



**DEPARTMENT OF  
EDUCATION**

**HIGHER SCHOOL  
CERTIFICATE  
EXAMINATIONS**

**ECONOMICS  
PAPER 1**

Monday

19 October 2009

Time allowed: 2 hours  
(1100 – 1300 hrs)

**NO EXTRA TIME  
(NO OTHER TIME)**

Candidates are advised to  
fully utilise the allocated  
time

**Ec1**

**INSTRUCTIONS TO CANDIDATES:**

*(To be read out by the external invigilator  
before the start of the examination)*

1. Check that there are **10** printed pages in this question booklet. An **8**-page answer booklet is enclosed in the centre of this booklet.
2. Take out the answer booklet and check that you have the correct number of pages.
3. Write your name, number and school name in the spaces above AND in the spaces provided on the Answer Booklet.
4. There are two sections in this paper. Answer all questions.
5. **Section A** - consists of 20 Multiple-Choice Questions worth 1 mark each. (20 marks)
6. **Section B** - consists of 6 Short Answer Questions worth 10 marks each. (60 marks)

**TOTAL MARKS = 80**

7. Answer all questions in the spaces provided on the answer sheet provided. Show all necessary working for full marks.
8. Candidates are advised to spend the first 10 minutes reading through this paper.
9. Calculators may be used.

**DO NOT WRITE ON THE QUESTION PAPER.**

**ANSWERS WRITTEN ON THE QUESTION  
PAPER WILL NOT BE MARKED. WRITE  
ANSWERS NEATLY IN SPACES AS  
ALLOCATED ON THE ANSWER SHEET.**

**DO NOT TURN OVER THE PAGE AND DO NOT  
WRITE UNTIL YOU ARE TOLD TO START.**

## SECTION A (Questions 1 to 20)

Write the answers to your questions in the answer sheet by writing the correct alternative A or B or C or D only. Answers marked on this question paper will not be marked.

### QUESTION 1

When money wages are increased in response to increases in the Consumer Price Index, real income will

- A. increase
- B. decrease.
- C. not change.
- D. depend on disposable income.

### QUESTION 2

The main reason why the government imposes the Goods and Services Tax (GST) is to

- A. protect local producers and sellers.
- B. reduce inflation.
- C. create more employment opportunities.
- D. revenue for itself.

### QUESTION 3

If income earners in PNG get permanent increases in their income, aggregate

- A. demand will increase.
- B. demand will decrease.
- C. supply will increase.
- D. supply will decrease.

### QUESTION 4

If income tax-rates are progressive, the tax rate

- A. is the same but tax amount increases as income increases.
- B. increases as income decreases.
- C. increases as income increases.
- D. decreases as income increases.

### QUESTION 5

To control high-inflation, the Bank of Papua New Guinea adopts restrictive monetary policy.

That involves a

- A. decrease in the liquidity ratio.
- B. sell more government bonds and treasury bills.
- C. reduction of the kina facility rate.
- D. reduction of the interest rate.

### QUESTION 6

To increase employment and national income(GDP) using monetary policy,the viable option is to

- A. increase the interest rate.
- B. increase special deposit.
- C. increase the liquidity ratio.
- D. reduce the tax rate.

### QUESTION 7

In the Circular Flow Income model savings and investment in the economy take place through the

- A. factor markets.
- B. goods markets.
- C. financial markets.
- D. labor markets.

### QUESTION 8

Which of the following comprise expansionary monetary and fiscal policy?

- A. Reduction in the Liquidity Asset ratio and an increase in tax rates.
- B. Reduction in the Liquidity Asset ratio and a decrease in tax rates.
- C. Increase in the Liquidity Asset ratio and an increase in tax rates.
- D. Increase in the Liquidity Asset ratio and a decrease in tax rates.

### QUESTION 9

To reduce unemployment and increase output in the economy, the government can

- A. reduce interest rates and increase it own expenditure.
- B. reduce the money supply and reduce its own expenditure.
- C. increase interest rates and reduce its own expenditure.
- D. increase interest rates and increase its own expenditure.

### QUESTION 10

The level of income or value of income in the circular flow of income will eventually decline if

- A. injections are greater than leakages.
- B. injections are less than leakages.
- C. injections and leakages both increase by same amounts.
- D. injections and leakages both decrease by the same amounts.

**QUESTION 11**

If the number of firms selling shoes increase, ceteris paribus, it will cause

- A. inward shift of the supply curve of shoes.
- B. outward shift of the supply curve of shoes.
- C. upward movement along the demand curve for shoes.
- D. outward shift of the demand curve of shoes.

**QUESTION 12.**

When the elasticity of demand is equal to infinity, demand is said to be

- A. unit elastic.
- B. perfectly elastic.
- C. inelastic.
- D. perfectly inelastic.

**QUESTION 13**

An increase in the price of potatoes ceteris paribus will cause a

- A. decrease in the quantity demanded of kaukau.
- B. decrease in the quantity supplied of potatoes.
- C. decrease in the quantity demanded of potatoes.
- D. increase in the quantity demanded of potatoes.

**QUESTION 14**

The price elasticity of demand(Ped) for roots rice has been calculated to be 0.4 ( or  $Ped=0.4$ ). If the price of roots rice now increases by 5%,how much will the quantity demanded of roots rice change by?

- A. Less than 5
- B. 5 percent
- C. More than 5 percent
- D. No change at all

**QUESTION 15**

Countries who have an absolute advantage in the production of a good are better off by

- A. encouraging specialization and trade.
- B. encouraging specialization and discouraging trade.
- C. discouraging specialization and encouraging trade.
- D. discouraging specialization and trade and be self-reliant.

**QUESTION 16**

The leakage of tax revenue in the Circular Flow Income model is diverted back into the economy through

- A. investment expenditure.
- B. consumption expenditure.
- C. government purchases transfers.
- D. exports.

