

MARKER CODE			



Student Personal Identification Number (SPIN)					

TONGA GOVERNMENT
MINISTRY OF EDUCATION AND TRAINING

TONGA FORM SIX CERTIFICATE

2015

ECONOMICS

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours

INSTRUCTIONS

1. Write your **Student Personal Identification Number (SPIN)** on the top right hand corner of this page and on the last page.
2. This paper is divided into FIVE sections, ALL of which must be answered.

SECTION A BASIC ECONOMIC CONCEPTS	55 MARKS
SECTION B MONEY	35 MARKS
SECTION C INTERNATIONAL TRADE AND PAYMENTS	40 MARKS
SECTION D ECONOMIC FUNCTIONS OF GOVERNMENT	44 MARKS
SECTION E ECONOMIC DEVELOPMENT	26 MARKS
TOTAL MARKS	200 MARKS

3. Follow instructions and answer all questions in the spaces provided in this booklet.
4. For calculation questions, show ALL necessary working or otherwise marks will be deducted.
5. Check that this booklet contains pages 2 – 43 in the correct order. Pages 40-42 has been deliberately left blank.

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

TOTAL MARKS

200

SECTION A: BASIC ECONOMIC CONCEPTS (55 MARKS)

PART I MULTIPLE CHOICES (5 MARKS)

Circle the letter of the BEST answer.

Question 1

Dr. Malimali is the only dentist in the island and everyone is his client. Due to high amount of debts not paid, he was far behind on his mortgage payment for the clinic. As a result, the bank repossessed his assets and therefore the clinic closed down and everyone suffered the high cost of going to the main land.

Which of the following economic concepts best describes the situation above?

- A. Specialisation
- B. Opportunity Cost
- C. Interdependence
- D. Exchange

1 mark	
1	
0	
NR	

Question 2

The reconstruction of cyclone houses for some of the people of Ha'apai is co-financed by overseas and local donors. This is a clear indication of which economic problem :

- A. High dependency on remittances
- B. Lack of resources
- C. Poor construction materials
- D. Low standard of living

1 mark	
1	
0	
NR	

Question 3

Petroleum Industry here in Tonga is an example of _____.

- A. Monopolistic Competition
- B. Oligopoly
- C. Duopoly
- D. Monopoly

1 mark	
1	
0	
NR	

Question 4

Which of the effects below best represent the impact of an increasing number of car dealers on the market of imported vehicles?

- A. Demand will increase leading to an increase in quantity supplied
- B. Supply will increase leading to an increase in quantity demanded
- C. Demand will increase leading to increasing prices
- D. Quantity supplied will increase leading to a decrease in price

1 mark	
1	
0	
NR	

Question 5

With reference to the *Two Sector Circular Flow of Income*, **real flows** refer to flows of :

- A. Factor payments in exchange for Factors of production.
- B. Consumption spending in exchange for Output of production.
- C. Factors of production and Output of production.
- D. Factor payments and Consumption spending.

1 mark	
1	
0	
NR	

PART II**SHORT ANSWERS****(50 MARKS)****QUESTION 6****Basic Economic Concepts****(10 marks)**

1. Differentiate between the following pairs of economic terms. Give an example to support your answer.

- a) Final demand and Derived demand.

2 marks	
2	
1	
0	
NR	

- b) Exchange and Distribution.

2 marks	
2	
1	
0	
NR	

- c) Diminishing Return and Economies of scale.

2 marks	
2	
1	
0	
NR	

2. Choose from the list the **appropriate economic concept** that is associated with each of the life situations below. One term can be used more than once.

List :

Production	Division of Labour	Specialisation
Diseconomies of scale	Productivity	Opportunity cost

- a) Sione is the only son in the family so he has to drop out from school after passing TSC and work to pay for his younger sister's education.

- b) Sione is now a specialist woodcarver. In one day he can carve 10 small dolphins (about $\frac{1}{2}$ a metre long).

