

MARKER CODE



Student Personal Identification Number

South Pacific Form Seven Certificate

ECONOMICS

2015

QUESTION and ANSWER BOOKLET

Time allowed: Two and a half hours

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.

Section A Short Answer Questions

75 minutes

Section B Economic Analysis

75 minutes

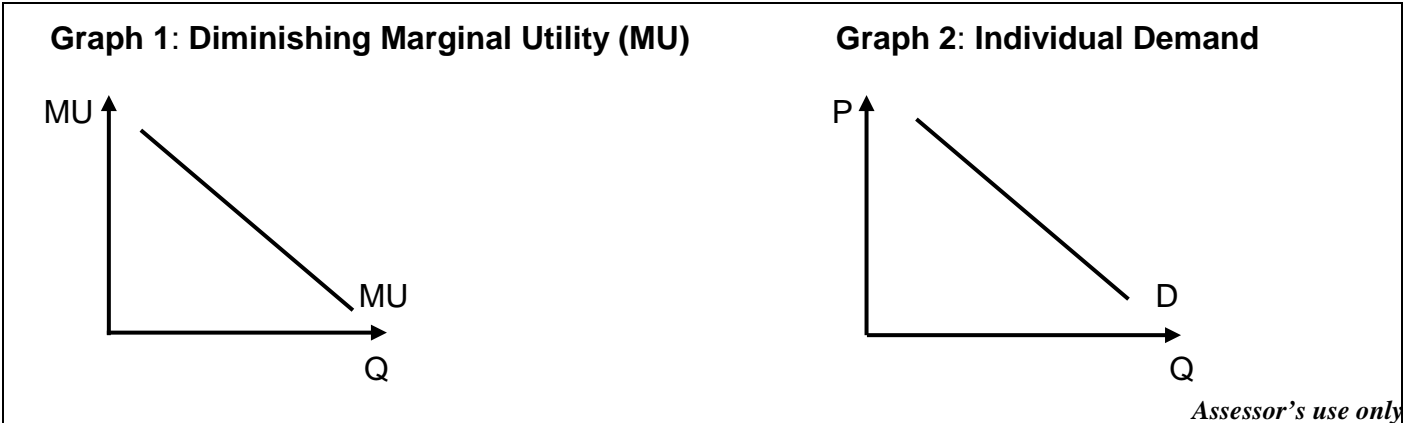
Major Learning Outcomes (Achievement Standards)	Skill Level			Weight / Time
	Band 1 <i>Basic</i>	Band 2 <i>Proficient</i>	Band 3 <i>Advanced</i>	
EcoA: Demonstrate understanding of key ideas about the operation of the market system, and analyse how decisions are made and their outcome in a modern market economy.	17 questions	6 questions	2 questions	35% 75 min
EcoB: Demonstrate understanding of the part governments play in allocating resources, particularly where the market does not result in efficient or equitable outcomes.	5 questions	1 question	1 question	10% 22 min
EcoC: Demonstrate understanding of the workings of the economy as a whole and also of the effects of government policy.	13 questions	3 questions	2 questions	25% 53 min
TOTAL	35 questions	10 questions	5 questions	150 min

Check that this booklet contains pages 2-18 in the correct order and that none of these pages is blank.
YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.

SECTION A: SHORT-ANSWER QUESTIONS

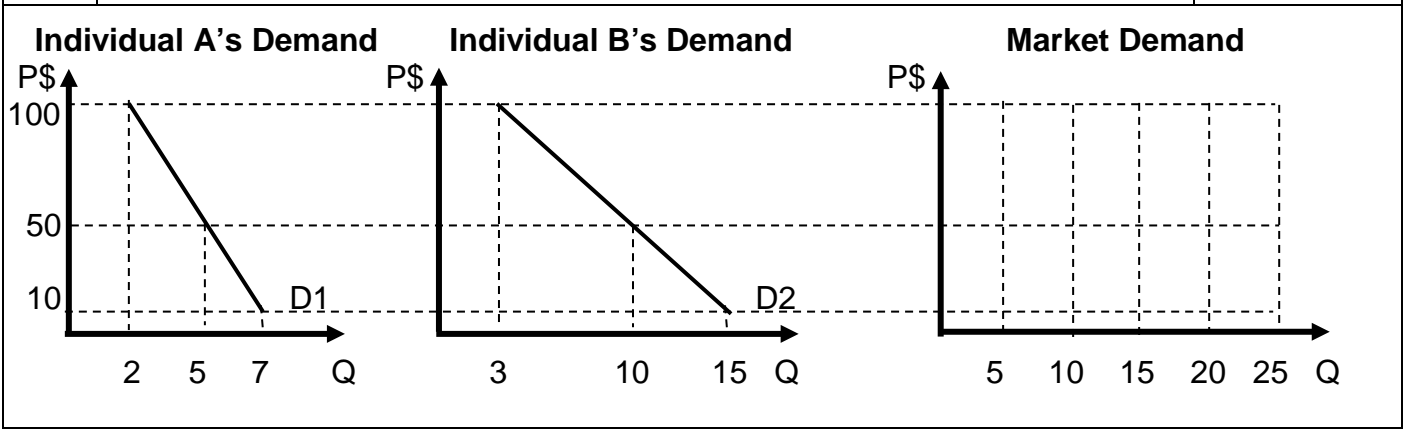
Answer **ALL** seven questions in this section.
As a guide, spend no more than **75 minutes** on this section.

