

MARKER CODE


 Pacific  
Community  
Communauté  
du Pacifique


Student Personal Identification Number

# South Pacific Form Seven Certificate

# ECONOMICS

## 2021

### QUESTION and ANSWER BOOKLET

Time allowed: Three hours

(An extra 10 minutes is allowed for reading this paper.)

#### INSTRUCTIONS

Write your **Student Personal Identification Number (SPIN)** in the space provided on the top right-hand corner of this page.

Answer **ALL QUESTIONS**. Write your answers in the spaces provided in this booklet.

If you need more space for answers, ask the Supervisor for extra paper. Write your SPIN on all extra sheets used and clearly number the questions. Attach the extra sheets at the appropriate places in this booklet.

Major Learning Outcomes (Achievement Standards)	Skill Level & Number of Questions				Weight/ Time
	Level 1 <i>Uni- structural</i>	Level 2 <i>Multi- structural</i>	Level 3 <i>Relational</i>	Level 4 <i>Extended Abstract</i>	
<b>Strand 1: Resource Allocation via the Market System</b> Demonstrate an understanding of the key ideas about the operation of the market system, how decisions are made, and their outcome in a modern market economy.	8	3	4	1	30% 76 min
<b>Strand 2: Resource Allocation via the Public Sector</b> Demonstrate an understanding of resource allocation via the public sector.	4	5	2	-	20% 52 min
<b>Strand 3: Aggregate Economic Activity and Policy</b> Demonstrate an understanding of aggregate economic activities and policies.	5	4	1	1	20% 52 min
<b>TOTAL</b>	<b>17</b>	<b>12</b>	<b>7</b>	<b>2</b>	<b>70% 180 min</b>

Check that this booklet contains pages 2–21 in the correct order and that none of these pages are blank.

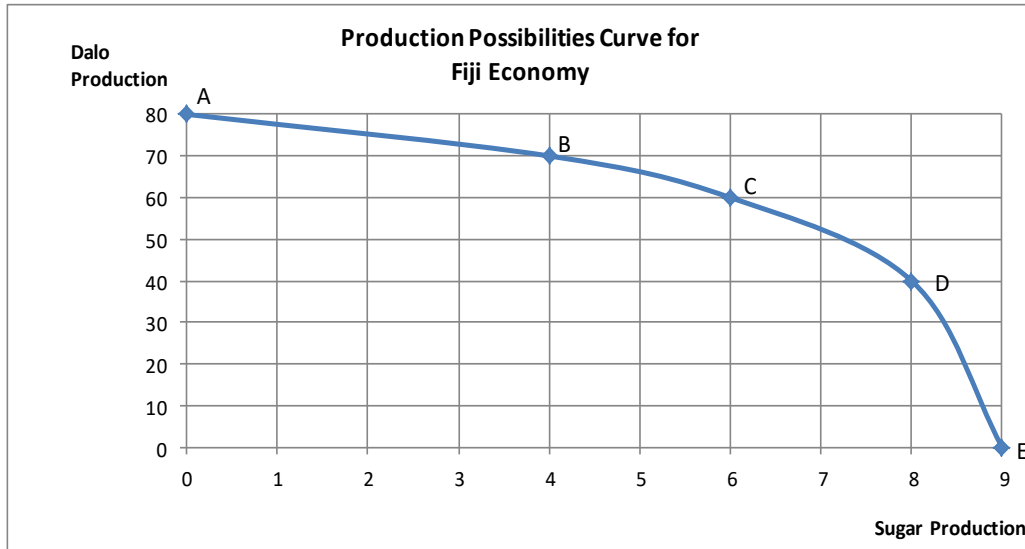
**HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

**STRAND 1: RESOURCE ALLOCATION VIA THE MARKET SYSTEM**

Answer **ALL** four questions in this strand.  
As a guide spend no more than **76 minutes** on this strand.

**1.1: Economic Problem of Scarcity and Resource Allocation**

**Graph 1. Production Possibilities Model**



Use Graph 1 above to answer questions 1.1a to 1.1d.