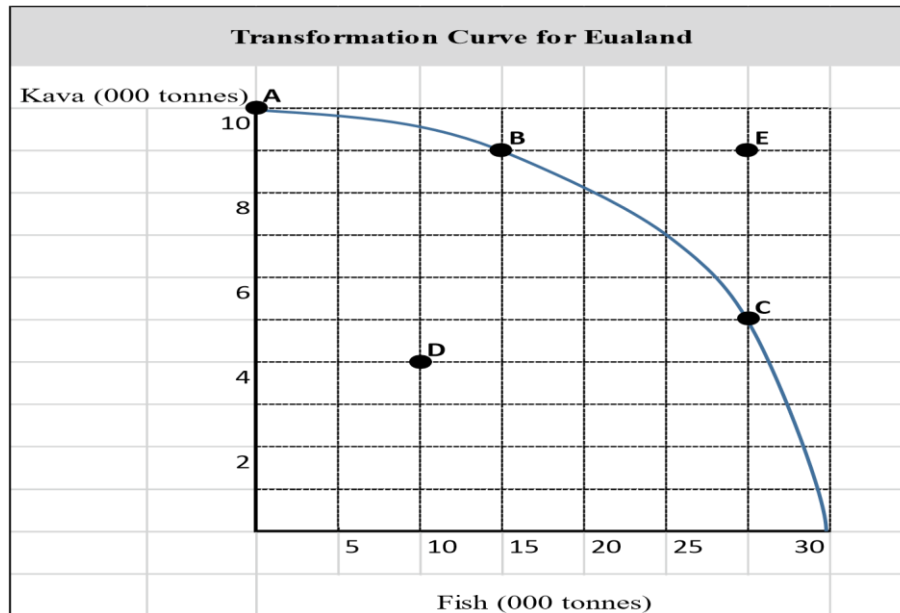
- c) Sione's older sister has been running a hair salon and a coffee shop. This year she closed her hair salon and focus all her resources on the coffee shop.

- d) Sione's younger sister now graduated with a degree in management. She sets up a family business known as Sione's Design. She did the planning and manage the operation, the older sister did the designing and Sione with his woods, tools and skills did the carving. Together they invented a new product made from woods known as Salon Carving.

4 marks	
4	
3	
2	
1	
0	
NR	

Question 7**The Transformation Curve****(12 marks)**

Study the hypothetical Transformation Curve for Eualand below and answer the questions that follow.



- a) Identify TWO assumptions under the construction of the above Transformation Curve.

- i) _____
- _____
- ii) _____
- _____
- _____

2 marks

2

1

0

NR

- b) Identify ONE **error** on how the above Transformation Curve was constructed. Use **specific reference** from the Transformation Curve above.
- _____
- _____

1 mark

1

0

NR

c) The letters on the graph on page 6 represent different scenario of production.

- What does it indicate about the use of resources?
- How much of each product is produced?

i) Scenario A

2 marks	
2	
1	
0	
NR	

ii) Scenario B

2 marks	
2	
1	
0	
NR	

iii) Scenario D

2 marks	
2	
1	
0	
NR	

d) What is the opportunity cost of moving production from scenario B to scenario A?

1 mark	
1	
0	
NR	

- e) Calculate the opportunity cost of producing 5 extra tonnes of Kava.
Show ALL necessary workings.

