MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA SCHOOL CERTIFICATE

2020

ECONOMICS

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS:

1. Write your **Student Enrolment Number (SEN**) on the top right-hand corner of this page.
2. This paper consists of **THREE SECTIONS** and is out of 70 weighted scores.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	32
B	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	4
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	34
	TOTAL	**70**

3. Answer ALL QUESTIONS. Write your answers in the spaces provided in this booklet.
4. Use a **BLUE** or **BLACK** ball point pen only for writing. Use a pencil for drawing if required.
5. If you need more spaces for answers, ask the supervisor for extra paper. Write your **Student Enrolment Number (SEN)** on each additional sheet, number the questions clearly and insert them in the appropriate places in this booklet.
6. Check that this booklet contains pages 2-23 in the correct order and that pages 22-23 have been deliberately left blank.

YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.

SECTION A: RESOURCE ALLOCATION VIA THE MAREKT SYSTEM

QUESTION ONE

Read the passage below and answer questions (a) – (b).

> In the Tongan economy, there are two key groups of people, **(i)** those who make outputs and **(ii)** those that use these outputs.
>
> In the short – run **(iii)** production, one of the main problems facing agriculture in Tonga is lack of land, labour and capital. In this case, Tongan farmers must make decisions on what to produce given what is available for their use.

a. Define the underlined concept number **(iii)** as shown in the passage.

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Skill level 1	
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b. Identify the correct economic concept that best matches the underlined phrase number **(ii)** as shown in the passage.

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Skill level 1	
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QUESTION TWO

Study the individual demand schedule given below and answer questions (a) – (d).

Suppose there are four households in the market who demand Wholemeal Bread.

Table 1: Individual Demand Schedule for Wholemeal Bread

Price (TOP $)	Quantity demanded by Household A	Quantity demanded by Household B	Quantity demanded by Household C	Quantity demanded by Household D
0.80	8	8	7	9
1.00	7	7	6	8
1.20	6	6	5	7
1.40	5	5	4	6
1.60	4	4	3	5
1.80	3	3	2	4
2.00	2	2	1	3

a. Define **law of demand** using the information given in **Table 1** above.

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Skill level 1	
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b. Identify **ONE (1)** factor which would cause an increase in the quantity demanded for Wholemeal Bread by Household A in the market.

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Skill level 1	
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c. Construct a **Market Demand Schedule** for Wholemeal Bread from **Table 1** in page 3.

Skill level 2	
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NR	

d. Assume the market demand curve for Wholemeal Bread shifts upward.

Describe **ONE (1)** factor which caused the upward shift of the market demand curve for Wholemeal Bread.

Skill level 2	
2	
1	
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QUESTION THREE

Study the list of organizations below and answer questions (a) – (c).

Organization in the Tongan economy

- The Fishing Company (Alatini Fishery Co. Ltd)
- Westpac Bank
- Cowley Bakery
- Nishi Quarry

a. Identify **ONE (1)** organization from the list above that operates under Secondary Sector in Tonga.

Skill level 1	
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b. Describe **ONE** (1) feature of your selected organisation in (**a.)** that supports your choice.

Skill level 2	
2	
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According to the Tonga Statistic Department (2019), the Secondary Sector contributes only about 3 percent of Gross Domestic Product (GDP) to the Tongan economy. Efforts are being made by the government to discover ways to diversify the Secondary Sector in the country.

c. Analyse the importance of diversification in your chosen organization for the Tongan Economy.

Skill level 3	
3	
2	
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QUESTION FOUR

Analyse the case study given below and answer questions (a) – (d).

Case Study: Dilemma facing a Sole Proprietorship

Tomasi Paki began his business called *Bright Spot* in 2010. Tomasi decided to trade with some of the Pacific Countries. Bright Spot supplies lamps and light fittings to Fiji, Samoa and the local Hardware store in Tongatapu.

Since 2014, *Bright Spot* contracted with the Tonga Power Limited to provide lamps, lighting maintenance and installations throughout the three countries.

In the case of *Bright Spot* versus Tonga Power Limited, *Bright Spot* was being sued by the Tonga Power Limited for their 2 years of overdue debt to their business.

Tomasi Paki has approached several banks such as Westpac and the Tonga Development Bank to borrow money to pay his business debt.

a. Identify **ONE (1)** source of funds apart from borrowing money from the bank for the *Bright Spot* business to finance its debt.

