MARKER CODE

Pacific Community
Communauté du Pacifique

EQAP

Student Personal Identification Number						

South Pacific Form Seven Certificate

ECONOMICS

2022

QUESTION and ANSWER BOOKLET

Time allowed: Three hours

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

INSTRUCTIONS

1. Write your **Student Personal Identification Number (SPIN)** in the space provided on the top right-hand corner of this page.
2. Answer **ALL QUESTIONS**. Write your answers in the spaces provided in this booklet.
3. 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 *Uni-structural*	Level 2 *Multi-structural*	Level 3 *Relational*	Level 4 *Extended Abstract*	
Strand 1: Resource Allocation via the Market System 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.	5	6	3	1	30% 76 min
Strand 2: Resource Allocation via the Public Sector Demonstrate an understanding of resource allocation via the public sector.	5	3	3		20% 52 min
Strand 3: Aggregate Economic Activity and Policy Demonstrate an understanding of aggregate economic activities and policies.	7	3	1	1	20% 52 min
TOTAL	**17**	**12**	**7**	**2**	**70% 180 min**

Check that this booklet contains pages 2–22 in the correct order and that none of these pages are blank.

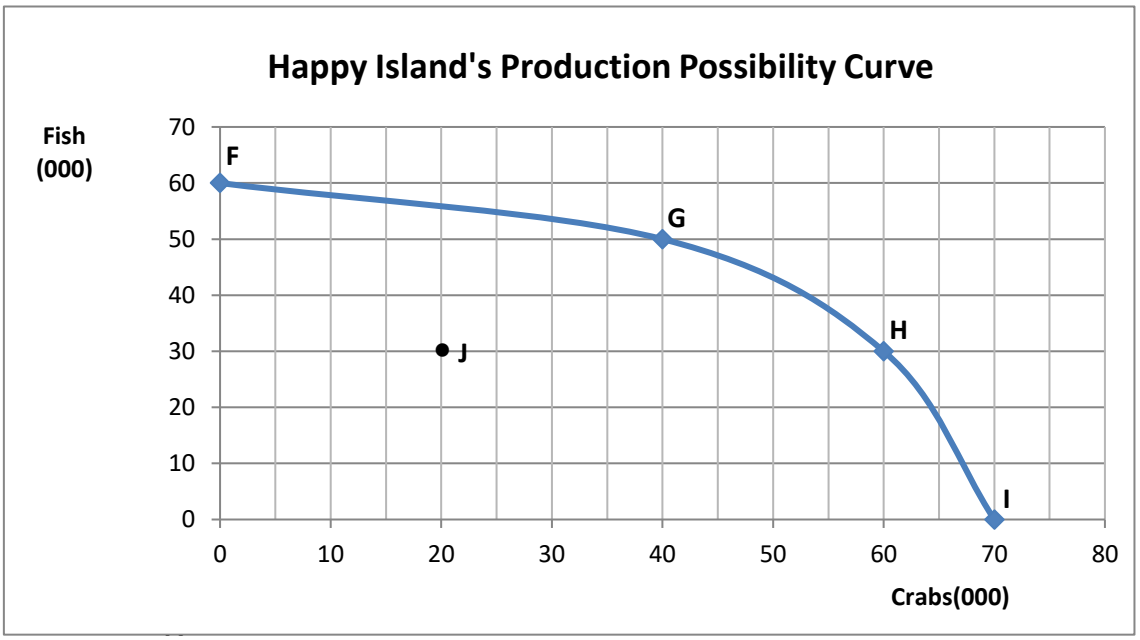
HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

STRAND 1: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

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

1.1: Demonstrate an Understanding of Economic Problems Associated with Scarcity and Allocation

Graph 1. Production Possibilities Model



Refer to Graph 1 above to answer questions 1.1a–1.1d.