QUESTION ONE: Derive downward-sloping individual and market demand curves and explain shifts in Market Demand.



A1.1 Explain the economics of consumer behaviour that allows **Graph 2** to be derived from Graph 1.

Proficient	Level
Excellent	
Moderate	
Weak	
NR	



A1.2 Assuming that Individuals A and B comprise the total market, use the figures given to accurately construct the market demand curve above. Label the new curve MD.

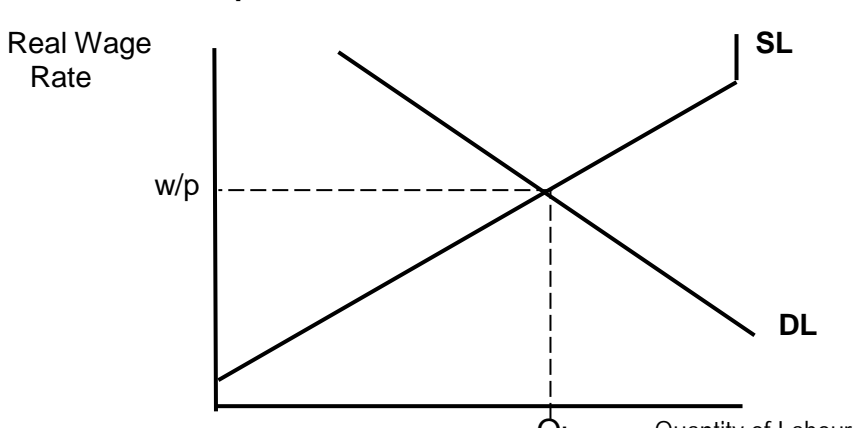
Basic	Level
Excellent	
Weak	
NR	

Assessor's use only

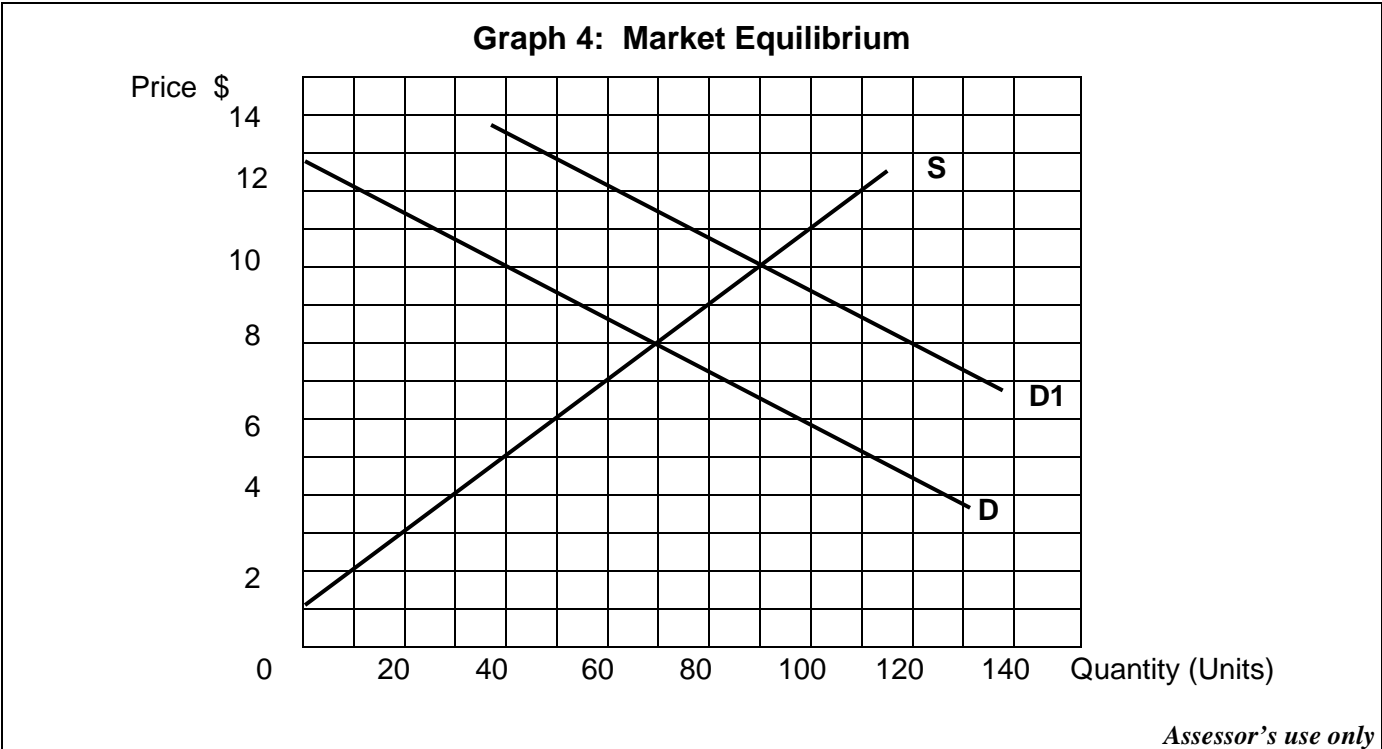
A1.3	<p>Explain what happens to the demand for a normal good when consumers' incomes increase. Also, illustrate and label the effect of this change in income on the Market Demand graph above.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"><thead><tr><th data-bbox="1251 300 1370 349">Proficient</th><th data-bbox="1370 300 1466 349">Level</th></tr></thead><tbody><tr><td data-bbox="1251 349 1370 398">Excellent</td><td data-bbox="1370 349 1466 398"></td></tr><tr><td data-bbox="1251 398 1370 448">Moderate</td><td data-bbox="1370 398 1466 448"></td></tr><tr><td data-bbox="1251 448 1370 497">Weak</td><td data-bbox="1370 448 1466 497"></td></tr><tr><td data-bbox="1251 497 1370 546">NR</td><td data-bbox="1370 497 1466 546"></td></tr></tbody></table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
Excellent												
Moderate												
Weak												
NR												

QUESTION TWO: Apply supply and demand analysis to factor and commodity markets.



Assessor's use only

<p>A2.1</p>	<p>Explain what happens to real wages if the price level in an economy increases (inflation).</p> <hr/> <hr/> <hr/> <p style="text-align: center;">Graph 3: A Labour Market</p> 	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
Excellent												
Weak												
NR												
<p>A2.2a</p>	<p>On Graph 3, show a decrease in demand for labour (label DL₁) and the effects of this decrease on the real wage rate (label w/p₁) and level of employment (label QL₁).</p>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