Skill level 1	
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b. Describe **TWO (2)** characteristics of the *Bright Spot* business as shown in the case study.

Skill level 2	
2	
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c. Assume you are the financial advisor to *Bright Spot* business.
Explain to *Bright Spot* business the importance of having effective accounting services for the operation of the firm.

Skill level 3	
3	
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d. With an example, discuss how research and development would improve the standard of capital resources for the Bright Spot business in Tonga.

Skill level 4	
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QUESTION FIVE

Study the photograph shown below and answer questions (a) to (d).

Talamahu Market

Source (adapted): Retrieved from https://www.virtualoceania.net/tonga/photos/towns/nukualofa/market

a. State the type of market illustrated by the photograph above.

Skill level 1	
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b. Describe the nature of this type of market.

Skill level 2	
2	
1	
0	
NR	

c. Assume the Tongan government imposes indirect tax on imported vegetables from New Zealand.

Give **TWO (2)** types of indirect tax that are used in the Tongan economy.

Example 1: ____

Example 2: ____

Skill level 2	
2	
1	
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d. Explain the significance of this type of market for the sellers at Talamahu Market.

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Skill level 3	
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SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

QUESTION ONE

Study the information given below and answer questions (a) – (b).

Part of the Estimated Budget of the Tongan government, 2019 -2020

1. **Estimated Revenue** - **$578.2 million**
- Tax on income - 257.1
- Tax on property - 0.4
- Tax on goods and services – 170.7
- Tax on international trade and transactions – 28.5
- Other taxes - 28.5

2. **Estimated Expenditures - $ 456.3 million**
- Provision of public goods
- Health
- Education
- Private services

Source (adapted): Retrieved from http://www.finance.gov.to/budget-statemen

a. Give **TWO (2)** examples of private service in the Tongan economy.

Skill level 2	
2	
1	
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b. Describe **ONE (1)** purpose of preparing the part of the estimated budget (2019 – 2020) by the government.

Skill level 2	
2	
1	
0	
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SECTION C: AGGREGATE ECONOMIC ACTIVITY and POLICY

QUESTION ONE

Study the part of the statistics data below and answer questions (a) – (c).

Tonga National Accounts Summary (2018 – 2019)			
Aggregate	**GDP (2018 – 2019)**		**Percentage change of GDP per capita (%)**
At constant Prices	**2018**	**2019**	
Gross Domestic Product ($million) of which:	846	849	
Non market	204	213	
Market	546	578	
Taxes less subsidies on product	108	116	
Plus net income from abroad	8.8	5.6	
Gross National Income	854	895	
Plus net current transfer	267	287	
GDP per capita at constant prices (TOP $)	7706	7947	3.1

Source (adapted): Retrieved from https://tongastats.gov.to/statistics/economics/national-accounts/ (July, 2020)

a. State **ONE (1)** type of Gross Domestic Product (GDP).

Skill level 1	
1	
0	
NR	

b. Name the approach used in the National Account Summary (2018-2019) for calculating the GDP.

Skill level 1	
1	
0	
NR	

c. GDP per capita is one indicator that is used to measure economic growth of a country. Explain the importance of improved economic growth for the firms sector in Tonga

