MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA SCHOOL CERTIFICATE

2017

ECONOMICS

QUESTION AND ANSWER BOOKLET

Time Allowed: 3 Hours

INSTRUCTIONS:

1. This paper consists of **THREE PARTS** and is out of **70 Skill Level.**

PART	Topics	Total Skill Level
A	**Resource Allocation via the Market System**	**36**
B	**Resource Allocation via the Public Sector**	**5**
C	**Aggregate Economic Activity and Policy**	**29**
	TOTAL	**70**

2. Write your **Student Enrolment Number (SEN)** on the top right-hand corner of this page.
3. Answer **ALL** questions in the spaces provided in this booklet.
4. Use **BLUE** or **BLACK** ball point pen. **DO NOT** write in pencil.
5. If you need more spaces for answers, ask the supervisor for extra paper.
6. Check that your paper consists of 19 pages.

YOU MUST HAND IN TO THE SUPERVISOR THIS BOOKLET AT THE END OF THE EXAMINATION.

PART A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

QUESTION ONE: Basic Economic Concepts

William is a 17 year old student who plays the saxophone in the Tupou College Band. The school band has an opportunity to travel to New Zealand in December for a concert. William has to attend band practice and rugby training after school every day. He also has school studies at night.

a. Define opportunity cost.

Skill level 1	
1	
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NR	

b. With reference to the information above, explain how William's situation after school results in an opportunity cost.

Skill level 3	
3	
2	
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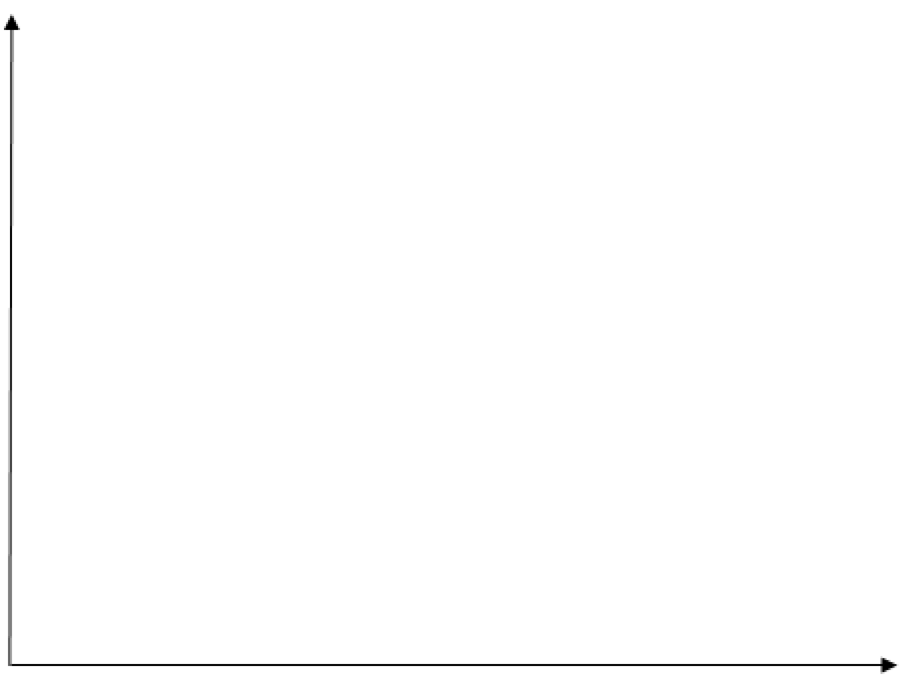
QUESTION TWO: Demand

1. Study the information below and answer the questions that follow.

Table One:	Individual demand schedule for Beef Hamburger (per week)		
Price ($)	Quantity demanded (per week)		
	John	James	Jenny
5	5	5	5
10	3	4	3
15	2	2	1
20	1	0	1

a. Use the information from **Table One** to draw a Market Demand Curve for Beef Hamburger.

Title : ____



Skill level 3	
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b. State **ONE** (1) factor that causes a movement along John's demand curve for Beef Hamburger.

Skill level 1	
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c. Assume that Market Demand curve for Beef Hamburger shifts to the right. Describe how the Income Level caused the Market Demand Curve to shift to the right.