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<p>A2.2b</p>	<p>Despite the new demand for labour (DL₁), assume that the government, for equity reasons, legislates to keep the wage rate at a minimum rate of w/p. Accurately bracket (or use double headed arrows) to show: (i) the actual level of employment at the minimum wage w/p (label EM); and (ii) involuntary unemployment which will now exist at the minimum wage rate (label IU).</p>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
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<p>A2.3</p>	<p>Now analyse Graph 3 and discuss the consequences for the work force of the government choosing to fix the real wage rate at w/p, as opposed to letting the market set a new rate of w/p₁.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
Excellent												
Moderate												
Weak												
NR												

QUESTION THREE: Understand the concept of market equilibrium and explain why markets tend towards that equilibrium.



Assessor's use only

A3.1 On **Graph 4**, at a market equilibrium price of \$8, clearly shade the areas of:
 (i) consumers' surplus  (label CS) and
 (ii) producers' surplus  (label PS)

Basic	Level
Excellent	
Weak	
NR	

A3.2 If Demand in **Graph 4** now increases to **D1**, describe in detail (using figures to help you) how **market forces** will eventually result in a **new** market equilibrium being reached.

Advanced	Level
Exceed	
Excellent	
Moderate	
Low	
Weak	
NR	

Assessor's use only

A3.3	At the new market equilibrium on Graph 4, shade (and label DWL) the area of Dead weight loss (loss of allocative efficiency) that would occur if a government regulation restricted output of this good to 70 units.	<table border="1"><thead><tr><th data-bbox="1252 185 1369 241">Basic</th><th data-bbox="1369 185 1465 241">Level</th></tr></thead><tbody><tr><td data-bbox="1252 241 1369 297">Excellent</td><td data-bbox="1369 241 1465 297"></td></tr><tr><td data-bbox="1252 297 1369 353">Weak</td><td data-bbox="1369 297 1465 353"></td></tr><tr><td data-bbox="1252 353 1369 405">NR</td><td data-bbox="1369 353 1465 405"></td></tr></tbody></table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
Weak										
NR										

QUESTION FOUR: Define and calculate price, income and cross elasticity of demand and show their applications.