Assessor's use only

1.1a	Name a point from the above production possibility curve that illustrates productive efficiency. _____ _____ _____ _____	**Unistructural** 1 | 0 | NR |
1.1b	The production possibility curve above is an example of an economic model. State the purpose of economic models. _____ _____ _____ _____	**Unistructural** 1 | 0 | NR |

Assessor's use only

1.1c	List **two** assumptions of the production possibility curve. _____ _____ _____ _____ _____ _____	**Multistructural** 2 1 0 NR
1.1d	Describe under-utilisation of resources with reference to the production possibility curve in Graph 1. _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____	**Multistructural** 2 1 0 NR

1.2: Demonstrate an Understanding of the Concept of Marginal Utility and the Individual Demand Curve

Table 1. David's Utility Schedule for Guavas

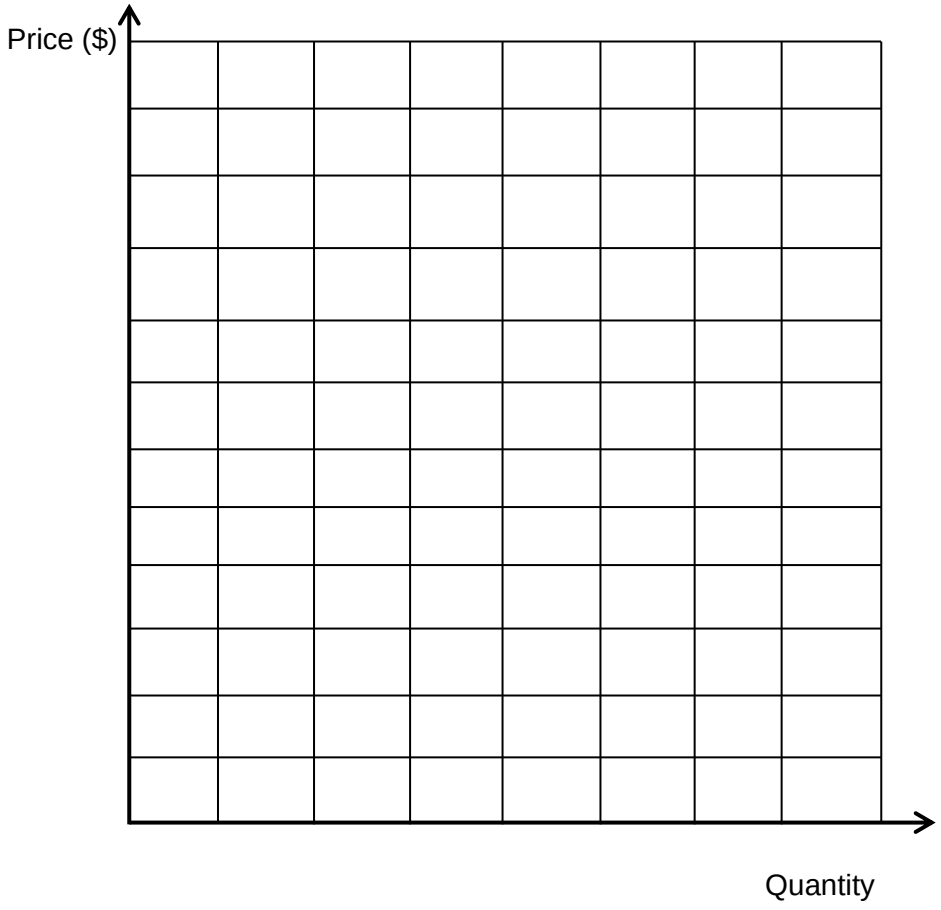
Quantity Purchased	Total Utility	Marginal Utility
1	10	10
2	18	8
3	24	6
4	28	4
5	26	2
6	26	0

Use Table 1 to answer questions 1.2a–1.2c.

Assessor's use only

1.2a Use the schedule in Table 1 to draw **David's demand curve** for guavas. Give your graph an appropriate title.

Graph 2. Title: _____



Multistructural	
2	
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Assessor's use only