Opportunity Cost = _____

2 marks	
2	
1	
0	
NR	

Question 8**Demand and Supply****(22 marks)**

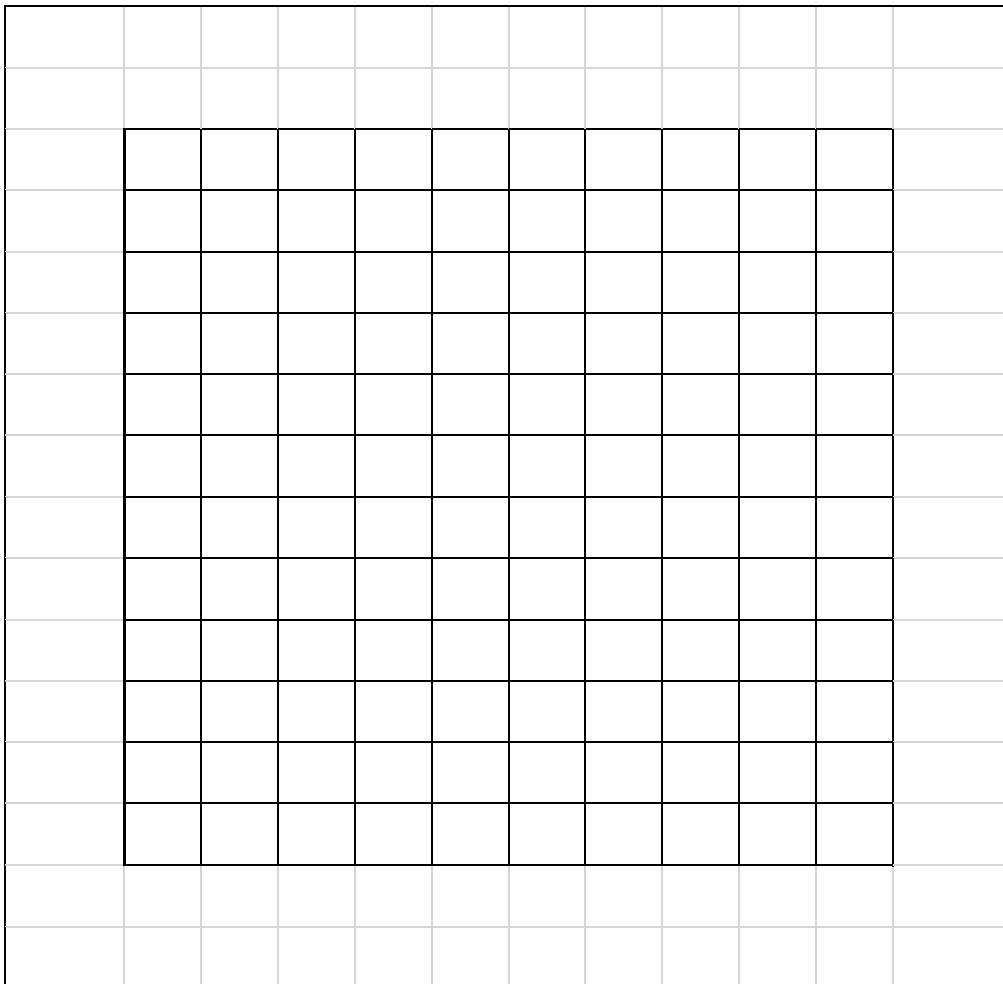
1. Study the information below and answer the questions that follow.

Before Air Pacific agrees to fly direct from Suva to Vava'u, a market survey was done and the outcome are as follows.

- The aeroplane can take a maximum of 80 passengers.
- Expected Market Demand.

Return Air Fare (Suva/ Vava'u/ Suva)	Expected Demand (Number of Passengers)
\$200	100
\$400	80
\$600	60
\$800	40

- a) Draw the Market Demand and Supply Curve for “Return Flight – Suva/ Vava'u/ Suva” on the grid below. Label your Demand Curve as **D** and Supply Curve as **S**.



4 marks	
4	
3	
2	
1	
0	
NR	

- b) Identify the market airfare that will lead to the following market situations:

2 marks	
2	
1	
0	
NR	

- i) The flight will be fully booked (all tickets sold). _____
- ii) Twenty passengers will be on the waiting list. _____

- c) The survey also found that the costing of a return flight (Suva/ Vava'u/ Suva) are:

- Fixed Cost (must be paid irrespective of number of passengers) = \$10,000
- Variable Cost (must be paid depending on number of passengers) = \$200 per passenger

Calculate whether there will be a **profit** or **loss** (Total Revenue less Total Cost) at **Equilibrium**. Show ALL necessary workings.

3 marks	
3	
2	
1	
0	
NR	

CIRCLE : Profit or **Loss** = \$ _____

2. Consider the **Market for Fish** to answer the following questions.

- a) Complete the table below to show the effect of the given market situations on the Market for Fish.

Situation	Affect Demand or Supply	Effect on Market Price (increase or decrease)
Increase price of diesel		
Increase price of meat		

4 marks	
4	
3	
2	
1	
0	
NR	

- b) Explain clearly how an increase in number registered fishing companies would affect your total revenue if you own a fishing company.

2 marks	
2	
1	
0	
NR	

3. Write an explanatory notes on the following economic terms. Use an example to support your answer.

- a) Monopoly

1 mark	
1	
0	
NR	

- b) Change in quantity demanded

1 mark	
1	
0	
NR	

- c) Excess supply

1 mark	
1	
0	
NR	

- d) Differentiated product

1 mark	
1	
0	
NR	

4. Match Column A (Marketing Concepts) and Column B (Situations) by writing the LETTER of your answer in the spaces provided beside each concepts.