Assessor's use only

A4.1	Define the term price elasticity of demand (PED) . _____ _____	Basic	Level
		Excellent	
		Weak	
		NR	

A4.2a	Assume that the village shop reduced the price of sunglasses from \$40 a pair to \$20 and, as a result, the quantity demanded increased from 100 pairs per month to 300 pairs. Use the midpoint method to calculate the price elasticity of demand (PED) co-efficient for sunglasses. Show your workings in the box below. <div style="border: 1px solid black; width: 400px; height: 60px; margin: 10px 0;"></div> PED = _____	Basic	Level
		Excellent	
		Weak	
		NR	

A4.2b	Graph 5: Monthly Demand for Sunglasses	Basic	Level
		Excellent	
	Use the figures in Graph 5 to calculate total expenditure on sunglasses at:	Weak	
	(i) Price \$40.00 Total Expenditure = \$ _____ (ii) Price \$20.00 Total Expenditure = \$ _____	NR	

A4.2c	(i) Some people would argue that sunglasses are a luxury good. Use evidence from your calculations in 2(a) and/or (b) to explain why sunglasses might be classified as a luxury. _____ _____	Proficient	Level
		Excellent	
		Moderate	
	(ii) Describe ONE OTHER price elasticity of demand feature about sunglasses that supports the argument that they are a luxury item. _____ _____	Weak	
		NR	

QUESTIONFIVE: Understand that a legal system and framework exists which enables the state to intervene in the market through different policy measures, should market failure be identified.

Assessor's use only

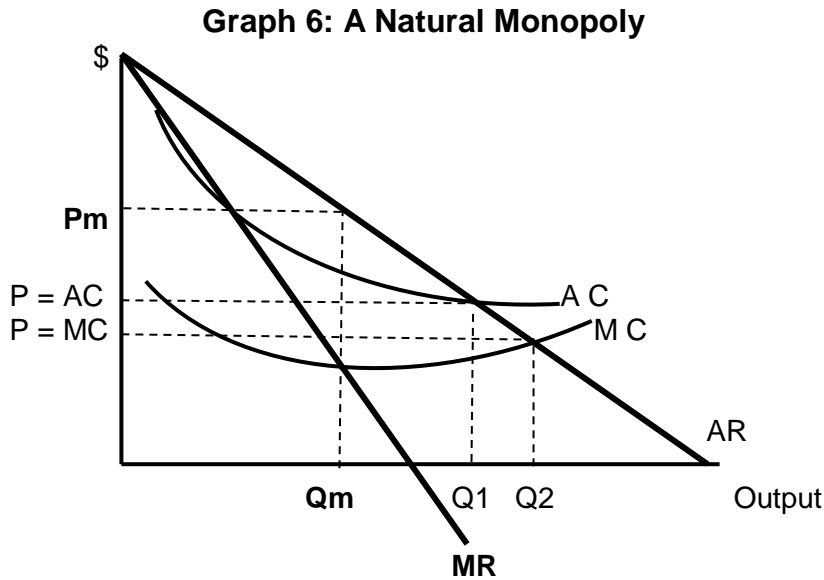
A5.1	Define market failure . _____ _____ _____ _____	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
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Weak												
NR												
A5.2	Outline any two reasons why market failure may occur. (i) _____ _____ _____ _____ (ii) _____ _____ _____ _____	<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
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A5.3a	Briefly state two specific examples of market failure, and for each, outline a method (intervention) that a government could use to help correct or reduce that market failure. Example 1: _____ _____ Method _____ _____ _____	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
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A5.3b	Example 2: _____ _____ Method _____ _____ _____	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
Basic	Level											
Excellent												
Weak												
NR												

QUESTION SIX: Explain how natural monopolies may or may not operate for the good of society.

Assessor's use only

A6.1 Define the term **natural monopoly**. _____

Basic	Level
Excellent	
Weak	
NR	



Graph 6 shows the profit maximising price (**P_m**) and output level (**Q_m**) of this natural monopolist without government intervention.

A6.2a Shade the area of lost allocative efficiency (DWL) at the profit maximising output level.