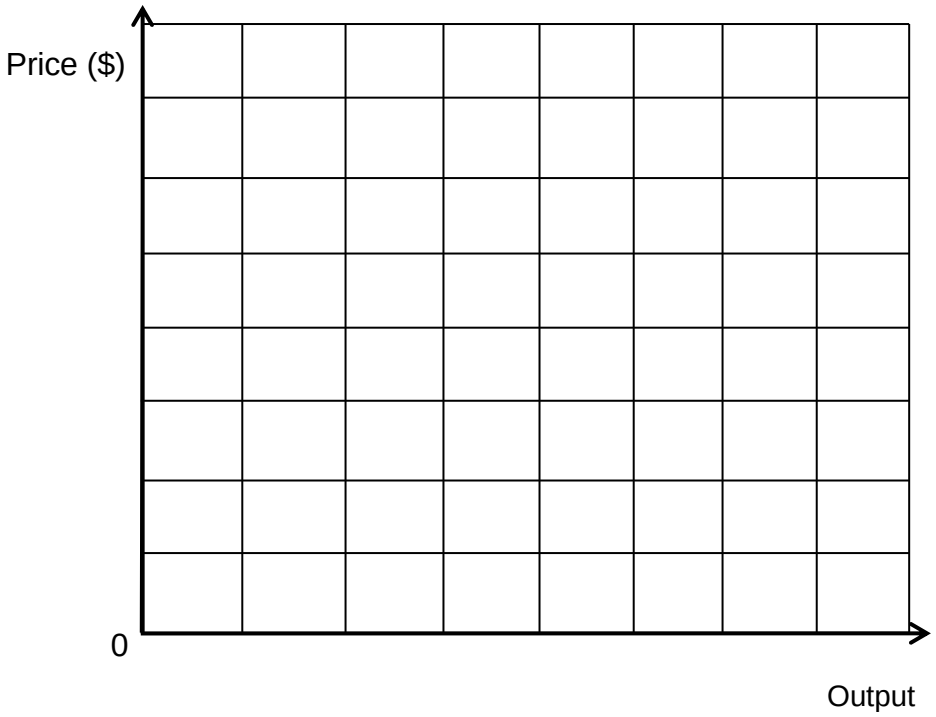
1.2b	Define the concept of **marginal utility**.	**Unistructural** 1 0 NR
1.2c	Explain the difference between a movement along the demand curve and a shift of the entire demand curve.	**Relational** 3 2 1 0 NR

1.3: Demonstrate an Understanding of the Concept of Supply and Elasticity

Table 2.

Output (Units)	Costs ($)		
	MC	AC	AVC
1	15	25	20
2	10	20	15
3	15	15	13
4	20	17	15
5	25	20	18
6	30	25	20

Graph 3. Title: _____



Assessor's use only

1.3a	On **Graph 3**, use the relevant cost data from **Table 2** to create a **supply curve** for a perfectly competitive firm. Label and give your graph an appropriate title.	

Relational	
3	
2	
1	
0	
NR	

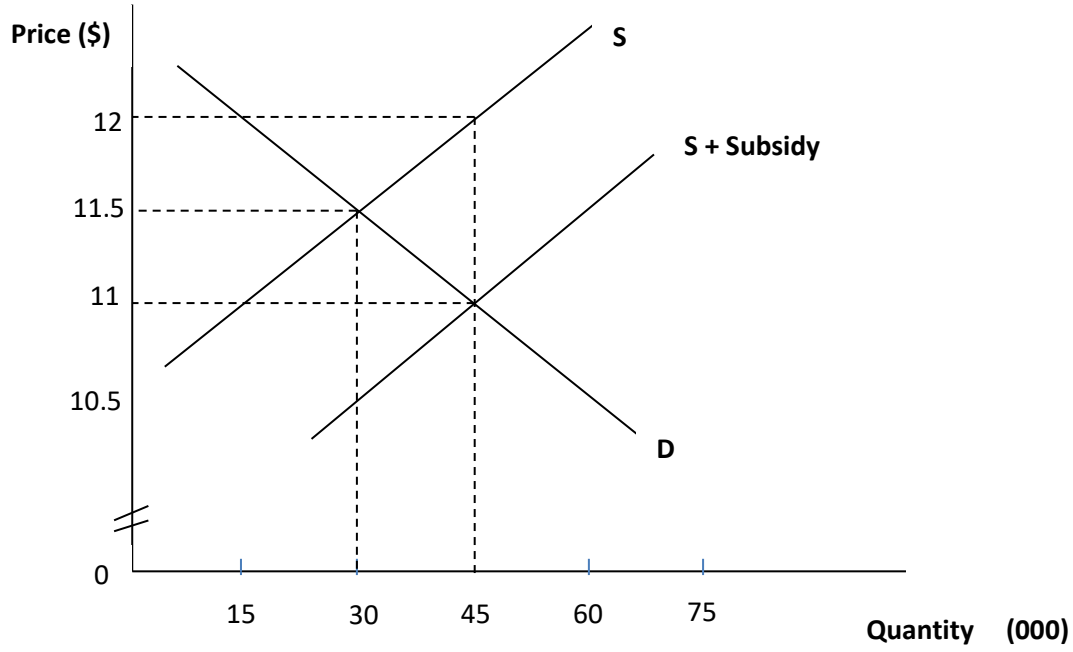
Assessor's use only

1.3b Define **marginal cost**.

Unistructural	
1	
0	
NR	

Use Graph 4 to answer questions 1.3c–1.3e.