Answer	Marketing Concepts	Situations	3 marks	
	1. Quota	A. Complete control over market price	3	
	2. Monopsony	B. A single buyer of a product	2	
	3. Black Market	C. Limited supply	1	
		D. Excess demand	0	
		E. Quotation of a product cost	NR	

Question 9 National Income and Production (6 marks)

1. Using your knowledge of the **Circular Flow of Income** and with reference to **appropriate flows of income**, explain clearly the **role** of the following sectors.

a) Financial Sector

2 marks	
2	
1	
0	
NR	

b) Government Sector

2 marks	
2	
1	
0	
NR	

2. Identify TWO reasons why Real GDP per Capita is **NOT** a perfect measure of economic growth.

i)

ii)

2 marks	
2	
1	
0	
NR	

SECTION B:**MONEY****(35 MARKS)****PART I****MULTIPLE CHOICES****(5 MARKS)****CIRCLE** the **letter** of the BEST answer.**Question 1**

Which of the following situations is the primary reason for the existence of money as a medium of exchange?

- A. Increasing trade activities between countries.
- B. The problem faced by the barter system.
- C. Increasing demand for banking services.
- D. Inefficiency of the price mechanism.

1 mark	
1	
0	
NR	

Question 2

Suppose the Quantity of money in circulation = \$20 million, Average price level = \$5 and the Average number of times money changes hand to finance transactions = 6 times. What will be the value of GDP?

- A. \$120 million
- B. \$100 million
- C. \$24 million
- D. \$20 million

1 mark	
1	
0	
NR	

Question 3

Which of the following is **true** about the relationship between Average Price Level and the Level of Money Supply?

- A. As money supply increase, average price level will decrease.
- B. As average price level increase, money supply will decrease.
- C. As money supply increase, average price level will also increase.
- D. As average price level increase, money supply will also increase.

1 mark	
1	
0	
NR	

Question 4

Which of the following assets is least liquid?

- A. One year Term Investment
- B. Bonds
- C. Cheque
- D. Demand deposit

1 mark	
1	
0	
NR	

Question 5

Which of the following government borrowings will not have an impact on the money supply?

- A. Borrowing from the World Bank
- B. Borrowing from the Public
- C. Borrowing from the National Reserve Bank
- D. Borrowing from China

1 mark	
1	
0	
NR	

PART II**SHORT ANSWERS****(30 MARKS)****Question 6****Money Supply****(15 marks)**

1. **Name the functions or features** of money that is best associated with each situation below. Choose from the list below.

Measure of value	Store of value	Means of deferred
Stable in value	Legal tender	Divisible
Durable	Recognisable	Medium of exchange

Situations	Name of Functions or Features of Money
If a you have a \$50 note tear in half and still have the serial number, it can be exchanged for a new one from the Reserve Bank.	
Act of ordering goods for the purpose of re-sale for profit.	
All foreign currencies must be converted into Pa'anga before use for exchange	

3 marks	
3	
2	
1	
0	
NR	

2. Use the information below to answer the questions that follow.

Money Supply	TOP Million
Notes and coins	100
Demand deposits	140
Short term investments	200
Bonds	500

Calculate the value of the following measures of the money supply.
Show ALL necessary Workings.

Value of M1	Value of M2

4 marks	
4	
3	
2	
1	
0	
NR	

3. Identify the **effect (increase/ decrease/ no effect)** of the following on the level of money supply.

a) The Australian Government cut back on their aid funding.

b) Fruit pickers program to Australia has increased this year by 15%.

c) Open Market Operation (OMO).

3 marks	
3	
2	
1	
0	
NR	

4. What do you mean by the statement **“Approved Reserve Asset Ratio is 5%”**?

1 mark	
1	
0	
NR	

5. Explain clearly the **effect (increase/ decrease/ no effect)** of the following on the **level of money supply**.

You need to explain the reason why the effect occurs.

a) A reduction in interest rate on lending.

2 marks	
2	
1	
0	
NR	

b) Government reduce the age of those eligible for the elderly welfare payment from 75 to 70.

2 marks	
2	
1	
0	
NR	

Question 7**Inflation****(15 marks)**

1. Read the passage below carefully and answer the questions that follow.

Tonga - CPI February 2015 Media Release

The Consumer Price Index (CPI) for February 2015 (108.8) recorded a decrease from January 2015 (109.6). In comparison with the previous month, local index recorded a decrease of 1.1% and import index also decreased by 0.4%. For the previous two months, January 2015 recorded an increase of 2.1% and December 2014 decreased by 0.4%.

- a) Use the information above to calculate the **inflation rate** from January to February. Show ALL necessary workings and correct your answer to **one decimal place**.

2 marks	
2	
1	
0	
NR	

Inflation rate = _____

- b) *The decrease in CPI from January to February 2015 means that prices of all goods and services were decreasing at the time.*
Do you **agree** or **disagree**? Give a reason for your answer.

2 marks	
2	
1	
0	
NR	

- c) Give the formula for calculating CPI figures.