A6.2b Outline one cost and one benefit to **society** if a government chose to correct the market failure by setting the price to the level of:

(i) **P = AC** _____

(ii) **P = MC** _____

Basic	Level
Excellent	
Weak	
NR	

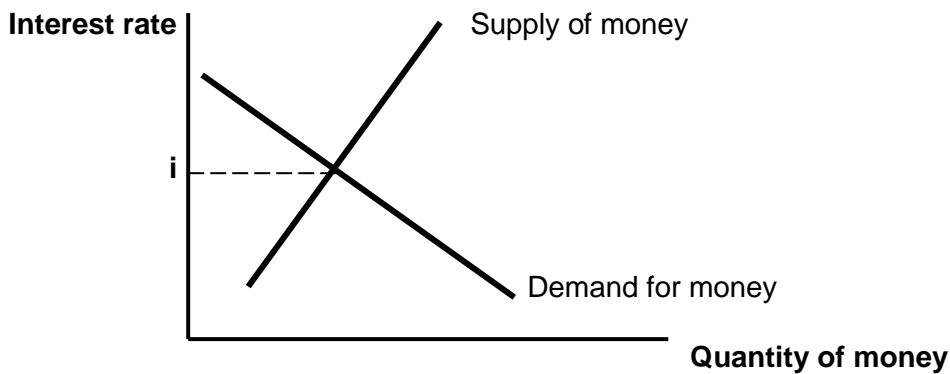
Advanced	Level
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Moderate	
Low	
Weak	
NR	

QUESTION SEVEN: Demonstrate an understanding of the domestic market for money and credit.

Assessor's use only

A7.1	The official money supply of a country has three measures: M1 , M2 and M3 . Circle any ONE of these measures of the money supply and identify its components. <hr/> <hr/> <hr/>		
		Basic	Level
		Excellent	
		Weak	
		NR	

Graph 7: A Money Market



A7.2	On Graph 7 illustrate the effects of a government deciding to 'print' more money.		
		Basic	Level
		Excellent	
		Weak	
		NR	

A7.3	Using the concept of the credit multiplier, explain the role that banks play in the process of credit creation. <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>				
		Advanced	Level		
		Excellent			
		Moderate			
		Low			
		Weak			
		NR			
		Exceed			

SECTION B: ECONOMIC ANALYSIS

Answer **BOTH** questions in this section. Be brief and to the point in your answers. As a guide, spend no more than **75 minutes** on this section.

QUESTION EIGHT: MICROECONOMIC ANALYSIS

Compare and contrast the firm's behaviour in a monopolistic market with that in a perfectly competitive market.

VALUE ADDED PRODUCTS FROM TARO

The consumption of all root crops is declining throughout the Pacific region by about 10 -15% per annum. Root crops in general, and taro in particular, are heavy, frequently dirty and are inconvenient to prepare. As lifestyles change, more women enter the workforce and the rate of family dining dwindles, food choices turn toward items that are more flavoursome, single serve, and which are more appealing to all family members.

Taro commands fairly consistently high prices and with modern post-harvest handling techniques there is little loss. Therefore, there has been relatively little incentive to add value, or to base a processing industry on taro as a raw material. However the exploitation of taro as a base for the manufacture of convenience foods is long overdue. There is enormous potential to increase the value of taro products not only by producing high quality 'me too,' products but also innovative products which are completely new in their concept.

Adapted from: VALUE ADDED PRODUCTS FROM TARO by Richard Beyer, Food Scientist, Suva, Fiji.

Assume that the many individual commercial growers of taro are perfectly competitive firms and that a factory that is set up to process and add value to the taro crop is a monopoly.