Graph 4. Impact of Subsidy on Milk Production



1.3c Calculate the **subsidy per unit**.

Multistructural	
2	
1	
0	
NR	

Assessor's use only

1.3d	Describe the incidence of the subsidy on producers.	**Multistructural** 2 1 0 NR
1.3e	A 19th century economist discovered that price elasticity of supply depends on the time period that it takes to produce a product. Discuss the impact of elasticity of supply by examining why the supply is more responsive in the long-run than in the short-run. Use examples to support your answer.	

Assessor's use only

1.3e (cont.)

Extended Abstract	
4	
3	
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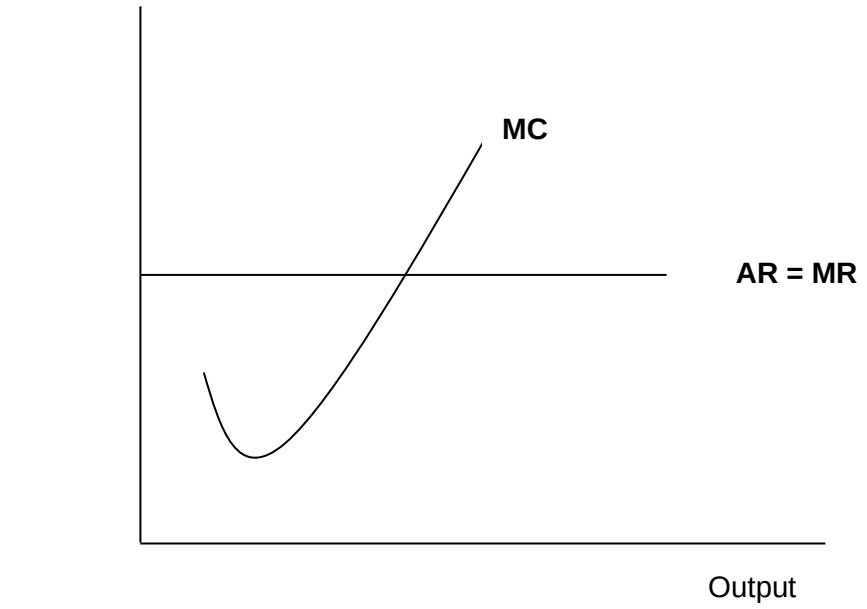
1.4: Demonstrate an Understanding of the Role of Firms in a Market Economy

Refer to Graph 5 to answer questions 1.4a–1.4c.

Graph 5. Revenue and Cost Curves of a Perfectly Competitive Firm



Assessor's use only

1.4a On **Graph 5** above, illustrate how the firm makes supernormal profit. Shade the area of profit.

Multistructural	
2	
1	
0	
NR	

1.4b Define **supernormal profit**.

Unistructural	
1	
0	
NR	

Assessor's use only

1.4c	Explain the relationship between average revenue, marginal revenue and total revenue under perfect competition.	

Relational	
3	
2	
1	
0	
NR	

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 Income Inequality

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

Weather, Global Warming and Climate Change

'Climate change' and 'global warming' are often used interchangeably but have distinct meanings. Similarly, the terms 'weather' and 'climate' are sometimes confused, though they refer to events with broadly different spatial and timescales.

Source: https://climate.nasa.gov/resources/global-warming-vs-climate-change/

Assessor's use only

2.1a (i) Define **climate change**.

_____

_____

_____

_____

_____

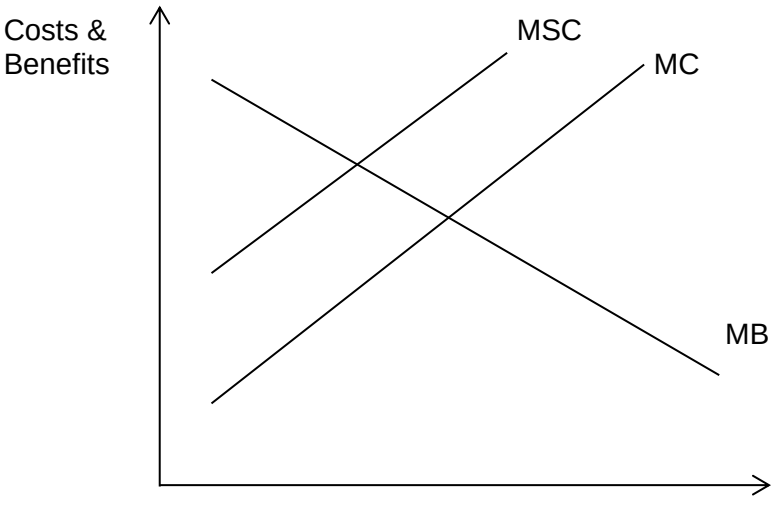
Unistructural	
1	
0	
NR	

Assessor's use only

2.1a (ii)	Describe **one** factor that can cause climate change.	**Multistructural** 2 1 0 NR
2.1a (iii)	Explain how **negative externalities** of production or consumption can result in climate change.	**Relational** 3 2 1 0 NR

