



**DEPARTMENT OF
EDUCATION**

**UPPER SECONDARY
SCHOOL CERTIFICATE
EXAMINATIONS**

Economics

Monday

26 October 2015

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 **8** 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 decrease in supply is caused by a/an

- A. increase in the price of the product itself.
- B. increase in the cost of production.
- C. decrease in the cost of production.
- D. decrease in the price of the product itself.

QUESTION 2

Cost-Push inflation is caused by

- A. excess demand.
- B. change in the cost of imported goods.
- C. increase in cost of production.
- D. consumer taste.

QUESTION 3

According to the Comparative Advantage Theory, a country should specialize in a product that it can produce with

- A. high opportunity cost compared to another.
- B. lowest opportunity cost compared to another.
- C. more resources compared to another.
- D. an advanced technology compared to another.

QUESTION 4

Which of the following is NOT an instrument of Fiscal Policy?

- A. Minimum Liquid Asset Ratio
- B. Expenditure
- C. Taxation
- D. Borrowing

QUESTION 5

If the government sets the minimum wage, it will result in

- A. full employment.
- B. unemployment.
- C. over employment.
- D. excess demand for labour.

QUESTION 6

In a Two-Sector circular flow of Income model, the households give to the firms

- A. public utilities.
- B. factors of production.
- C. factor income.
- D. goods and services.

QUESTION 7

The law of demand states that

- A. more will be sold at higher prices and less at lower prices.
- B. more will be bought at higher prices and less at lower prices
- C. less will be sold at higher prices and more at a lower prices.
- D. less will be bought at higher prices and more at lower prices.

QUESTION 8

Which of the following is a non-durable product?

- A. radio
- B. car
- C. Bread
- D. refrigerator

QUESTION 9

Consumption K 200M, Government expenditure K250M, Savings K350M, Total Investment K350M, total export K350M, total import K 300M,

Estimated population in Papua New Guinea is 7 Million, and the indicator is 1.5

What is the real GDP according to the information above when you are using the expenditure method?

- A. K 1 200M
- B. K 1 210M
- C. K 1 230M
- D. K 1 240M

QUESTION 10

Which of the following item has both function of money 'store of wealth' and 'medium of exchange'?

- A. A valuable artifact
- B. A lucky ticket which just won a prize
- C. K 1 coin
- D. Shares with City Pharmacy

QUESTION 11

Which of the following is the final “OUTPUT” in the production process?

- A. Sandwich maker
- B. Bread
- C. Chef
- D. Sandwich

QUESTION 12

If there is an appreciation of the kina against the Australian dollar, then,

- A. PNG would need more kina to buy Australian dollar.
- B. PNG gets fewer dollars per kina in the foreign exchange market.
- C. PNG goods become more expensive for Australia to buy than before.
- D. PNG goods become cheaper for Australians to buy than before.

QUESTION 13

Which of the following is a fixed cost for the sugar factory?

- A. A security's wage
- B. A telephone bill
- C. Rental payment
- D. Cost of sugar cane

QUESTION 14

A balance of payment (BOP) is a record of money

- A. received from exporting goods and services to another country over a period of time.
- B. spent on import of goods and services from another country over a period of time.
- C. coming in and going out from export and import of goods to and from other countries usually in a year
- D. coming in and going out from export and import of goods and services to and from other countries usually in a year.

QUESTION 15

Which of the following is an example of a command economy?

- A. PNG government encouraging more Public-Private Partnership.
- B. Australian government allows for free market enterprises to dominate business sector.
- C. North Korea fixes the wages for the general public.
- D. New Zealand government keen on private sector involvement in state related policies.

QUESTION 16

The import duty is a tax that is imposed on the imported goods.

Which of the following is true if the elasticity of the demand is inelastic?

- A. Impact of the tax lies with the importer and the incidence also lies with the importer.
- B. Impact of the tax lies with the importer and the incidence lies with the government.
- C. Impact of the tax lies with the importer and the incidence lies with the final consumer.
- D. Impact and incidence of the tax lies with the government.

QUESTION 17

In light of high unemployment, the government of Papua New Guinea can intervene in the economy through Central Bank to address it by implementing a/an

- A. expansionary fiscal policy.
- B. expansionary monetary policy.
- C. contractionary monetary policy.
- D. contractionary fiscal policy.

QUESTION 18

The downward-sloping of the long-run average cost curve represents

- A. dis-economies of scale.
- B. economies of scale.
- C. constants returns to scale.
- D. decreasing returns to scale.

QUESTION 19

The goods that are available for production of other goods are known as

- A. consumer goods.
- B. intermediate goods.
- C. public goods.
- D. merit goods.