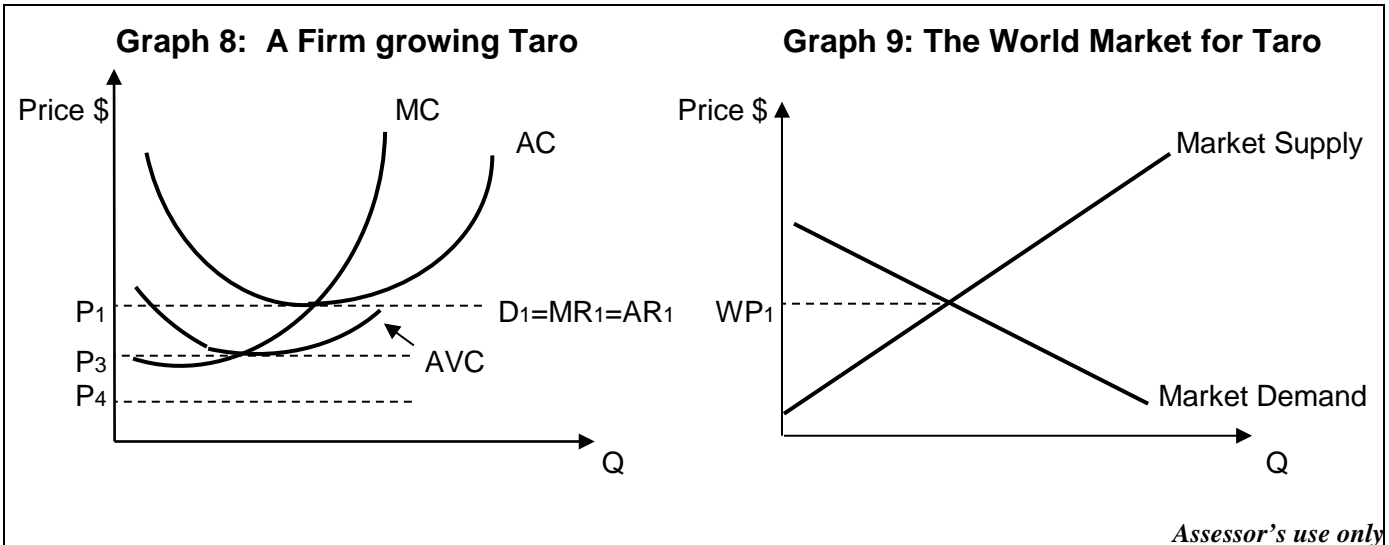
Growing taro



Processed taro

Assessor's use only

B8.1a	Describe two characteristics of: A perfectly competitive market: (i) _____ (ii) _____	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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Excellent										
Weak										
NR										
B8.1b	A monopolist: (i) _____ (ii) _____	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
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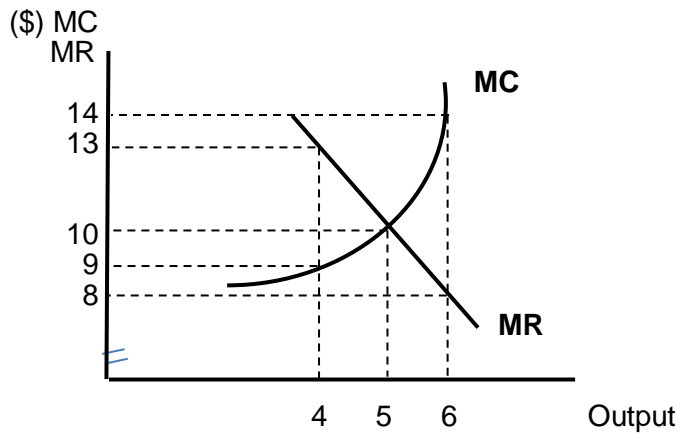
Assessor's use only

<p>B8.2a</p>	<p>(i) Describe how the market supply curve for unprocessed taro in Graph 9 is derived in this perfectly competitive industry.</p> <hr/> <hr/> <p>(ii) The individual firm's supply curve is the same as what part of which curve in Graph 8?</p> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR		Basic	Level	Excellent		Weak		NR	
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<p>B8.2b</p>	<p>At the world price of WP₁, why is the firm in Graph 8 making a normal profit?</p> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR									
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<p>B8.2c</p>	<p>Assume that the market demand for taro increases due to more value added taro products becoming available, as mentioned in the resource on page 11.</p> <p>(i) Illustrate this increase in market demand on Graph 9 (label MD1) and then draw the new Demand curve for the firm (label D₂=MR₂=AR₂) on Graph 8.</p> <p>(ii) On Graph 8, label the new price P₂ and the profit maximising level of output Q₂.</p> <p>(iii) Carefully shade and label (SNP) the resulting area of super-normal profit.</p>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR		Basic	Level	Excellent		Weak		NR	
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B8.2d	<p>Fully explain why individual taro growing firms may only enjoy these super-normal profits in the short run.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
Excellent												
Moderate												
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NR												

B8.2e	<p>(i) Which price on Graph 8 is the Breakeven price? P₁, P₂, P₃ or P₄ _____</p> <p>(ii) Which price on Graph 8 is the Shutdown price? P₁, P₂, P₃ or P₄ _____</p>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
Excellent										
Weak										
NR										

Graph 10: Profit Maximisation for the Taro Processing Monopoly



B8.3a	<p>Using marginal analysis and the figures in Graph 10, fully explain why this profit maximising monopoly will choose to produce 5 units of output.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Advanced</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Exceed</td> <td></td> </tr> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Exceed		Excellent		Moderate		Low		Weak		NR	
Advanced	Level															
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Excellent																
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Assessor's use only

