marks)
- (b) Why do we have a positively sloping supply curve? (1 Mark)
- (c) What is the equilibrium price and quantity? (1 Mark)
- (d) On your sketched diagram if the government decides its price floor to be K12, how much excess would you have? (1 Mark)
- (e) According to the theory of Adam Smith, explain how the invisible hand will work to bring the excess back to its equilibrium market? (2 Marks)

QUESTION 40

The Independent Consumer Competition Commission decides to set price for one Kilogram Trukai Rice at K3.00 when the market price is K4.00.

- (a) Sketch the supply and demand graph, label the prices accordingly, label supply as S_0 and demand as D_0 . (2 Marks)
- (b) Why does the government set price at that level? (2 Marks)
- (c) The price set by the government will affect the supplier. Explain how the supplier will react to the new price? (1 Mark)
- (d) What does the word market price mean? (1 Mark)
- (e) Sketch a new demand curve and label it D_1 if the government's tax on income increases. (May label this on the same graph as in answer 'a') (1 Mark)

END OF EXAMINATION

Economics — 2014

SECTION B-ANSWER BOOKLET

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

Grade		Year		Province		School No.			Cand. No.		
1	2	1	4								

Name: _____

School: _____

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. _____ _____	2
b. _____	1
c. _____	1
d. _____ _____	2
e. _____	1
For Markers Use Only	Q32 Total

QUESTION 33

.a. _____ _____	2
b. _____ _____	2
c. i. _____ _____	1
ii. _____ _____ _____	1
d. _____ _____	1
For Markers Use Only	Q33 Total

QUESTION 34

a.		
(i) _____		2
(ii) _____		1
b. _____		1
c. _____		1
d. _____		1
e. _____		1
For Markers Use Only	Q34 Total	

QUESTION 35

a. _____		1
b. _____		1
c. _____		1
d. _____		2
		2
e. _____		
For Markers Use Only	Q35 Total	

QUESTION 36

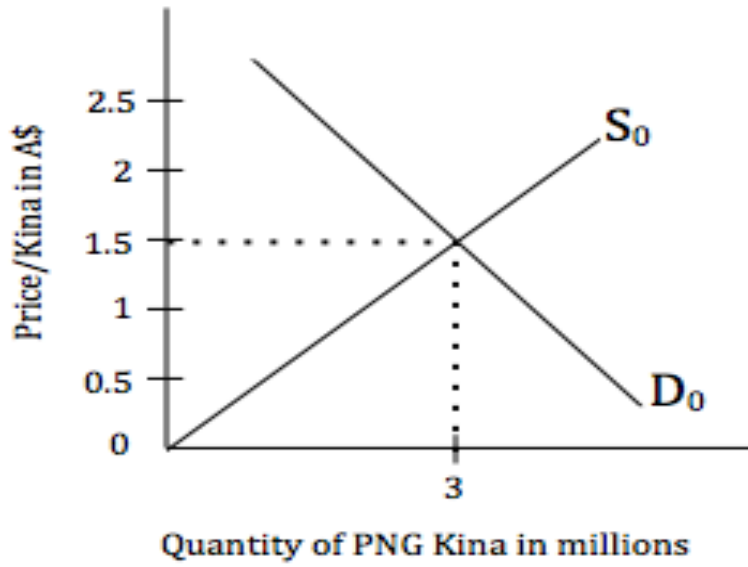
a.		
(i)	_____	1
(ii)	_____	1
(iii)	_____	1
(iv)	_____	1
b		1
(i)	_____	1
(ii)	_____	1
(iii)	_____	
For Markers Use Only	Q36 Total	

QUESTION 37

a. _____

1

b.



2

c. _____

2

d.