Skill level 3	
3	
2	
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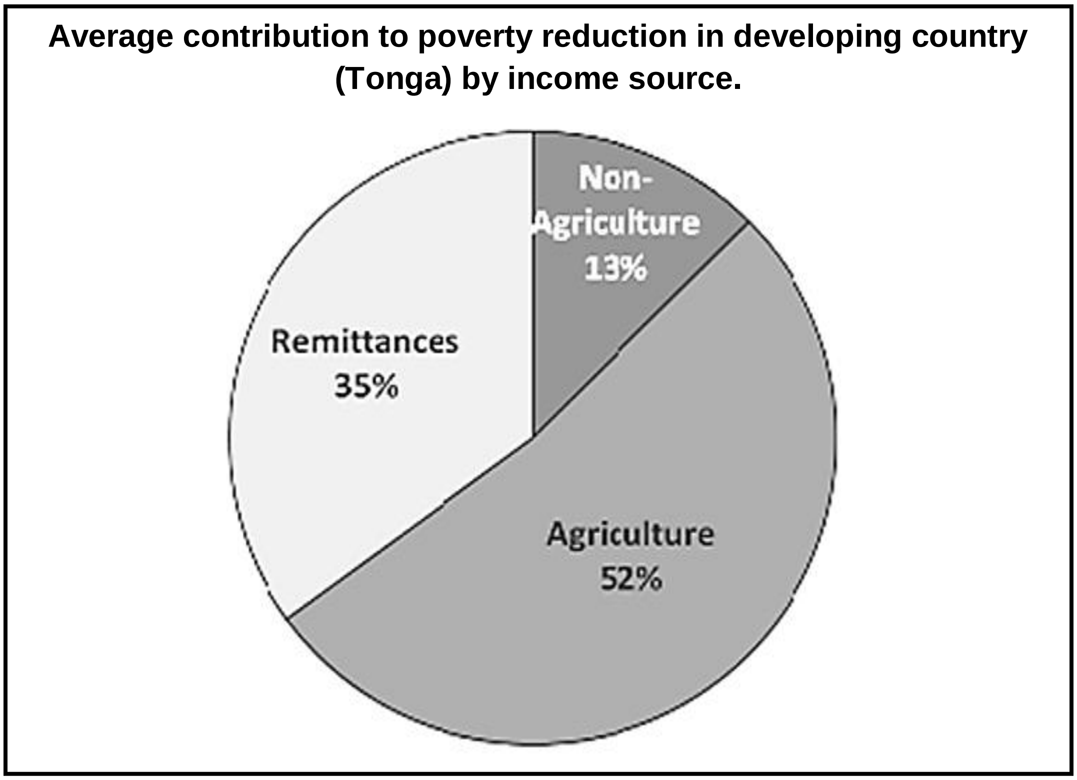
QUESTION TWO

Use the pie chart diagram given below to answer question (a) – (d).



Source (adapted): Retrieved from http://www.oecd.org/tonga/agriculturalprogressandpoverty (July, 2020)

a. Identify **ONE (1)** attribute from the diagram above that classifies the Tongan economy as a developing economy.

Skill level 1	
1	
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b. State **ONE (1)** source of remittances to families in Tonga.

Skill level 1	
1	
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c. According to the pie chart diagram on page 14, remittances is one of the major sources of income for most families in Tonga today.

Explain why family members overseas send remittances to relatives and friends here in Tonga.

Skill level 3	
3	
2	
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d. You have been asked to advise the government on the possibilities for Tonga to become a developed economy.

Discuss **ONE (1)** important strategy for the government of Tonga to become a developed economy in the next five years.

In your answer, discuss how your chosen strategy would enable the Tongan economy to become a developed economy.

Skill level 4	
4	
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2	
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NR	

QUESTION THREE

Use the information given below to answer questions (a) – (d).

Prices for All petroleum products has increased for the next two months beginning yesterday, May 16th 2020.

Source (adapted): Retrieved from http://www.tonga-broadcasting.net

a. The changing prices of petrol in the Tongan economy might affect its inflation rate.

Define **inflation rate.**

Skill level 1	
1	
0	
NR	

b. Describe **ONE** possible cause of the sudden changes in the price of all the petroleum products in Tonga for the months of May and June, 2020.

Skill level 2	
2	
1	
0	
NR	

c. Describe **ONE (1)** effect of inflation on the consumers of petroleum products in Tonga.

Skill level 2	
2	
1	
0	
NR	

d. Explain how the government would use fiscal policy to control inflation.

Skill level 3	
3	
2	
1	
0	
NR	

QUESTION FOUR

Study the cartoon given below and answer questions (a) – (e).

Source (adapted): Retrieved from https://projects.newsday.com/cartoons/data (July, 2020)

a. State **ONE (1)** cause of unemployment as given in the cartoon.

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Skill level 1	
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b. State the correct type of unemployment that is relevant to the situation illustrated in the cartoon.

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Skill level 1	
1	
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c. Based on the cartoon, discuss the obstacles that limit the Tongan economy from providing jobs for all its workers as a result of the incident in March this year.

Skill level 3	
3	
2	
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d. Explain **ONE (1)** trading problem currently faced by our Importers and Exporters as a result of this global pandemic.

Skill level 3	
3	
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e. Based on the discussions in (a) – (d) evaluate the current and the future levels of unemployment in Tonga.

In your answer, explain the possible negative effects of the expected level of unemployment on the economic growth of the Tongan economy.

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