B8.3b	<p>Refer back to your answer to Q8.2(d) on page 13 then explain why, unlike a perfectly competitive firm, a monopolist is in equilibrium and can continue to make supernormal profits in the long run.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th data-bbox="1256 510 1369 555">Proficient</th> <th data-bbox="1369 510 1455 555">Level</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 555 1369 607">Excellent</td> <td data-bbox="1369 555 1455 607"></td> </tr> <tr> <td data-bbox="1256 607 1369 658">Moderate</td> <td data-bbox="1369 607 1455 658"></td> </tr> <tr> <td data-bbox="1256 658 1369 710">Weak</td> <td data-bbox="1369 658 1455 710"></td> </tr> <tr> <td data-bbox="1256 710 1369 761">NR</td> <td data-bbox="1369 710 1455 761"></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
Excellent												
Moderate												
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QUESTION NINE: MACROECONOMIC ANALYSIS

Part A: Demonstrate an understanding of external influences that affect the economic activity of a country in the South Pacific region.

There are potential advantages and disadvantages of adopting a common currency arrangement among the six IMF member Pacific island countries that have their own national currency. These countries are Fiji, Papua, New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. The study explains that the present exchange rate regimes – comprising pegging to a basket of currencies for five countries and the floating arrangement for Papua New Guinea – have generally succeeded in avoiding inflationary, balance of payments, external debt, and financial system problems. The study concludes that adopting a common currency in the Pacific would require greater convergence of domestic policies and substantial strengthening of regional policies, which would take time to achieve.

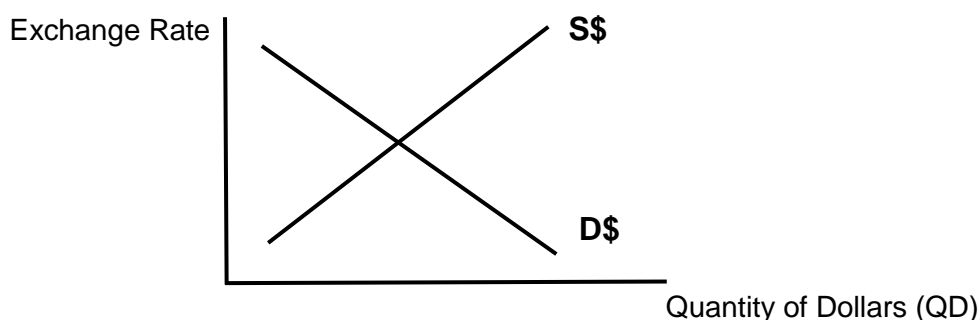
From: IMF Working Paper, Asia and Pacific Department Pacific Island Countries: Possible Common Currency Arrangement, Page 1. Prepared by Christopher Browne and David Orsmond. October 2006.

Whether 'pegged' or 'floating', the article suggests that there are numerous advantages if a country's exchange rate is able to adjust its value against the currencies of its trading partners over time.

B9.1 Define a **flexible or floating exchange rate**

Basic	Level
Excellent	
Weak	
NR	

Graph 11: A Flexible Foreign Exchange Market in a South Pacific Country



B9.2 On **Graph 11**:

- Indicate with a dotted line the existing equilibrium exchange rate and label it **ER**.
- Assume that tourist numbers to the South Pacific increase. Show the effect of this on the exchange rate by:
 - Drawing and labelling any changes in demand and/or supply appropriately.
 - Indicating with a dotted line the new equilibrium exchange rate and label it **ER₁**.

