MARKER CODE				

Student Enrolment Number (SEN)									

TONGA FORM SIX CERTIFICATE

2017

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. Additional sheets of paper can be obtained from your supervisor if necessary. Write your **Student Enrolment Number (SEN)** on each addition sheet, number the questions clearly and insert them in the appropriate part of your booklet.

Sections/Topics	Total Weight
Section A: Resource Allocation VIA the Market System	19
Section B: Resource Allocation VIA Public Sector	13
Section C: Aggregate Economic Activity And Policy	38
TOTAL	**70**

3. Follow the instructions and answer all questions in the spaces provided in this booklet.
4. Check that this booklet contains pages 2-19 in the correct order and that pages 17-19 has 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 MARKET SYSTEM

Answer ALL questions in this section. As a guide, spend no more than 49 minutes on this question.

1. Define Economies of scale.

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Skill level 1	
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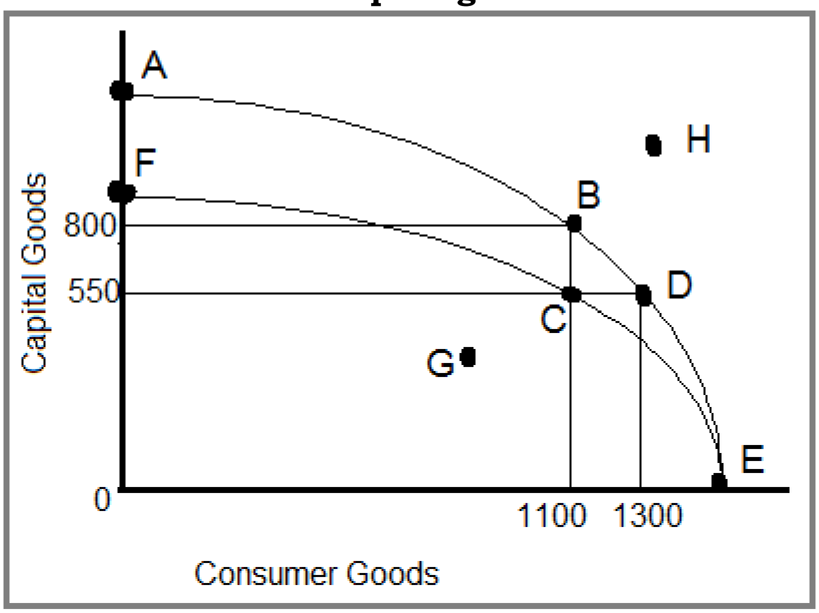
2. Use the production possibility curve graph below to answer the question that follow.

Figure 1: **Production Possibility Curve for Consumer and Capital goods.**



From **Figure 1** above, explain the significance of point **G**, **B** and **H** on the Production Possibility curve.

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Skill level 3	
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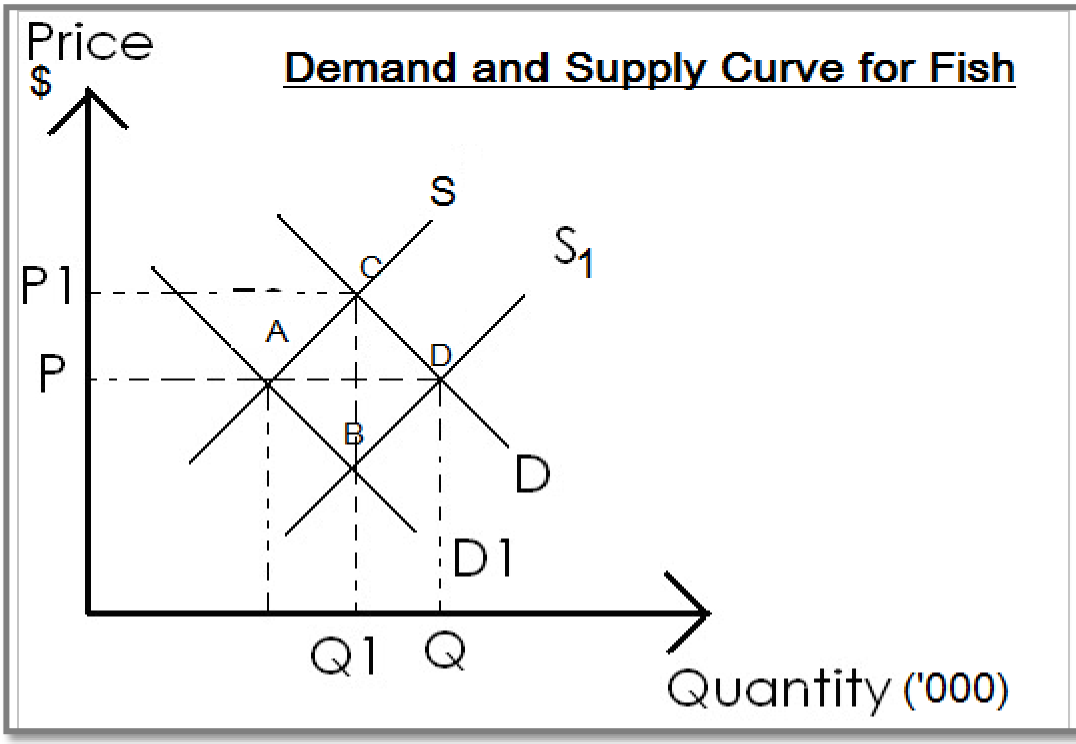
3. Use the Demand and Supply Curves below to answer the following questions:

Graph 1



a. Define the Law of Demand.