QUESTION 20

Price control is a maximum price that the government sets

- A. above the equilibrium price and it is in favor of the producers.
- B. below the equilibrium price and it is in favor of the consumers.
- C. at the equilibrium point and in favour of both consumers and producers.
- D. below the equilibrium quantity and the government's aim to collect revenue.

QUESTION 21

An extension in demand is caused by a/an

- A. increase in income of the consumer.
- B. decrease in the price of the product itself.
- C. increase in the price of the product itself.
- D. decrease in the price of a substitute product .

QUESTION 22

Which of the following transaction would be regarded as an invisible import?

- A. Joe sold 20 Kilogram of coffee bag to Rocky Small coffee buyer.
- B. Goroka coffee bought 1000kg of coffee bean from small holders to export.
- C. Goroka coffee insures its property with an Australian Insurance company.
- D. An Australian construction company rents an office space from a local company.

QUESTION 23

The price of product x had changed from K5.00 to K4.00 per unit and the demand of product y decreased from 10kg to 6kg.

What is the cross elasticity and the nature of the two products respectively when you use the Point method?

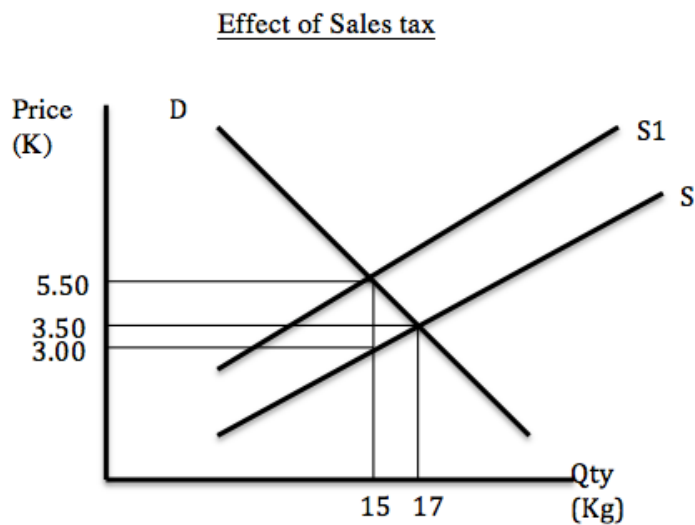
- A. 0.5 so they are substitutes.
- B. -0.5 so they are complementary goods.
- C. 2.0 so they are substitutes.
- D. -2.0 so they are complementary goods.

QUESTION 24

Net Barter Terms of Trade is defined as the ratio of

- A. quality of exports to imports.
- B. value of exports to the value of imports.
- C. export prices to the import prices.
- D. consumer price index to the inflation rate.

For Questions 25 and 26, refer to the diagram below.



QUESTION 25

According to the sketched sales tax diagram above, what is the tax amount paid by the consumer?

- A. K5.50
- B. K3.50
- C. K2.50
- D. K2.00

QUESTION 26

How much is the total tax revenue?

- A. K 82.50
- B. K 52.50
- C. K 37.50
- D. K 19 .00

QUESTION 27

When economic activity is falling, the government will try to stimulate the economy with a

- A. budget deficit.
- B. balanced budget.
- C. balance of payment surplus.
- D. budget surplus.

QUESTION 28

What do economists mean by the word 'scarcity'?

- A. Very small supply.
- B. Non-availability.
- C. Availability of a high price.
- D. Less supply in relation to demand.

QUESTION 29

If there is a change in the exchange rate between Australian Dollar and Papua New Guinea Kina from A\$1=PGK0.25 to A\$1 = PGK0.35?

Which of the following is true?

- A. Papua New Guinea's import from Australia is expensive.
- B. Papua New Guinea's export to Australia is expensive.
- C. Australia's export to Papua New Guinea is expensive.
- D. Australia's import from Papua New Guinea is cheap.

QUESTION 30

Which of the following best describes an opportunity cost?

- A. Kila produced 20 bananas and 10 corns at a total cost of K20.00.
- B. Kila used one garden to grow both goods.
- C. In the next production, Kila decided to produce 25 bananas at a cost of 5 corns.
- D. Kila received K100 from the sales of the goods instead of K 70 as estimated.

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

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

QUESTION 31

You were given the following information.

	'K' million
Income Receipts	50
Income Payments	100
Goods Import	1,200
Transfers (Net)	20
Official Capital Transfer (Net)	50
Services (Net)	30
Goods Export	800
Foreign Direct Investment	70
Portfolio Investments	60

Calculate the following.

- a. Current Account Balance (3 marks)
- b. Capital Account Balance (2 marks)
- c. Overall Balance (2 marks)

QUESTION 32

In a certain bank, the Balance Sheet was as follows.