Proficient	Level
Excellent	
Moderate	
Weak	
NR	

Assessor's use only

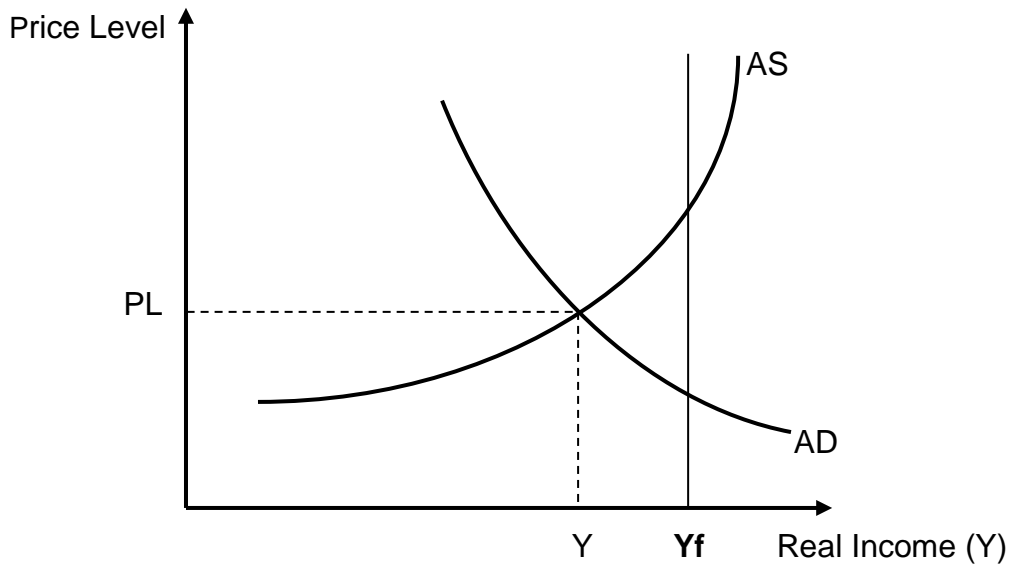
<p>B9.3a</p>	<p>Briefly explain the change/s you made in 2(b)(i) above.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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<p>B9.3b</p>	<p>Did the new exchange rate show on Graph 11 appreciate or depreciate? Explain your choice.</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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<p>B9.4a</p>	<p>Explain the impact of a depreciation in an exchange rate on international trade in goods and services.</p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Advanced</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Exceed</td> <td></td> </tr> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Low</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Advanced	Level	Exceed		Excellent		Moderate		Low		Weak		NR	
Advanced	Level															
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<p>B9.4b</p>	<p>Apart from changes in the exchange rate, describe another factor which may influence international trade AND note how it may impact on a country's Balance of Payments.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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<p>B9.4c</p>	<p>What is the Terms of Trade Index a measure of?</p> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR							
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Part B: Demonstrate an understanding of monetary policy and aggregate supply and aggregate demand

Assessor's use only

B9.5a	Define Monetary Policy _____ _____ _____	<table border="1"> <tr><th>Basic</th><th>Level</th></tr> <tr><td>Excellent</td><td></td></tr> <tr><td>Weak</td><td></td></tr> <tr><td>NR</td><td></td></tr> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
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B9.5b	Describe a specific monetary policy measure that a South Pacific government could introduce to help achieve price stability in the country. _____ _____ _____	<table border="1"> <tr><th>Basic</th><th>Level</th></tr> <tr><td>Excellent</td><td></td></tr> <tr><td>Weak</td><td></td></tr> <tr><td>NR</td><td></td></tr> </table>	Basic	Level	Excellent		Weak		NR	
Basic	Level									
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B9.5c	Apart from operating monetary policy to maintain price stability, describe ONE other important function of a country's Reserve (Central) Bank. _____ _____	<table border="1"> <tr><th>Basic</th><th>Level</th></tr> <tr><td>Excellent</td><td></td></tr> <tr><td>Weak</td><td></td></tr> <tr><td>NR</td><td></td></tr> </table>	Basic	Level	Excellent		Weak		NR	
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Graph 12: The AD / AS Model



B9.6a	Define Aggregate Supply: _____ _____	<table border="1"> <tr><th>Basic</th><th>Level</th></tr> <tr><td>Excellent</td><td></td></tr> <tr><td>Weak</td><td></td></tr> <tr><td>NR</td><td></td></tr> </table>	Basic	Level	Excellent		Weak		NR	
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B9.6b	On Graph 12 , clearly illustrate, with a double headed arrow, the recessionary gap.	<table border="1"> <tr><th>Basic</th><th>Level</th></tr> <tr><td>Excellent</td><td></td></tr> <tr><td>Weak</td><td></td></tr> <tr><td>NR</td><td></td></tr> </table>	Basic	Level	Excellent		Weak		NR	
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Assessor's use only

<p>B9.6c</p>	<p>With reference to Graph 12 and the identity $AD = C + I + G + (X - M)$, explain how the loosening of monetary policy uses interest rates to help eliminate the recessionary gap.</p> <hr/> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
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<p>B9.6d</p>	<p>Illustrate the effect of the 'loose' monetary policy on Graph 12 and describe below the effect of the changes you have made to Graph 12 on the price level, employment and total output.</p> <hr/> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Proficient</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Moderate</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Proficient	Level	Excellent		Moderate		Weak		NR	
Proficient	Level											
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<p>B9.6e</p>	<p>Apart from the use of monetary policy, describe how one other named factor could eliminate the recessionary gap in Graph 12.</p> <hr/> <hr/> <hr/>	<table border="1"> <thead> <tr> <th>Basic</th> <th>Level</th> </tr> </thead> <tbody> <tr> <td>Excellent</td> <td></td> </tr> <tr> <td>Weak</td> <td></td> </tr> <tr> <td>NR</td> <td></td> </tr> </tbody> </table>	Basic	Level	Excellent		Weak		NR			
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