Skill level 2	
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2.

> Jenny (aged 25) signs a hire-purchase agreement with ASCO MOTORS. She buys a new Toyota car under hire purchase contract. She deposits 10 percent of the car's value. The rest of the value of the car will then be paid off in installments within two years.

a. Define contract.

Skill level 1	
1	
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NR	

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b. There are several features of a contract. State the essential feature of a contact that is relevant to Jenny's situation described above.

Skill level 1	
1	
0	
NR	

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QUESTION THREE: Supply

1.

According to Tonga's budget statement for the new fiscal year, the sector contributing the most to Tonga's GDP comes from the Tertiary Industry with over 50 percent contribution. The Tertiary Industry with the most vibrant activities includes hotel and restaurant, wholesale and retail trade, financial institutions, government administration and services, transport and communication and others.
Source (adapted): http://www.tonga-broadcasting.net/?p=1396

Analyze the importance of the examples of Tertiary Industry described in the above extract to Tonga's economy.

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Skill level 4	
4	
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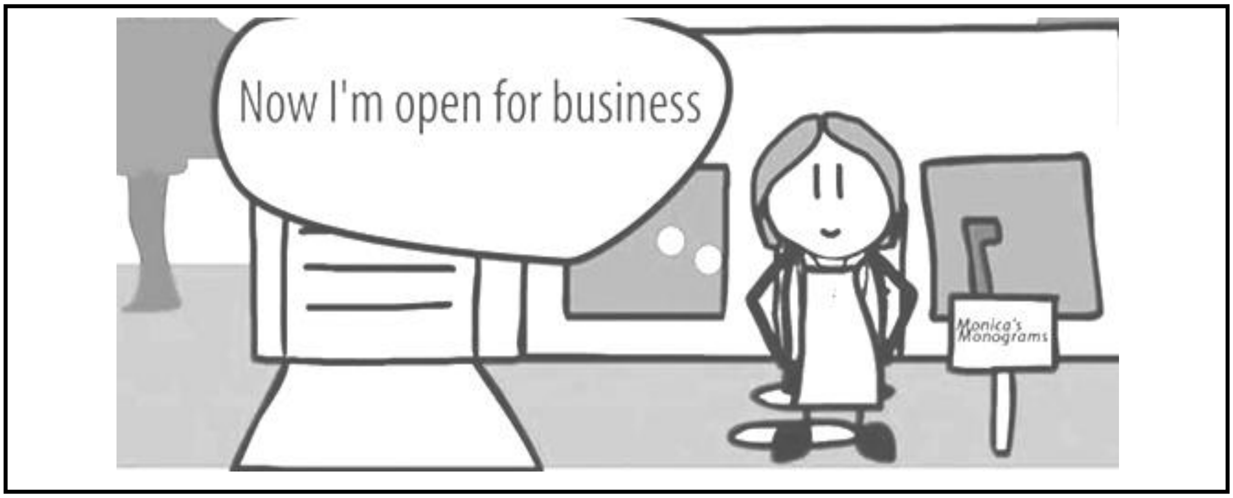
2. Study the cartoon below and answer the questions that follow.



Source (adapted): http://www.study.com/academy/lesson

a. State the type of business ownership illustrated in the cartoon above.

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Skill level 1	
1	
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b. State the management organization structure of the business ownership shown in the cartoon above.

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Skill level 1	
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c. Describe **TWO** (2) features of the business ownership illustrated in the cartoon above.