*Assessor's use only*

1.1a	State a feature or example of opportunity cost with reference to Graph 1.  <hr/> <hr/> <hr/> <hr/>	<table border="1" style="margin: auto;"> <tr> <th colspan="2">Unistruktural</th> </tr> <tr> <td style="width: 20px; text-align: center;">1</td> <td style="width: 20px;"></td> </tr> <tr> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td style="text-align: center;">NR</td> <td></td> </tr> </table>	Unistruktural		1		0		NR			
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1.1b	Describe features of productive efficiency with reference to Graph 1.  <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="margin: auto;"> <tr> <th colspan="2">Multistruktural</th> </tr> <tr> <td style="width: 20px; text-align: center;">2</td> <td style="width: 20px;"></td> </tr> <tr> <td style="text-align: center;">1</td> <td></td> </tr> <tr> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td style="text-align: center;">NR</td> <td></td> </tr> </table>	Multistruktural		2		1		0		NR	
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1.1c	The PPC in Graph 1 is concave to the origin. Explain the reason for its shape.		

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**1.2: Understand Demand and Factors Affecting Demand**

A rise in income will bring about an increase in demand for most goods and services. When John's income increased, the coefficient of his Income Elasticity of Demand (YED) for Goods A to D were as follows:

Good A: YED = 2

Good C: YED = 0.5

Good B: YED = -1

Good D: YED = 0.3

**Use the information above to answer questions 1.2a–1.2b(ii).**

*Assessor's use only*

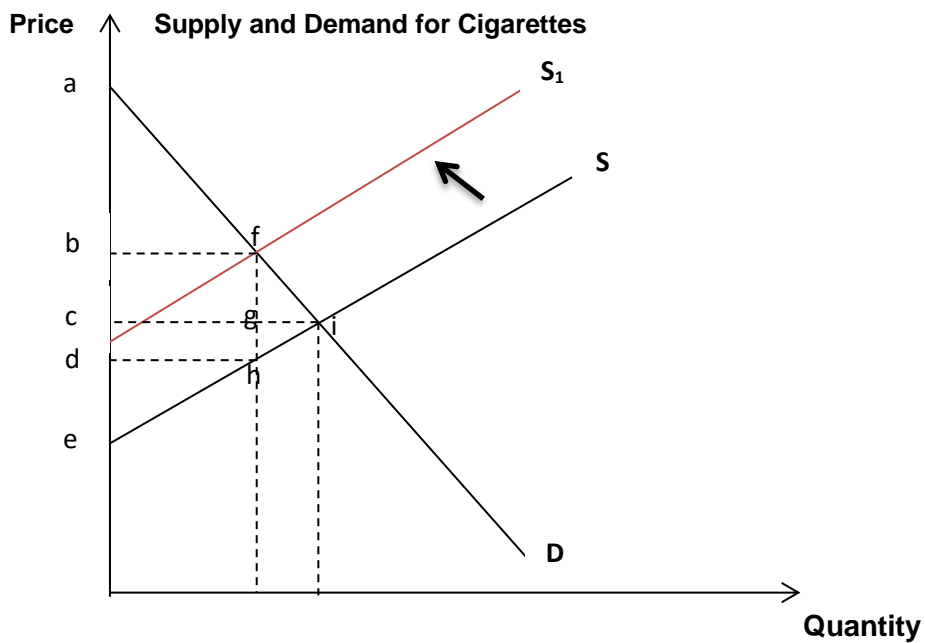
<p>1.2a</p>	<p>Define <b>Income Elasticity</b> of Demand.</p> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR					
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<p>1.2b (i)</p>	<p>Using the coefficient of Income Elasticity of Demand for the four goods demanded by John, identify an example of a luxury good that he demands.</p> <p>Good _____</p>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR					
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<p>1.2b (ii)</p>	<p>Explain how the good you mentioned in 1.2b(i) becomes a luxury good.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Relational</th> </tr> <tr> <td>3</td> <td></td> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Relational		3		2		1		0		NR	
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1.2e	<p>Firms normally produce the goods that are demanded by consumers. State the <b>law of demand</b>.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR	
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**1.3: Supply and Market Equilibrium**

**Graph 2.** The graph below shows a loss of allocative efficiency as a result of a decrease in supply when the government imposed a sales tax on cigarettes.