1 mark	
1	
0	
NR	

2. Changes in average price level are mainly due to **demand pull** and **cost push** factors.

a) Define demand pull inflation.

1 mark	
1	
0	
NR	

b) Complete the table below to show the effect of the given situations on average price level.

Situations	Effect on Average Price Level	Demand Pull or Cost Push
Government operating a Budget Deficit		
The national event of the Coronation		

4 marks	
4	
3	
2	
1	
0	
NR	

3. Identify the **effect (increase/decrease/no effect)** of **high inflation rate** on the following.

- a) Purchasing Power of Money _____
- b) Level of future consumption _____
- c) Level of investment _____

3 marks	
3	
2	
1	
0	
NR	

4. **“During an inflationary period, economists claim that Borrowers are winners”**. Explain clearly the reason behind this claim.

2 marks	
2	
1	
0	
NR	

SECTION C: INTERNATIONAL TRADE & PAYMENTS**(40 MARKS)****PART I MULTIPLE CHOICES****(5 MARKS)****CIRCLE** the **letter of the best answer**.**Question 1**

From the foreign exchange market analysis by ANZ Bank, the exchange rate on 1st October 2015 was TOP \$1 = USD \$0.4951 compared to that on the 31st October 2015 of TOP \$1 = USD \$0.4568.

Which economic term best describes the movement of exchange for the Tongan Pa'anga (TOP) during October 2015?

- A. Depreciation
- B. Devaluation
- C. Appreciation
- D. Revaluation

1 mark	
1	
0	
NR	

Question 2

Which of the following is **true** for Country X under the **Theory of Comparative Advantage**. Country X should export the product that it can produce with the least _____.

- A. unit cost
- B. opportunity cost
- C. average cost
- D. marginal cost

1 mark	
1	
0	
NR	

Question 3

Which of the following is measured by the **Terms of Trade**?

- A. The amount of imports a dollar of export can buy.
- B. The relative price of imports in terms of exports.
- C. The ratio of import prices to export prices.
- D. The ability of a country to import goods and services.

1 mark	
1	
0	
NR	

Question 4

Which of the following effects is a result of a **depreciation of the local exchange rate**?

- A. Increase export receipts and reduce import payments.
- B. Increase import payments and reduce export receipts.
- C. Worsen balance of payment deficit.
- D. Reduce balance of trade surplus.

1 mark	
1	
0	
NR	

Question 5

Which of the following items is included in the calculation of the **Capital Account**?

- A. Net national income
- B. International income transfers
- C. Foreign investment
- D. Departure tax

1 mark	
1	
0	
NR	

PART II**SHORT ANSWERS****(35 MARKS)****Question 6****The Theory of Absolute and Comparative Advantage****(11 marks)**

Study the information below and answer the questions that follow.

PRODUCTION POSSIBILITY SCHEDULE FOR COUNTRY A AND							
Country	Production if producing			Current Production			
	X	OR	Y	X	AND	Y	
	(000 kg)		(000 kg)	(000 kg)		(000 kg)	
A	20	or	12	10	and	6	
B	16	or	14	8	and	7	

1. Calculate the **opportunity cost** of producing one kilogram of each Good for each Country. Show ALL necessary workings in the spaces provided.

Opportunity Cost of producing one kilogram of Good X in Country A	Opportunity Cost of producing one kilogram of Good X in Country B
Opportunity Cost of producing one kilogram of Good Y in Country A	Opportunity Cost of producing one kilogram of Good Y in Country B

4 marks	
4	
3	
2	
1	
0	
NR	

2. From the given information and your calculation in Question 1 on page 20:

- a) which country has absolute advantage _____
in the production of Good X?
- b) which country has comparative advantage _____
in the production of Good X?

2 marks	
2	
1	
0	
NR	

3. From your calculation in Question 1 on page 20,

- a) Complete the blank spaces in the table below to show the situation of Specialisation.

PRODUCTION POSSIBILITY SCHEDULE FOR COUNTRY A AND							
Countr	Production if producing				Current Production		
	X	OR	Y		X	AND	Y
	(000 kg)		(000 kg)		(000 kg)		(000 kg)
A		or			10	and	6
B		or			8	and	7
TOTAL		OR			18	AND	13

3 marks	
3	
2	
1	
0	
NR	

- b) Calculate the Gains from Trade. Show ALL necessary workings

2 marks	
2	
1	
0	
NR	

Gains from Trade = _____

Question 7**Foreign Exchange Market****(9 marks)**

Study the information below and answer the questions that follow.