(i) _____

1

(ii) _____

1

For Markers Use Only

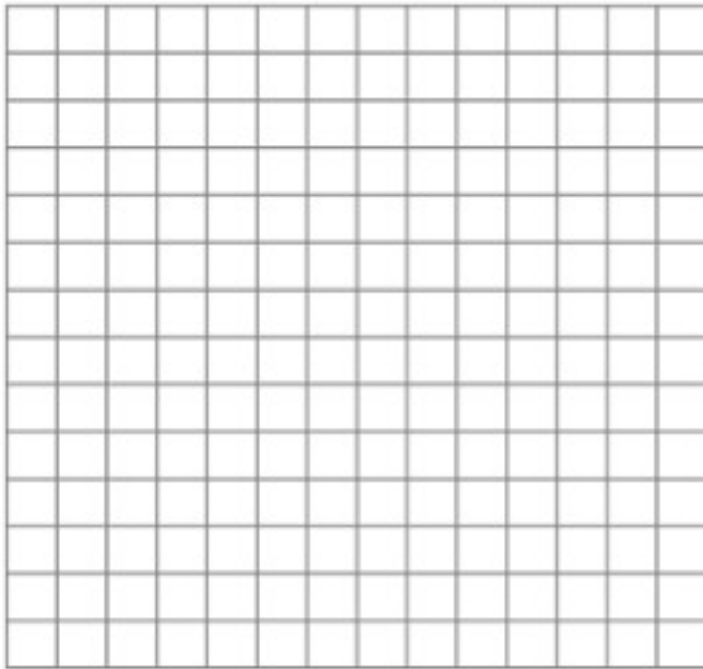
Q37 Total

QUESTION 38

a.

b.

c.



d. _____

2

2

2

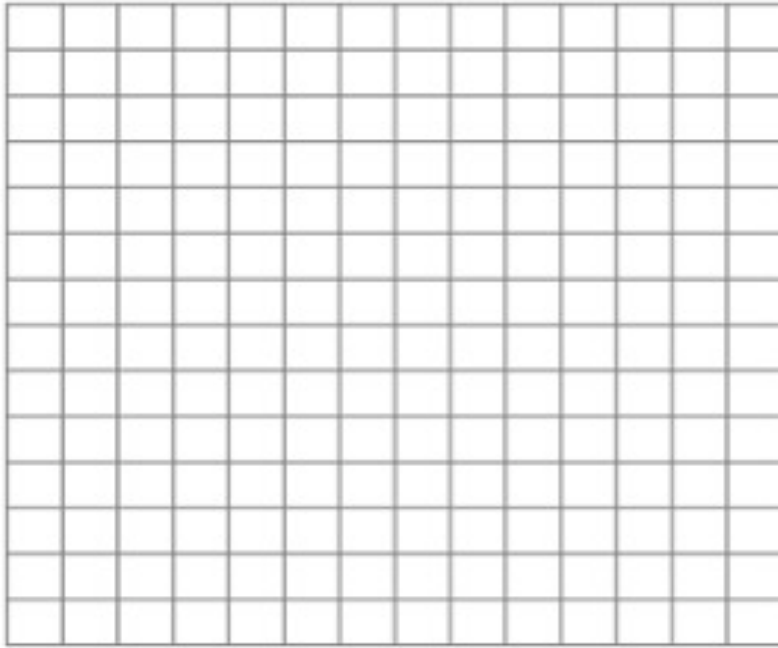
1

For Markers Use Only

Q38 Total

QUESTION 39

a.



Note: This graph will be used again to answer question d.

b. _____

c. _____

d. _____

e. _____

2

1

1

1

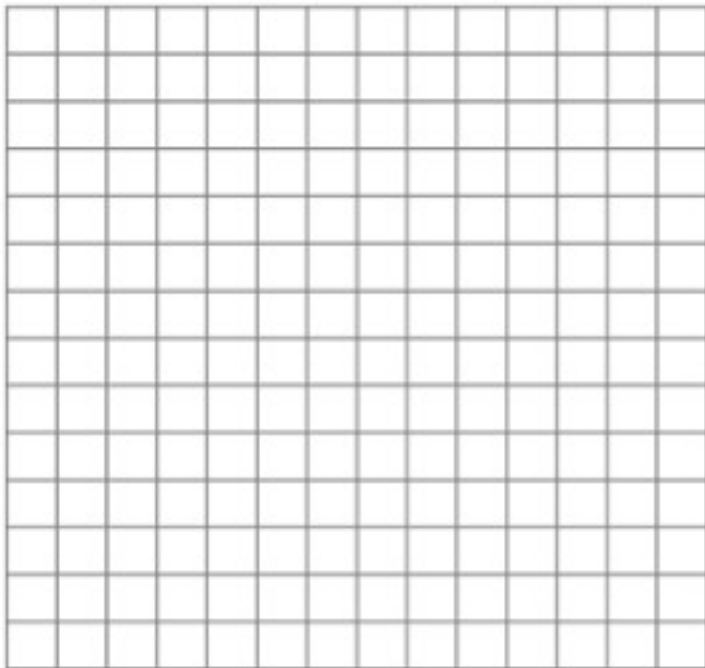
2

For Markers Use Only

Q39 Total

QUESTION 40

a.



2

2

b. _____

1

c. _____

1

d. _____

e. (May use the same graph in a)

1

For Markers Use Only

Q40 Total