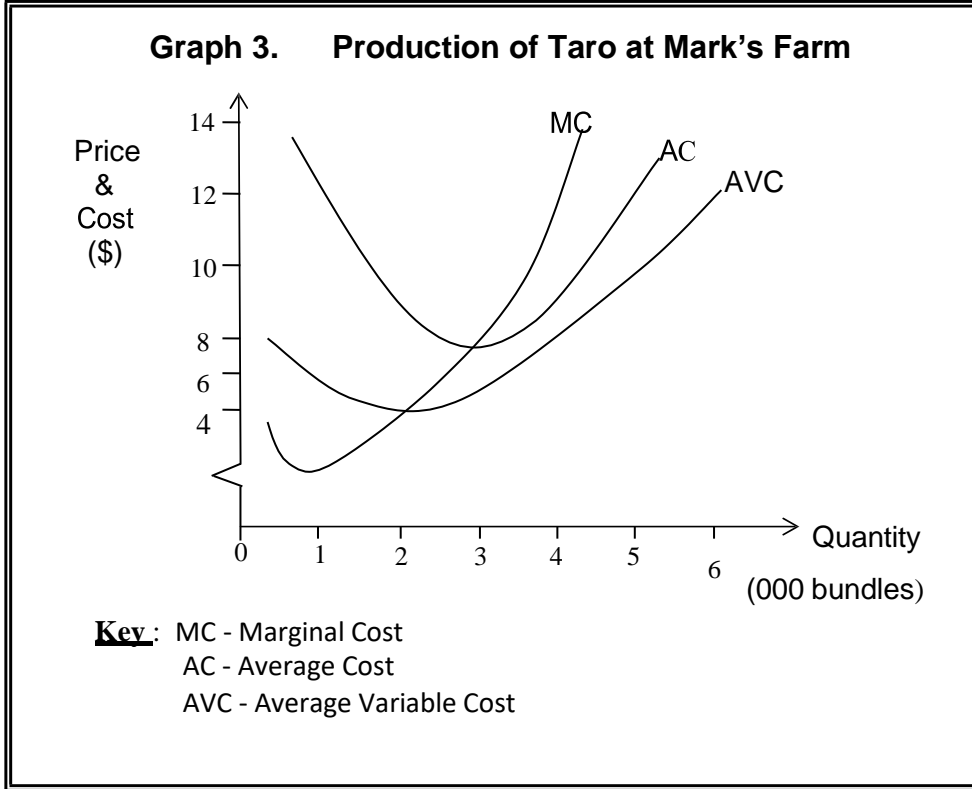


1.3a	<p>On <b>Graph 2</b>, identify the incidence of the sales tax on consumers. Shade the area of the tax paid by consumers.</p>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR	
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**1.4: Role of Firms in a Market Economy**

Mark used to work as a security guard at a local hotel but lost his job due to COVID-19. He resorted to growing taro and sells it at the local market in order to earn some income. Graph 3 shows his production of taro.



Refer to Graph 3 in answering questions 1.4a(i) and 1.4a(ii).

*Assessor's use only*

<p>1.4a (i)</p>	<p>On <b>Graph 3</b> above, identify the <b>shut-down point</b> and label it <b>SDP</b>.</p>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR			
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<p>1.4a (ii)</p>	<p>Calculate the <b>normal profit</b> for Mark's taro farm.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Multistructural</th> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Multistructural		2		1		0		NR	
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**STRAND 2: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR**

Answer **ALL** questions in this strand.  
As a guide, spend no more than **52 minutes** on this strand.

**2.1: Demonstrate an Understanding of Externalities and Market Failure**

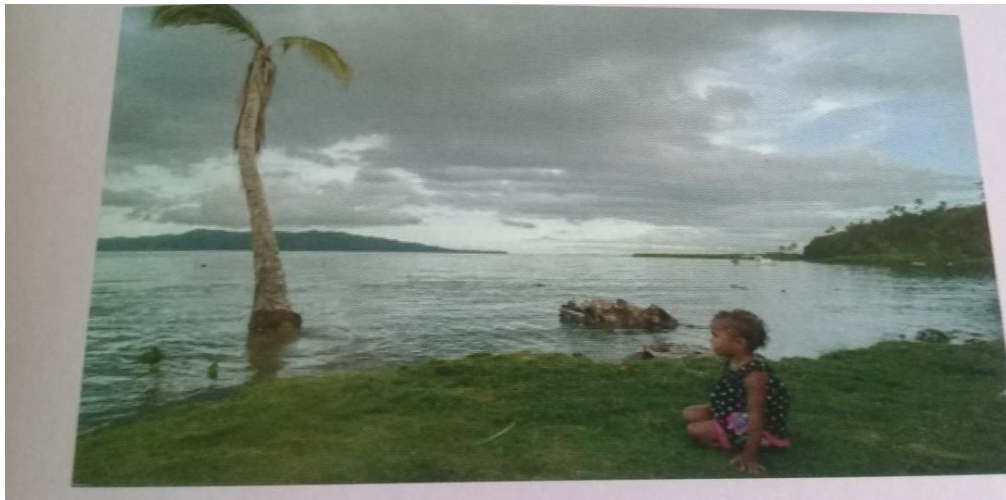
Use the article below to answer questions 2.1a(i)–2.1a(iii).