Use <u>Graph 6</u> to answer questions 2.1b(i)–2.1d.

Graph 6. **<u>Negative Externalities of Production</u>**



Assessor's use only

2.1b (i)	On **Graph 6** above, identify the social equilibrium output. Label it $\mathbf{Q_S}$.	**Unistructural**: 1 ☐ 0 ☐ NR ☐
2.1b (ii)	On **Graph 6** above, identify the private equilibrium output. Label it $\mathbf{Q_P}$.	**Unistructural**: 1 ☐ 0 ☐ NR ☐
2.1c	Goods with externalities are classified as **mixed goods**. Describe this feature of mixed goods. _____ _____ _____ _____ _____ _____ _____ _____	**Multistructural**: 2 ☐ 1 ☐ 0 ☐ NR ☐

Assessor's use only

2.1d	Explain how regulations can be used to internalise negative externalities of production.	

Relational	
3	
2	
1	
0	
NR	

2.2: Explain Inequality of Wealth and Income using the Lorenz Curve

Income inequality was severe in the U.S.

There's still a wide gap between the haves and the have-nots in the United States. In 2018, the lowest-earning fifth of the population earned only about 3 percent of the nation's total income, while the highest-earning fifth raked in about 52 percent.

Income disparities between racial groups have also endured, according to U.S. Census Bureau data. In 2018, the average income was about $87,200 for Asian American households, $70,600 for white households, $51,500 for Hispanic households and $41,400 for black households. Poverty rates follow a similar trend: about 10.1 percent of Asian, 8 percent of white, 17.6 percent of Hispanic and 20.8 percent of black households fell below the poverty line, in which a household's income isn't enough to meet the family's basic needs.

Source: https://www.sciencenews.org/article

Use the information above to answer questions 2.2a–2.2d.

Assessor's use only

2.2a	Define **equality** with reference to income. _____ _____ _____ _____	**Unistructural** 1 0 NR
2.2b	The information above shows many examples of income inequality. What could be **one** good example of equality? _____ _____ _____ _____ _____	**Unistructural** 1 0 NR

Assessor's use only

2.2c List **two** ways the United States can attempt to achieve greater equality.

Multistructural	
2	
1	
0	
NR	

2.2d With reference to the information in the article on page 16, present inequality of wealth and income distribution using a **Lorenz curve**. Label your graph appropriately.

Graph 7. <u>Lorenz Curve</u>

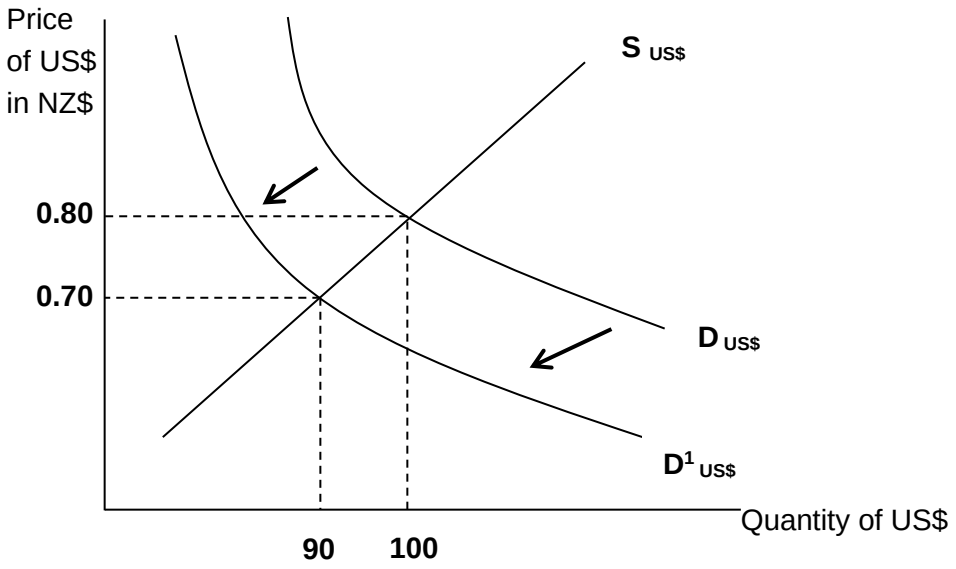
Relational	
3	
2	
1	
0	
NR	

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

Graph 8. The Foreign Exchange Market for US Dollars in terms of NZ Dollars



Use <u>Graph 8</u> above to answer questions 3.1a(i)–3.1a(iii).