**QUESTION 17**

According to the comparative advantage theory a country should specialize in the production and export of a good in which it has

- A. intensive use of its most abundant resource.
- B. greater efficiency in its production.
- C. lower cost and higher profit.
- D. lower opportunity cost of producing the good.

**QUESTION 18**

The net-barter ( or commodity) terms of trade relate to

- A. import and export price index.
- B. import and export quantity index.
- C. index of net income earned through trade.
- D. mutual gain-sharing of the trade benefits.

**QUESTION 19**

In a freely floating exchange rate system where, a country's import value is less than its export value, the country's currency would

- A. depreciates in value.
- B. appreciates in value.
- C. devalues.
- D. revalues.

**QUESTION 20**

Which of the following is a factor that affects supply?

- A. The law of supply
- B. Income
- C. Wages
- D. Consumer budget

**END OF SECTION A**

## SECTION B ( Questions 21 to 26)

Answer all questions in this section in the spaces provided in your Answer Booklet.

### QUESTION 21

- (a) Suppose that Papua New Guinea had successive balance of payment deficit and all her foreign reserves are exhausted.
- (i) Why are foreign reserves important? (2)
- (ii) What is one external means or way to finance the balance of payment deficit? (2)
- (iii) Under a fixed exchanged rate regime, what can the government do to the kina exchange rate( or kina value) to correct the balance of payment deficit situation? (2)
- (b) Define the term **exchange rate**. (2)
- (c) In a freely floating exchange rate system, what will happen to the value of the currency if the country's exports are on high demand on the world market? (1)
- (d) What are PNG's exports mostly comprised of? (1)

### QUESTION 22

- (a) In March this year the Minister for Finance and Planning announced a massive economic stimulus package totaling close to one billion kina.
- (i) Does this stimulus package represent a leakage or injection in the circular flow of income? (1)
- (ii) If total injections were greater than leakages, what will happen to employment levels in the economy?. (2)
- (iii) Describe the specific type of economic policy this stimulus package represents? (2)
- (b) List two instruments of monetary policy. (2)
- (c) State one of the functions of the Central Bank of Papua New Guinea? (1)
- (d) What consists of the narrow money supply? (2)

### QUESTION 23

- (a) Earlier this year the government through the Minimum Wages Determination Board increased the minimum wage levels. The Papua New Guinea Employers Federation was not happy with the big increase in the minimum wage.
- (i) Why was the Papua New Guinea Employers Federation not happy about the increase in the Minimum Wages? (2)
- (ii) How will the increased minimum wages affect the general price level? (1)
- (iii) How will the gross domestic product(GDP) be affected by the increase in minimum wages?(1)
- (b) Define the term **Gross Domestic Product**? (2)
- (c) The Minister for Finance and Planning reported recently that the rate of inflation had increased to 10.3 percent.
- (i) Describe one effect of inflation. (2)
- (ii) Describe one cause or type of inflation (2)

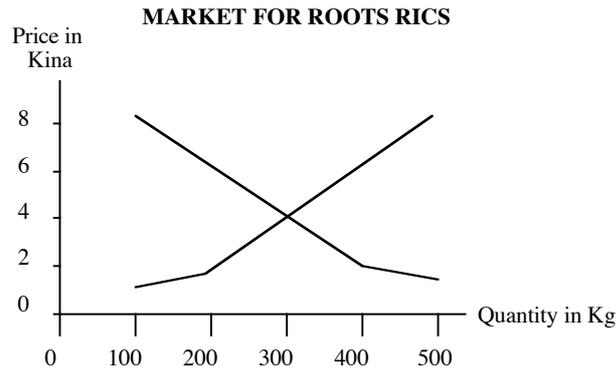
### QUESTION 24

In May 2009 the Bank of Papua New Guinea stated that Consumer Price Index has increased to 10.3%. The inflation has been attributed to high import prices on the World Market.

- (i) State the type of inflation referred to above. (2)
- (ii) When tariff is imposed on Papua New Guinea's imports , describe one possible effect of the tariff on imports. (2)
- (iii) How will the domestic producer be affected by imposing a tariff on import? (2)
- (iv) What will be the effect of reduction in import on the kina exchange rate or foreign reserve? (2)
- (v) How can the Bank of Papua New Guinea help the government reduce inflation? (2)

### QUESTION 25

(a) Study the diagram below and answer the following questions.



- (i) What is the equilibrium price? (1)
  - (ii) Why is it called an equilibrium price? (2)
  - (iii) What quantity would be demanded if the government controls the price of roots rice by setting a ceiling price at K2.00/kg? (2)
  - (iv) Who does the government intend to protect by setting such a ceiling price? (1)
  - (v) What is the resulting situation as a result of setting the ceiling price? (1)
- (b) Suppose that the quantity demanded of potatoes falls from 4kgs to 2kgs as price increases from K3/kgs to K4/kgs.
- (i) Calculate the price elasticity of demand(point method) for potatoes? (2)
  - (ii) State the nature of elasticity if the elasticity coefficient is less than 1. (1)

### QUESTION 26

It can be seen that the tobacco manufacturing industry in Papua New Guinea is a monopoly. The government has imposed legal barriers, which allows only British American Tobacco(BAT) to operate in the Papua New Guinea Tobacco market.

- (i) Is BAT a price-taker or price-maker in the tobacco industry? (2)
- (ii) What is the profit maximizing condition of BAT? (2)
- (iii) If tobacco has an inelastic demand, how will a K1.00 excise tax affect the demand for tobacco? (2)
- (iv) How will the excise tax affect the supply curve to change? (2)
- (v) Who will bear most of the excise tax burden? (2)

END OF EXAMINATION (PAPER 1)