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Skill level 2	
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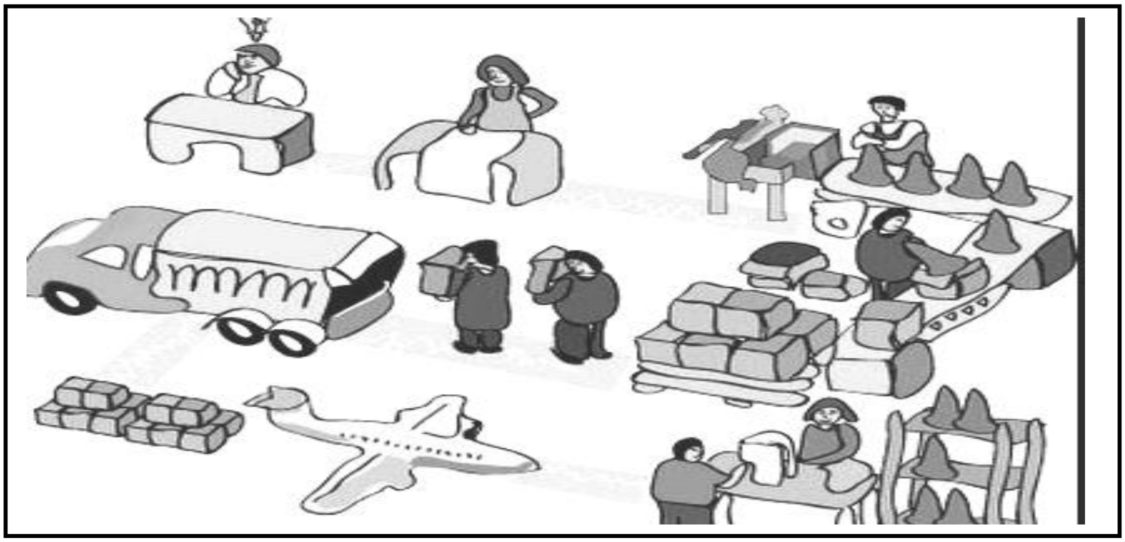
3. Study the cartoon of a Fabric Factory below and answer the questions that follow.



Source: https://www.linkedin.com/pulse/when-right-time-change-production factors

a. Define factors of production.

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Skill level 1	
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b. Give **ONE** (1) example of each of any two factors of production illustrated in the Fabric Factory above.

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Skill level 2	
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1	
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c. Describe the factor rewards of each of the factors of production that you had stated in (b).

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Skill level 2	
2	
1	
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NR	

4.

Examples of Resources	
Wood	Crops
Water	Oil
Meat	

The resources listed above are all found in Tonga and they may have affected some of the economic activities. Choose one example of a **non-renewable resource** from the list above. Discuss the impacts (positive and negative) of the current conditions of your chosen non-renewable resource on Tonga's economy.

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Skill level 4	
4	
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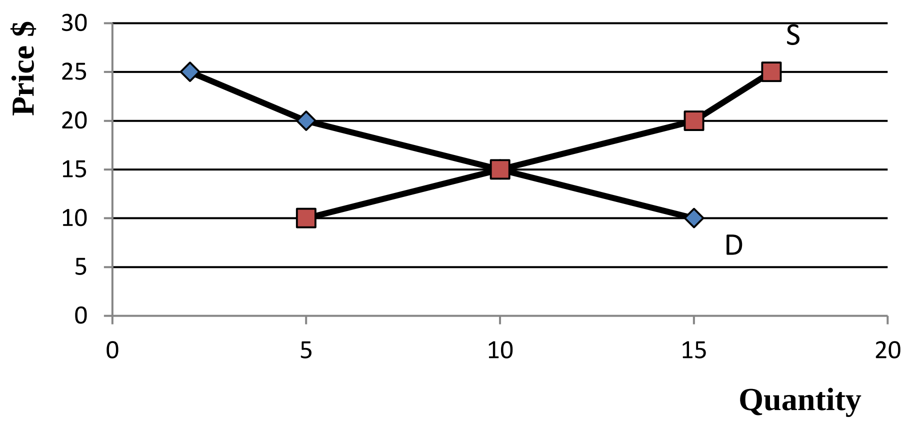
QUESTION FOUR: Market

Study the graph below and answer the questions that follow.

Graph 1: Market demand and supply curve for Pizza



a. Define market equilibrium.

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Skill level 1	
1	
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b. Assume that one of the contributing factors that causes Market Supply curve for Pizza to shift to the left and upwards is **indirect taxes**.
State **ONE** (1) type of indirect taxes.

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Skill level 1	
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c. Describe the type of indirect taxes that you had stated in (b).