FOREIGN EXCHANGE RATES – 16-April-15						
	Country	Currency	Abbr	Bank Buys		Bank Sells
				Inward TT's	Cheques & T/C	Notes
United States of America	Dollars	USD	0.5093	0.5218	0.5323	0.4873
Australia	Dollars	AUD	0.6574	0.6754	0.6964	0.6274
New Zealand	Dollars	NZD	0.6661	0.6951	0.7071	0.6311

1. Define the term Exchange Rate.

1 mark

1

0

NR

2. What is the **product** that is being traded under the Foreign Exchange Market?

1 mark

1

0

NR

3. A friend of yours gave you AUD \$520.00, how much Pa'anga would you have if using the exchange rate for April 2015. Show ALL necessary workings.

Pa'anga = \$ _____

2 marks

2

1

0

NR

4. Complete the passage below in relation to the effect of an **appreciation of exchange rate** on a **Balance of Trade Surplus**.

Effect of Appreciation of Exchange Rate on Balance of Trade Deficit

An appreciation of exchange rate will ____ **A** ____ the price of ____ **B** ____ in terms of ____ **C** ____ leading to a ____ **D** ____ in demand which will **E** ____ a Balance of Trade Surplus.

Choose from the list below and write the appropriate term that matches each letters in the passage.

Decrease	Increase	Worsen	Improve
Local	Exports	Imports	Foreign

Appropriate Term:

A. _____

B. _____

C. _____

D. _____

E. _____

5 marks	A	B	C	D	E
1					
0					
NR					

Question 8**Balance of Payment Account****(12 marks)**

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

Hypothetical Statistics for Moneyland (\$'000)	
Visible receipts	15,426
Net international investment income	(4,361)
Merchandise payments	68,259
Export of services	9,961
Balance of transfers	888
Net non-official capital flow	597
Invisible payments	10,623
Net official borrowings	8,965

- a) Calculate the followings showing ALL necessary workings.

- i) Balance of Trade

1 mark	
1	
0	
NR	

- ii) Balance of Invisibles

1 mark	
1	
0	
NR	

- iii) Balance on Current Account

1 mark	
1	
0	
NR	

- iv) Balance of Payment Account

2 marks	
2	
1	
0	
NR	

- b) Identify an item that will come under the following components of the Balance of Payment Account.

The first one has been done as an example.

Example	Export of services	Tourism receipts	2 marks	
			2	
i)	Balance of transfers		1	
			0	
ii)	Invisible payments		NR	

2. Identify the **effect** (increase/ decrease/ no effect) of the following on a **Balance of Trade Deficit**.

- a) A drop in remittances by 5% _____
- b) Discovery of a market for the Kava in Russia _____
- c) Increase in tariff for all imported vehicles _____

3 marks	
3	
2	
1	
0	
NR	

3. Identify TWO **current problems** facing Tonga in relation to its increasing balance of trade deficit.

- i) _____
- ii) _____

2 marks	
2	
1	
0	
NR	

Question 9**Free Trade and Protectionism****(3 marks)**

1. Identify ONE argument for and against **Free Trade**.

Argument For :

2 marks	
2	
1	
0	
NR	

Argument Against:

2. Identify ONE **argument for** Protectionism.

1 mark	
1	
0	
NR	

SECTION D: ECONOMIC FUNCTIONS OF GOVERNMENT**(44 MARKS)****PART I****MULTIPLE CHOICES****(5 MARKS)****CIRCLE** the **letter** of the BEST answer.**Question 1**

Which of the following is a non-economic function of the government?

- A. Stabilising inflation rate.
- B. Minimise unemployment of resources.
- C. Promote export diversification.
- D. Maintain healthy labour force.

1 mark	
1	
0	
NR	

Question 2

Which of the following is an expansionary fiscal policy?

- A. Reducing interest rate.
- B. Reducing custom duty.
- C. Reducing export subsidies.
- D. Reducing reserve asset ratio.

1 mark	
1	
0	
NR	

Question 3

Which ministry is responsible for the administration and monitoring of all financial aids?

- A. Ministry of Foreign Affairs
- B. Ministry of Finance and National Planning
- C. Ministry of Customs and Revenue
- D. Ministry of Public Enterprise

1 mark	
1	
0	
NR	

Question 4

Which of the following is true about the likely effect of reducing income tax rate?