Assessor's use only

3.1a (i) Define **exchange rate**.

Unistructural	
1	
0	
NR	

3.1a (ii) State what has happened to the exchange rate in **Graph 8**.

Unistructural	
1	
0	
NR	

Assessor's use only

3.1a (iii)	Discuss the impacts of **exchange rate changes** on international trade of goods and services using examples.	

Extended Abstract	
4	
3	
2	
1	
0	
NR	

Table 3.

National Income Statistics for an Imaginary Country, Pasifika.

	$M
Export of goods and services	500
Final consumption: government	350
Final consumption: private	550
Gross fixed capital formation	400
Taxes on production and imports	300
Imports of goods and services	550
Changes in inventories	100

Use <u>Table 3</u> to answer questions 3.1b(i)–3.1b(iii).

Assessor's use only

3.1b (i) Use the **expenditure approach** to calculate the gross domestic product (GDP). Use the relevant data only.

Multistructural	
2	
1	
0	
NR	

3.1b (ii) Define **real GDP.**

Unistructural	
1	
0	
NR	

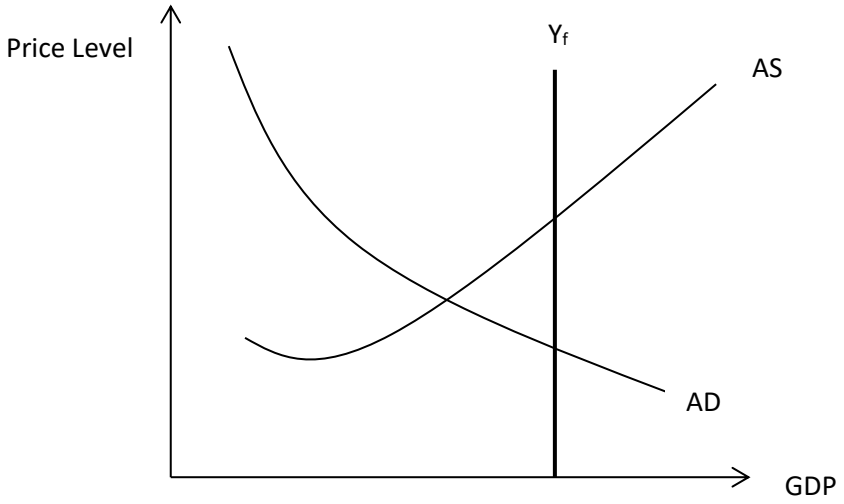
3.1b (iii) Identify the components of **aggregate demand** from the data given in **Table 3** above.

Unistructural	
1	
0	
NR	

3.2: Demonstrate an Understanding of the Impact of Fiscal Policy

A South Pacific economy, Economy Z, had experienced economic depression over the last decade.

Graph 9. Aggregate Demand and Aggregate Supply Curves for Economy Z



Use Graph 9 to answer questions 3.2a–3.2f.

Assessor's use only

3.2a Describe the aggregate demand and aggregate supply model.

Multistructural	
2	
1	
0	
NR	

3.2b Use the aggregate demand and aggregate supply curves on **Graph 9** to identify the equilibrium level of income, output and employment. Label it **Y_e**.

Unistructural	
1	
0	
NR	

Assessor's use only

3.2c	**Graph 9** above illustrates a recessionary gap. Define a **recessionary gap**. _____ _____ _____	**Unistructural** 1 0 NR
3.2d	List **two** factors that can cause a recessionary gap. _____ _____ _____ _____	**Multistructural** 2 1 0 NR
3.2e	Name **one** policy that can be used to eliminate a recessionary gap. _____ _____	**Unistructural** 1 0 NR
3.2f	Explain how the policy you named in question 3.2e above helps to close a recessionary gap. _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____ _____	**Relational** 3 2 1 0 NR

THE END