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Skill level 2	
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1	
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d. On **Graph 1** page 9, graphically illustrate:

i. where the market has Excess Demand by clearly labeling the following:

New Price – P1

Quantity demand – QD1

Quantity supply – QS1

ii. and draw an arrow between the quantity demanded and quantity supplied.

Skill level 3	
3	
2	
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PART B: RESOURCE ALLOCATION via the PUBLIC SECTOR

QUESTION ONE: The Government

1.

Assessment of the potential implication for Tonga is Private Sector of a Regional Agreement

Tonga government has been seen to offer significant gains from trading with other foreign countries. However, the government encouraged the private sector to produce private goods and services so as to bring economic gains. By allowing private sector to produce more of private services, private sector would access better quality and lower cost services to Tongan firms that use services imports.

Source (adapted): http://new.tongachamber.org/wp-content/uploads/2016/02/Tonga-PS-Study-Executive-Summmary-EK-Comments.

a. Define private goods.

Skill level 1	
1	
0	
NR	

b. Give **TWO** (2) examples of private services in Tonga economy.

Skill level 2	
2	
1	
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c. Describe the economic function of Government that will justify the government intervention required in the extract on page 11.

Skill level 2	
2	
1	
0	
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PART C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

QUESTION ONE: Aggregate Economic Activity and Policy

1.

> Even though developing countries have different backgrounds in terms of resources, history, religions and politics, they still share a common characteristic. Developing countries share some of the common characteristics including lack of capital goods, lack of technology, and poor quality of education.
>
> ***Source (adapted): http://www.heritage.org/index/country/tonga***

The common characteristics stated above may have contributed to hinder the economic growth and development of Tonga's economy. However, Tonga is capable of becoming a developed economy. With reference to the characteristics identified in the information above, discuss possible solutions which may enable Tonga to become a developed economy.

Skill level 4	
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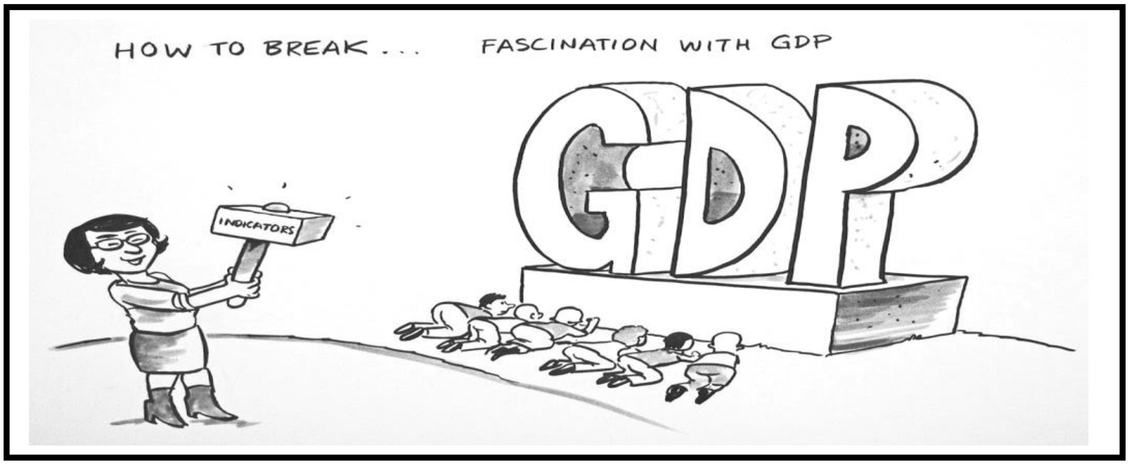
2.



Source (adapted): https://medium.com/@designforsustainability/gdp-as-an-insufficient-economic-indicator.

a. Define Gross Domestic Product (GDP).

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Skill level 1	
1	
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b. Although GDP is seen as the principal measure of an economy's economic growth, it has its own shortcomings as well.

Describe **ONE** (1) limitation of GDP as a measure of economic growth.

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Skill level 2	
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c. Explain **ONE** (1) significance of Economic Growth to the Tongan Economy.

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Skill level 3	
3	
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4.