- A. Increase the level of GDP and general price level.
- B. Reduce tax revenue and employment opportunities.
- C. Increase economic welfare and level of GDP.
- D. Reduce general price level and unemployment.

1 mark	
1	
0	
NR	

Question 5

With reference to the tax system here in Tonga, which of the following has a regressive effect?

- A. Company tax
- B. Individual income tax
- C. Consumption tax
- D. Withholding tax

1 mark	
1	
0	
NR	

PART II**SHORT ANSWERS****(39 MARKS)****Question 6****Taxation and Public Goods****(9 marks)**

1. Define the following economic terms in relation to Taxation.

a) Direct taxes

b) Proportional taxes

2 marks	
2	
1	
0	
NR	

2. Below is the basis for our Income Tax Rate as per the Tonga Income Tax Act 2007. Use it to answer the questions that follow.

Annual Income Level (TOP \$)	Tax Rate (%)
7,400 and below	0
7,401 – 30,000	10
30,001 and above	20

a) Identify ONE argument **for** and **against** the above **progressive tax** system.

Argument For: _____

Argument Against: _____

2 marks	
2	
1	
0	
NR	

- b) Calculate the tax to be paid to government if your **monthly earning** is \$1,200. Show ALL necessary workings.

3 marks	
3	
2	
1	
0	
NR	

Income tax to be paid to Government = \$ _____

3. Identify TWO features of a Public Good or Service.

- i) _____
- ii) _____

2 marks	
2	
1	
0	
NR	

Question 7**The Government Budget****(12 marks)**

1. Read the extract below carefully and answer the questions that follow.

TONGA'S BIGGEST BUDGET EVER, SO FAR

The 'Akilisi Pohiva-led Government is proposing a budget of \$496 Million for the 2015/2016 financial year. That includes a \$5 million boost for government salaries along with new charges to be imposed on foreign exchange and a large increase in airport tax by \$100, from \$65 to \$165 for the next five years to raise funds for the 2019 Pacific Games. The new budget announced by the Minister of Finance, Hon. Dr 'Aisake Eke in the Tongan Legislative Assembly on May 2 is \$12.3 million more than the \$483.7 million budget he had announced while he was Finance Minister in the Lord Tu'ivakano-led government in 2014.

Source: Nuku'alofa Times

- a) Identify ONE objective of the 2015/2016 Budget as indicated in the passage above.

1 mark	
1	
0	
NR	

- b) Explain clearly the likely **effect** (achieve or hinder) of increasing government salaries on the aim of Price Stability.

2 marks	
2	
1	
0	
NR	

- c) From the passage above, calculate the following showing ALL necessary workings.

- i) Percentage increase in the Budget from 2014/2015 to 2015/2016.

2 marks	
2	
1	
0	
NR	

% increase = _____

- ii) Percentage increase in airport tax

2 marks	
2	
1	
0	
NR	

% increase = _____

2. In the government budget, we have two major expenditures – **Re-current** and **Capital** Expenditures.

Give an **example** for each type of expenditures.

Re-current Expenditure _____

Capital Expenditure _____

2 marks	
2	
1	
0	
NR	

3. Identify the **effect** (increase/ decrease/ no effect) of the following on a **Budget Surplus**.

- a) Ministry of Police recruiting more to the police force.

- b) Ministry of Revenue owing \$100,000 to Ministry of Infrastructure for repair works.

- c) Decrease in number of business registration compared to last year.

3 marks	
3	
2	
1	
0	
NR	

Question 8 Government Policies and Economic Aims (18 marks)

1. Define the following economic terms.

a) Structural unemployment

b) Foreign aid

c) Monetary policy

3 marks	
3	
2	
1	
0	
NR	

2. Identify what the government is trying to achieve in each of the following economic aims.

a) Economic Growth

1 mark	
1	
0	
NR	

b) Economic Welfare

1 mark	
1	
0	
NR	

c) Fair distribution of income

1 mark	
1	
0	
NR	

d) Favourable Balance of Payment

1 mark	
1	
0	
NR	

e) Price Stability

1 mark	
1	
0	
NR	

3. Explain the likely **effect** (hinder or achieve) of **increasing foreign investments** on the following economic aims.

a) Price Stability

2 marks	
2	
1	
0	
NR	

b) Economic Growth

2 marks	
2	
1	
0	
NR	

4. Complete the table below.

Policies	Monetary or Fiscal Policy	Effect on Full Employment
Increasing budget for reconstruction of schools in Ha'apai		
Increase income tax rate		
Devaluation of local exchange rate		

3 marks	
3	
2	
1	
0	
NR	

3 marks	
3	
2	
1	
0	
NR	

SECTION E: ECONOMIC DEVELOPMENT (26 MARKS)

PART I MULTIPLE CHOICES (5 MARKS)

CIRCLE the **letter** of the BEST answer.