Liabilities		Asset	
Deposits	K10m	Liquid Assets	K4m
		Loans	K6m
	K10m		K10m

- Calculate the Liquid Assets Ratio from the above balance sheet. (1 mark)
- Now assume the value of bank deposit has increased by K2 million. (3 marks)
Draw a new balance sheet capturing the change.
- What is the new Liquid Asset ratio after the change in deposit? (1 mark)
- What will happen to liquid assets and loans if LGS ratio required is 40% according to the answer in 'c' above? (2 marks)

QUESTION 33

- What is the difference between a decrease and a contraction in demand? (2 marks)
- Use the graph to illustrate your answer to 'a' above. (2 marks)
- The PNG Power Limited employees Association successfully negotiated for a wage increase for its employees. Explain what happens to the supply of power? (1 mark)
- Illustrate your answer to 'c' by using the graph. (2 marks)

QUESTION 34

- a. List at least three Economic Goals of Papua New Guinea. (3 marks)
- b. List three causes of inflation. (3 marks)
- c. What is Gross Domestic Product? (1 mark)

QUESTION 35

- a. What is an oligopoly market? (1mark)
- b. Explain how firms in an oligopoly market maximize their production and price. (2 marks)
- c. Compare and contrast Monopoly and Perfect Competition especially in terms of their features. (2marks)
- d. Describe at least two ways on how monopoly firm can make profit. (2 marks)

QUESTION 36

Income of Jack has increased from K400.00 per fortnight to K500.00 per fortnight and his demand for a product 'z' has fallen from 20kg to 15kg per fortnight.

- a. Calculate the income elasticity and state the nature of product z. (3 marks)
- b. Explain the relationship between income and product z. (2 marks)
- c. Explain what may happen to the demand if Jack's income has fallen back to K400.00 per fortnight? (2 marks)

QUESTION 37**Tax payment**

Level of Income (K)	Country		
	A	B	C
20 000	2000	2000	2000
30 000	3000	2100	3600
40 000	4000	1600	6000

- a. Define proportional tax rate. (2 marks)
- b. Identify which country falls under the progressive and regressive tax rate. (2 marks)
- c. Identify from the following if they are direct or indirect tax. (3 marks)
- (i) Sales tax
- (ii) Personal Income tax
- (iii) Dividend withholding tax

QUESTION 38

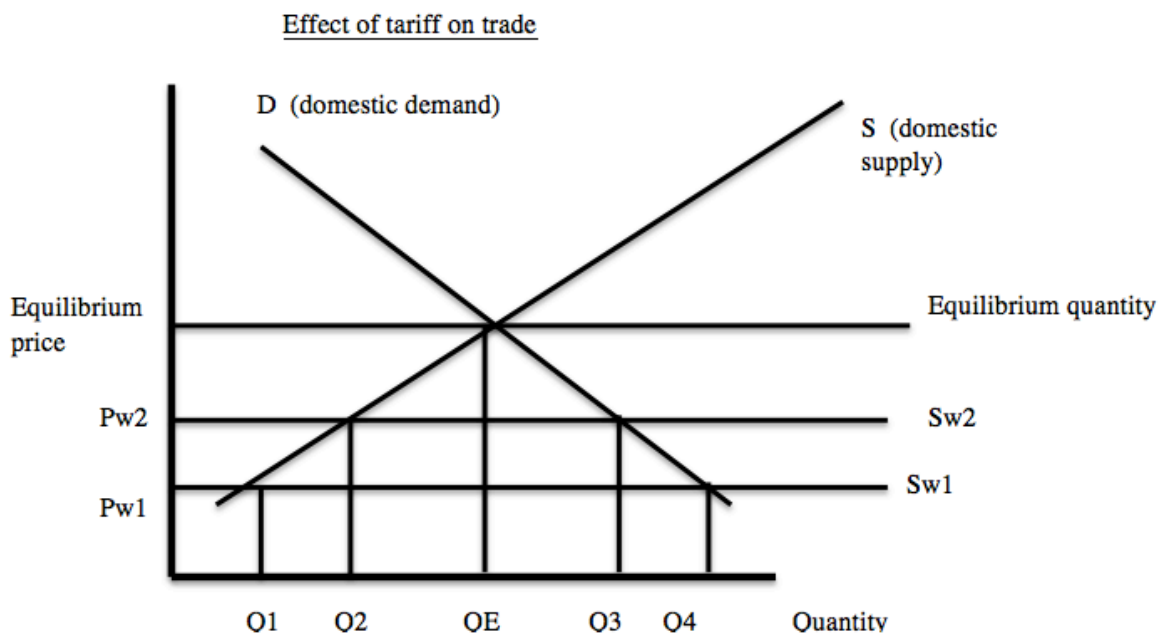
- a. What is a marginal cost? (1 mark)
- b. Explain the difference between the fixed cost and a variable cost. (2 marks)
- c. A producer of pie has the following short-run cost schedule as shown in the table. Calculate and complete the table. (4 marks)

OUTPUT (Boxes) Per Week (K)	TOTAL FIXED COST (K)	TOTAL VARIABLE COST (K)	TOTAL COST (K)	MARGINAL COST (K)
0	20	0	20	0
1	20	20	40	20
2	20	30	i	ii
3	20	40	iii	iv
4	20	50	70	10
5	20	80	100	30

QUESTION 39

- a. Define trade protection with respect to international trade. (2 marks)
- b. What is the difference between tariff and a quota? (2 marks)

For Questions in ‘c’, refer to the diagram below.