Trade and Investment between Tonga and Australia in 2016

Two way trade between Tonga and Australia was valued at T$87 million (in goods and services). Australia's goods exports to Tonga totaled approximately $22 million (including meat; beverage item; aircraft parts; ships and boats; and measuring equipment). Tonga goods exports to Australia totaled approximately $1.82 million (mainly spices; vegetables, and crops; fruits and nuts; and fish).

Source (adapted): http://dfat.gov.au/geo/tonga/pages/tonga-country-brief.aspx

a. State **ONE** (1) appropriate type of trade restrictions that the Tongan government can implement when trading with Australia.

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Skill level 1	
1	
0	
NR	

b. Suppose the exchange rate for Tonga Pa'anga (TOP) to Australian dollar (AUD) in June 2017 is TOP$1 – AUD$ 0.56. The Pa'anga is said to depreciate.

Define exchange rate.

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Skill level 1	
1	
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c. Explain the effects of depreciating Pa'anga on Tonga's Balance of Trade.

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Skill level 3	
3	
2	
1	
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QUESTION TWO: Monetary and Fiscal Policy

1. Study the information below and answer the questions that follow.

Inflation - June 2017

The annual headline inflation rate edged higher in June 2017, rising by 10.3%. This is the highest level of inflation rate since the inflation rate picked up in June 2016. The same period in 2016 recorded a very low annual inflation rate of 0.1%.

Source (adapted): National Reserve Bank of Tonga

a. State **ONE** (1) policy that can be used to control inflation.

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Skill level 1	
1	
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b. Explain how the policy stated in (a.) above is used to control inflation.

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Skill level 3	
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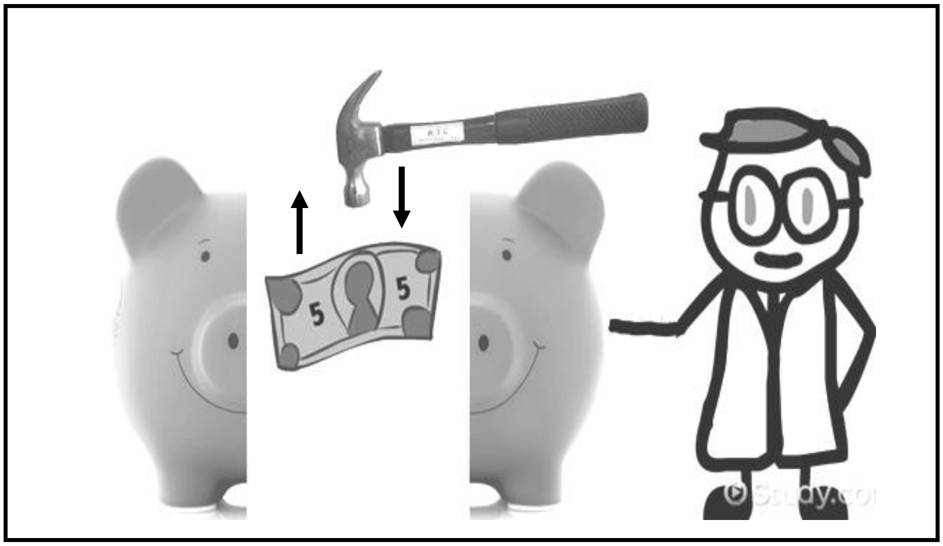
2. The cartoon below demonstrates one of the functions of money.



Source (adapted): http://study.com/academy/lesson/function of money

a. State the function of Money as illustrated in the cartoon above.

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Skill level 1	
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b. Describe the function of Money that you had stated in (a).

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Skill level 2	
2	
1	
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QUESTION THREE: Economic Issues

1. Study the cartoon below and answer the questions that follow.

Source (adapted): http://study.com/academy/lesson/

One of the main causes of the economic issue illustrated in the cartoon above is Cyclical Unemployment.

a. Describe **ONE** (1) cause of Cyclical Unemployment.

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Skill level 2	
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b. Describe **ONE** (1) Social effect of the economic issue shown in the cartoon on the family.

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Skill level 2	
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2. Explain **ONE** (1) economic effect of a Tongan Wedding on the Tongan Economy.

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Skill level 3	
3	
2	
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