Fact Sheet Extract

**Climate Change: A Concern Globally and especially in the Pacific Islands**

In the Pacific Islands, melting ice from the North and South Poles has increased sea levels in our ocean. Our seas also absorb the carbon gases emitted whenever we burn fossil fuels such as oil, diesel, petrol and gas. The side-effects of these consumptions and production have led to market failure and warrant a justification for government intervention.

*Source: Fiji Factsheets 1 & 3: Climate Change, How it Affects You and What You Can Do About It.*



*Source: Tan, J. 2015. Photographing Fiji's sinking island communities.*

*Assessor's use only*

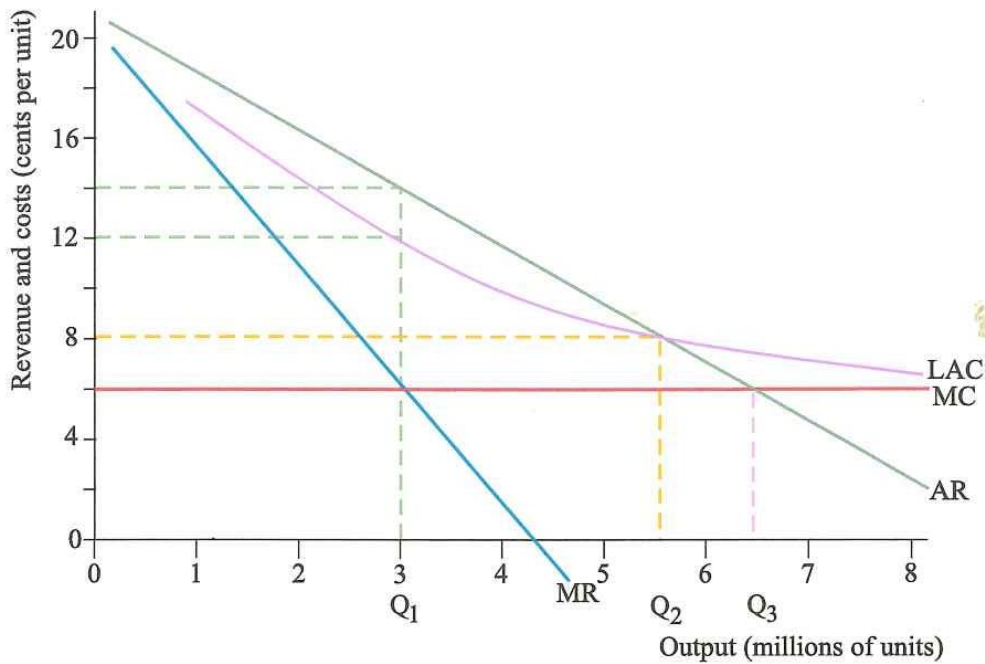
2.1a (i)	Define <b>market failure</b> . <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/>	<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <tr> <th colspan="2" style="padding: 2px;">Unistructural</th> </tr> <tr> <td style="padding: 2px;">1</td> <td style="width: 20px; height: 20px;"></td> </tr> <tr> <td style="padding: 2px;">0</td> <td style="width: 20px; height: 20px;"></td> </tr> <tr> <td style="padding: 2px;">NR</td> <td style="width: 20px; height: 20px;"></td> </tr> </table>	Unistructural		1		0		NR	
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<p>2.1a (ii)</p>	<p>Identify an example of market failure from the information given above.</p> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR			
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<p>2.1a (iii)</p>	<p>Describe the conditions under which government decides to intervene to correct market failure.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Multistructural</th> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Multistructural		2		1		0		NR	
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<p>2.1b</p>	<p>Describe the features of free market.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Multistructural</th> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Multistructural		2		1		0		NR	
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### Case Study - Electricity Supply

For many years, supply of electricity was provided by a single producer. Because the firm owned the power lines needed to provide the services and it was uneconomic for another firm to set up additional power lines, the firm was able to maintain its monopoly position and is regarded as a natural monopoly. Graph 4 shows the electricity supply firm selling to householders in a city.

**Graph 4. Household Electricity Market**



Source: Senior Economics p.249

Use the case study above to answer questions 2.1c(i) to 2.1d.

2.1c  
(i) Define **natural monopoly**.