Question 1

Which of the following is NOT a feature of Economic Development?

- A. General improvement in standard of living
- B. Steady growth in level of GDP per capita
- C. Increasing number of locally funded projects
- D. Adoption of new method of production

1 mark	
1	
0	
NR	

Question 2

Which of the following economic outcome does NOT apply to our situation here in Tonga?

- A. Sparing resources for future uses as a percentage of GDP is high
- B. Creating more capital resources as a percentage of GDP is low
- C. A large proportion of exports are primary produce
- D. Most of the labour force works (paid jobs) in the tertiary sector

1 mark	
1	
0	
NR	

Question 3

For developing countries, it is common that most of the labour force are employed in the _____.

- A. Extracting industry
- B. Manufacturing industry
- C. Service industry
- D. Production industry

1 mark	
1	
0	
NR	

Question 4

Less developed countries (LDCs) do have higher standard of living than what their GDP per capita figures indicated. One reason for this could be due to high level of _____.

- A. Foreign aid and remittances covering for family obligations
- B. Non-commercial activities are unaccounted for
- C. Foreign investments that create more varieties of goods
- D. Political and social stability

1 mark	
1	
0	
NR	

Question 5

The type of development that meets the needs of the present without limiting the needs of future generations is called _____.

- A. Planned development.
- B. Sustainable development.
- C. Generic development.
- D. Secured development

1 mark	
1	
0	
NR	

PART II**SHORT ANSWERS****(21 MARKS)****Question 6****Promoting Economic Development****(10 marks)**

1. Like any other Pacific Island, challenge faced by Tonga is to find ways to lift economic development to a level that will bring benefits to its people. Listed below are some of the characteristics faced by the Tongan economy. Complete the table by recommending a possible solution.

Characteristics of Tongan Economy	Possible solution
Dependence on a narrow range of export markets	
Dependence on overseas countries for shipping of exports	

2 marks	
2	
1	
0	
NR	

2. **Foreign investment** is believed to be one of the solution for Developing Countries.

- a) With a local example, define **foreign investment**.

2 marks	
2	
1	
0	
NR	

- b) Identify TWO economic benefits that foreign investment would bring to Tonga.

- i)

- ii)

2 marks	
2	
1	
0	
NR	

- c) Identify TWO economic ways that will attract foreign investors to come and invest here in Tonga.

- i) _____
- ii) _____

2 marks	
2	
1	
0	
NR	

3. Identify a **local example of a Foreign Aid Agency** with aid development here in Tonga.

- a) Name of Foreign Aid Agency _____.

- b) What activity does this Foreign Aid Agency has funded here in Tonga?

2 marks	
2	
1	
0	
NR	

Question 7**Economic Development Indicators****(11 marks)**

1. Identify ONE reason why the following indicators are common in Less Developed Countries (LDCs)

- a) Ratio of capital resources to labour force is low.

Reason: _____

1 mark	
1	
0	
NR	

- b) Low life expectancy.

Reason: _____

1 mark	
1	
0	
NR	

- c) GDP per capita is low.

Reason: _____

1 mark	
1	
0	
NR	

2. Apart from *life expectancy*, identify TWO other **non-economic indicators** of economic development.

- i) _____
 ii) _____

2 marks	
2	
1	
0	
NR	

3. Study the hypothetical data below and answer the questions that follow.

Country X	Million
Total Production	\$900
National Capital	\$400
Foreign Aid	\$150
Population	2.5
Labour force	1.5

Calculate the following economic development indicators. State the formula used and show ALL necessary workings.

- a) **GDP per capita**
Formula:

2 marks	
2	
1	
0	
NR	

Answer = _____

- b) **Average value of man-made resources to labour force**
Formula:

2 marks	
2	
1	
0	
NR	

Answer: _____

- c) **Foreign aid as a percentage of GDP**
Formula:

2 marks	
2	
1	
0	
NR	

Answer: _____

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Student Personal Identification Number (SPIN)					

TONGA FORM SIX CERTIFICATE

ECONOMICS

2015

(FOR MARKER'S ONLY)

SECTIONS	MARK	CHECK MARKER	TOTAL
A			55
B			35
C			40
D			44
E			26
TOTAL MARKS			200