- c. State how the following is affected after the tariff is imposed. (3 marks)
 - (i) World Price (P_w)
 - (ii) Domestic supply
 - (iii) Government Revenue

QUESTION 40

From the following, state which of them fall under “NORMATIVE STATEMENT” or “POSITIVE STATEMENT”.

- a. Increase in taxes does not always bring about increase in tax revenue. (1 mark)
- b. PNG should reduce its dependence on foreign aid, foreign trade, foreign investment and foreign technology. (1 mark)
- c. There should be equal pay for equal work and it is wrong to have higher salaries for nationals. (1 mark)
- d. The income of an individual must be equal to his consumption, savings and taxes. (1 mark)
- e. Since smoking causes cancer, government should ban smoking. (1 mark)
- f. An increase in the price of a commodity, other things being equal, will reduce demand of that commodity. (1 mark)
- g. If employment has to be created, wages have to be cut down. (1 mark)

END OF EXAMINATION

Economics — 2015

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	5								

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.


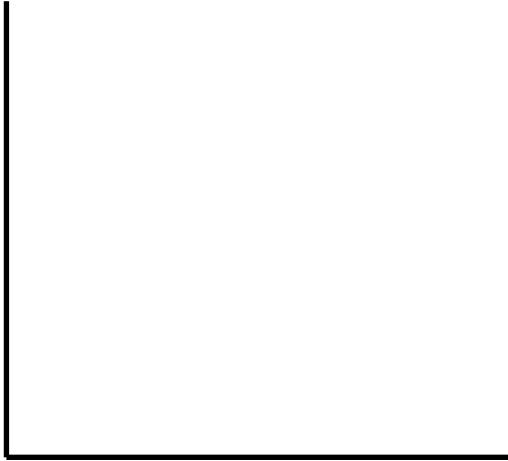
QUESTION 31

a.	3
b.	2
c.	2
For Markers Use Only	Q31 Total

QUESTION 32

<p>a.</p> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/>	1				
<p>b.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; padding: 5px;">Liability</th> <th style="width: 50%; padding: 5px;">Asset</th> </tr> </thead> <tbody> <tr> <td style="height: 150px;"></td> <td style="height: 150px;"></td> </tr> </tbody> </table>	Liability	Asset			3
Liability	Asset				
<p>c.</p> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/>	1				
<p>d.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; padding: 5px;">Liability</th> <th style="width: 50%; padding: 5px;">Asset</th> </tr> </thead> <tbody> <tr> <td style="height: 150px;"></td> <td style="height: 150px;"></td> </tr> </tbody> </table>	Liability	Asset			2
Liability	Asset				
<p>For Markers Use Only</p>	<p>Q32 Total</p>				

QUESTION 33

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

QUESTION 34

a.		
(i)	_____	
(ii)	_____	
(iii)	_____	3
b.		
(i)	_____	
(ii)	_____	3
(iii)	_____	
c.	_____	
	_____	1

For Markers Use Only	Q34 Total	

QUESTION 35

a.	_____	
	_____	1
b.	_____	
	_____	2

c.	_____	
	_____	2

d.	_____	
	_____	2

For Markers Use Only	Q35 Total	

QUESTION 36

a.		3
b.	_____	2
c.	_____	2
For Markers Use Only		Q36 Total

QUESTION 37

a.	_____	2
b.	(i) Progressive tax rate is used by country _____	2
	(ii) Regressive tax rate used by country _____	
c.	(i) _____	3
	(ii) _____	
	(iii) _____	
For Markers Use Only		Q37 Total

QUESTION 38

a.

1

b.

2

c.

Output	Total Cost	Marginal Cost
0	20	0
1	40	20
2	(i) _____	(ii) _____
3	(iii) _____	(iv) _____
4	70	10
5	100	30

4

For Markers Use Only

Q38 Total

QUESTION 39

a. _____ _____ _____	2
b. _____ _____ _____	2
c. (i) _____ (ii) _____ (iii) _____	1 1 1
For Markers Use Only	Q39 Total

QUESTION 40

a. _____ b. _____ c. _____ d. _____ e. _____ f. _____ g. _____	7
For Markers Use Only	Q40 Total