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<p>2.1c (ii)</p>	<p>One of the most distinguishing features of natural monopolies is economies of scale.</p> <p>Define <b>economies of scale</b>.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Unistructural</th> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Unistructural		1		0		NR					
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<p>2.1c (iii)</p>	<p>Explain how natural monopolies can be influenced by the use of public ownership.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Relational</th> </tr> <tr> <td>3</td> <td></td> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Relational		3		2		1		0		NR	
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<p>2.1c (iv)</p>	<p>List the benefits of the use of public ownership to influence natural monopolies.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <tr> <th colspan="2">Multistructural</th> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </table>	Multistructural		2		1		0		NR			
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2.1d	List the factors that cause deadweight loss. <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"><thead><tr><th colspan="2">Multistructural</th></tr></thead><tbody><tr><td>2</td><td></td></tr><tr><td>1</td><td></td></tr><tr><td>0</td><td></td></tr><tr><td>NR</td><td></td></tr></tbody></table>	Multistructural		2		1		0		NR	
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2.2: Explain Inequality of Wealth and Income using the Lorenz Curve

**Income Inequality Remains a Challenge**



Source: <https://www.chinadaily.com.cn/opinion/5yearscorecard/2017-10/17/content>

Use the information above to answer questions 2.2a and 2.2b

*Assessor's use only*

<p>2.2a</p>	<p>List the means by which the state can attempt to achieve greater equality.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th colspan="2">Multistructural</th> </tr> </thead> <tbody> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Multistructural		2		1		0		NR			
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<p>2.2b</p>	<p>Present inequality of wealth and income distribution using the <b>Lorenz Curve</b>. Label your graph appropriately.</p>	<table border="1"> <thead> <tr> <th colspan="2">Relational</th> </tr> </thead> <tbody> <tr> <td>3</td> <td></td> </tr> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Relational		3		2		1		0		NR	
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**STRAND 3: AGGREGATE ECONOMIC ACTIVITY AND POLICY**

Answer **ALL** questions in this strand.  
As a guide, spend no more than **52 minutes** on this strand.

**3.1: Demonstrate an Understanding of Domestic and External Economic Activities**

	<p><b>Table 2.</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td style="width: 30%;"></td> <td style="width: 35%; text-align: center;"><b>2014</b></td> <td style="width: 35%; text-align: center;"><b>2015</b></td> </tr> <tr> <td style="text-align: center;">GDP</td> <td style="text-align: center;">\$40 000 m</td> <td style="text-align: center;">\$150 000 m</td> </tr> <tr> <td style="text-align: center;">CPI</td> <td style="text-align: center;">1000</td> <td style="text-align: center;">3000</td> </tr> </table> <p>Base Year: 2014</p>		<b>2014</b>	<b>2015</b>	GDP	\$40 000 m	\$150 000 m	CPI	1000	3000				
	<b>2014</b>	<b>2015</b>												
GDP	\$40 000 m	\$150 000 m												
CPI	1000	3000												
		<i>Assessor’s use only</i>												
3.1a	<p>Calculate the <b>Real GDP</b> for 2015.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center;"><b>Multistructural</b></td></tr> <tr><td style="text-align: center;">2</td><td style="width: 40px;"></td></tr> <tr><td style="text-align: center;">1</td><td></td></tr> <tr><td style="text-align: center;">0</td><td></td></tr> <tr><td style="text-align: center;">NR</td><td></td></tr> </table>	<b>Multistructural</b>		2		1		0		NR			
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3.1b	<p>Distinguish between nominal and real GDP.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="border-collapse: collapse;"> <tr><td colspan="2" style="text-align: center;"><b>Relational</b></td></tr> <tr><td style="text-align: center;">3</td><td style="width: 40px;"></td></tr> <tr><td style="text-align: center;">2</td><td></td></tr> <tr><td style="text-align: center;">1</td><td></td></tr> <tr><td style="text-align: center;">0</td><td></td></tr> <tr><td style="text-align: center;">NR</td><td></td></tr> </table>	<b>Relational</b>		3		2		1		0		NR	
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**Table 3. National Income Statistics for an Imaginary country, in Oceania**

	\$m
Operating surplus	22
Imports of goods and services	20
Compensation of employees	30
Final consumption: government	12
Final consumption: private	44
Gross fixed capital formation	14
Net indirect taxes	10
Export of goods and services	19
Increase in stock	2

**Use Table 3 above to answer questions 3.1c and 3.1d.**

*Assessor's use only*

3.1c Use the **income approach** to calculate the GDP. Use the relevant data only.

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**Multistructural**

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3.1d Identify the components of Aggregate Demand from the data given in Table 3 above.

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**Unistructural**

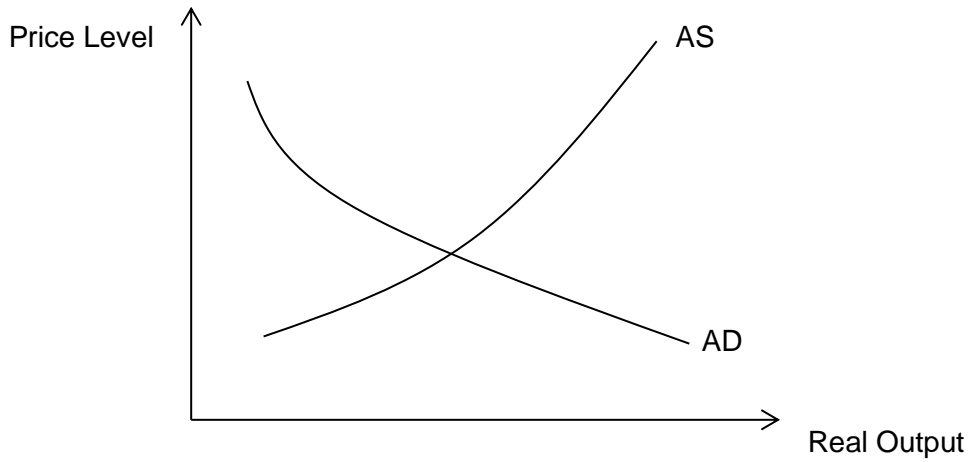
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**3.2: Demonstrate an Understanding of the Impact of Fiscal Policy and Monetary Policy**

**Graph 5. Aggregate Supply and Aggregate Demand for Economy Z**



Use **Graph 5** to answer questions 3.2a(i)–3.2a(iv).

*Assessor's use only*

<p>3.2a (i)</p>	<p>On <b>Graph 5</b>, identify the equilibrium level of employment. Label it <math>Y_e</math>.</p>	<table border="1"> <thead> <tr> <th colspan="2">Unistructural</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>	Unistructural		1		0		NR			
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<p>3.2a (ii)</p>	<p>On <b>Graph 5</b>, illustrate an Inflationary gap. Label the graph appropriately.</p>	<table border="1"> <thead> <tr> <th colspan="2">Multistructural</th> </tr> </thead> <tbody> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Multistructural		2		1		0		NR	
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<p>3.2a (iii)</p>	<p>Define an <b>inflationary gap</b>.</p> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th colspan="2">Unistructural</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>	Unistructural		1		0		NR			
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<p>3.2a (iv)</p>	<p>List factors that cause an inflationary gap.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th colspan="2">Multistructural</th> </tr> </thead> <tbody> <tr> <td>2</td> <td></td> </tr> <tr> <td>1</td> <td></td> </tr> <tr> <td>0</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Multistructural		2		1		0		NR	
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	<p><b>Table 4. Money Supply in Economy C</b></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">\$m</th> </tr> </thead> <tbody> <tr> <td>Total Reserves</td> <td style="text-align: center;">2 000</td> </tr> <tr> <td>Term Deposits</td> <td style="text-align: center;">10 000</td> </tr> <tr> <td>Notes &amp; coins held by the public</td> <td style="text-align: center;">3 000</td> </tr> </tbody> </table> <p><b>Use the information given in Table 4 above to answer question 3.2b.</b></p>		\$m	Total Reserves	2 000	Term Deposits	10 000	Notes & coins held by the public	3 000	<i>Assessor's use only</i>
	\$m									
Total Reserves	2 000									
Term Deposits	10 000									
Notes & coins held by the public	3 000									
<p>3.2b</p>	<p>Identify the components of M<sub>1</sub> level of Money Supply in Economy C.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;">Unistructural</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="width: 50px;"></td> </tr> <tr> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td style="text-align: center;">NR</td> <td></td> </tr> </tbody> </table>	Unistructural		1		0		NR	
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<p>3.2c</p>	<p>Define <b>monetary policy</b>.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1" style="width: 100%;"> <thead> <tr> <th colspan="2" style="text-align: center;">Unistructural</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="width: 50px;"></td> </tr> <tr> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td style="text-align: center;">NR</td> <td></td> </tr> </tbody> </table>	Unistructural		1		0		NR	
Unistructural										
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<p>3.2d</p>	<p>Discuss the role that banks play in the process of credit creation and the impact of this role on the economy, using specific examples.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>									