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Skill level 1	
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b. Describe the cause of a movement along the demand curve.

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Skill level 2	
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c. Describe what happens when there is a shift of the Demand curve to the left.

Skill level 2	
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4. a. Define “Supply”.

Skill level 1	
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b. Describe what happens when there is a shift of the Supply curve to the right.

Skill level 2	
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5. Use the individual Demands and Supply Schedule below to answer the following questions.

INDIVIDUAL DEMANDS AND SUPPLY SCHEDULE FOR ORANGE

	John		**Mary**		**Peter**	
Price ($)	*Quantity Supplied*	*Quantity Demanded*	*Quantity Supplied*	*Quantity Demanded*	*Quantity Supplied*	*Quantity Demanded*
10	8	0	8	1	8	2
8	6	3	6	2	6	1
6	4	4	4	4	4	4
4	2	5	2	6	2	5
2	1	8	1	8	1	8

a. Define Derived Demand.

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Skill level 1	
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b. On the space provided, derive the Market Demand and Supply graph for orange.

Skill level 3	
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c. Explain what happens in the Market for Orange, when the price is $4.00.

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Skill level 3	
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SECTION B: RESOURCE ALLOCATION VIA PUBLIC SECTOR

Answer ALL questions in this section. Be brief and to the point in your answer. As a guide, spend no more than 33 minutes in this section.

1. a. Define Market Failure.

Skill level 1	
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b. Give **TWO** (2) examples of Non-Economic Functions of Government.

Skill level 2	
2	
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c. State **ONE** (1) Economic Functions of Government.

Skill level 1	
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2. a. Define Public Goods.

Skill level 1	
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b. Give **TWO** (2) examples of Merit Services.

Skill level 2	
2	
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3. a. State **ONE** (1) Economic Aim of the Government.

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Skill level 1	
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b. Give **TWO** (2) examples of Public goods under transport sector.

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Skill level 2	
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c. Classify by using a tick, the type of Government Measure which is best used to address each Fiscal Economic issue on the right hand side of the table . Use only one measure for one Economic issue.

	Fiscal Economic Issues		
	Build a National park	To reduce consumer spending	Control inflation
Government Measures			
1. Increase Government spending			
2. Maintain 5% wages rate			
3. Increase Reserve Requirements			
4. Require all petrol to be lead free			
5. Impose 15% CT on overseas calls.			

Skill level 3	
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SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Answer ALL questions in this section. Be brief and to the point in your answer. As a guide, spend no more than 98 minutes in this section.

1. State **ONE** (1) major assumption of the circular flow model.

Skill level 1	
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2. Define Gross Domestic Product (GDP).

Skill level 1	
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3. The table below reflected the value of Investment and the GDP for the island of Nukumotu. Use it to answer the question which follows:

Financial Years	*Domestic Investment ($m)*	*Foreign Investment ($m)*	*GDP ($m)*
2014	10	60	150
2015	12	70	165
2016	20	75	200

Calculate Ratio of Investment to GDP for the THREE Fiscal years.

Skill level 3	
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4. Name **ONE** (1) International Agency which assists in the development of the Tonga economy.

Skill level 1	
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5. Nukumotu and Motulahi are two countries that are using the same resources of Porks and Yams in their productions:

Country	**Pork (kilograms)**	**Yam (kilograms)**
Nukumotu	1000	2000
Motulahi	1500	2100

Calculate the Comparative Advantage of Yams for both countries, and state which country should produce Yams.

Skill level 3	
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6. Use the information given to answer the questions below.

TDB Exchange Rates for the months of June and July, 2017:

June 2017	**: ToP\$1 = NZ\$1.45**
July 2017	**: ToP\$1 = NZ\$1.50**

a. Define Foreign Exchange Rates.

Skill level 1	
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b. Explain with an example **ONE** (1) effect of the Appreciation of the Tongan Pa'anga in terms of our imports from New Zealand.

Skill level 3	
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7. Define monetary policy.

Skill level 1	
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8. Explain **ONE** (1) significance of the Tonga Development Bank to the economy of Tonga.

Skill level 3	
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9. Define Demand Pull inflation.

Skill level 1	
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10. Use the table below, of the Government "Recurrent Budget (**$M**) for 2017/18", to answer the question asked.

Details	***Actual 2015/16***	***Budget 2017/18***	***Projection 2018/19***
Budget Revenue (Total Recurrent Receipt)	**267.6**	**345.2**	**351.1**
Total Domestic Receipts	234.5	310.7	316.7
Domestic Revenues	211.7	280.9	286.9
Transfers & Bond Receipts	19.8	18.7	19.1
Revolving Funds Receipts	3.0	11.1	10.7
Budget Support	33.1	34.4	34.4
Budget Expenditures (Total Recurrent Payments)	**245.2**	**344.5**	**345.1**
Operating Expenditure	219.8	307.0	295.4
Established/Unestablished staff	117.8	148.0	143.4
Purchase of Goods/Services	29.4	42.2	41.1
Other Operating Expenditures	72.5	116.8	110.9
Other Expenditure/Payments	25.4	37.5	49.7
Cash Deficit/Surplus	**22.4**	**0.6**	**6.1**

***Source*: MOFNP**

Critically analyze the current local government budget-2017/18.

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Skill level 4	
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11. Describe **ONE** (1) obstacle of the Tongan Economy's Growth and Development.

Skill level 2	
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12. Define Unemployment.

Skill level 1	
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13. State **ONE** (1) economic effect of immigration on unemployment.

Skill level 1	
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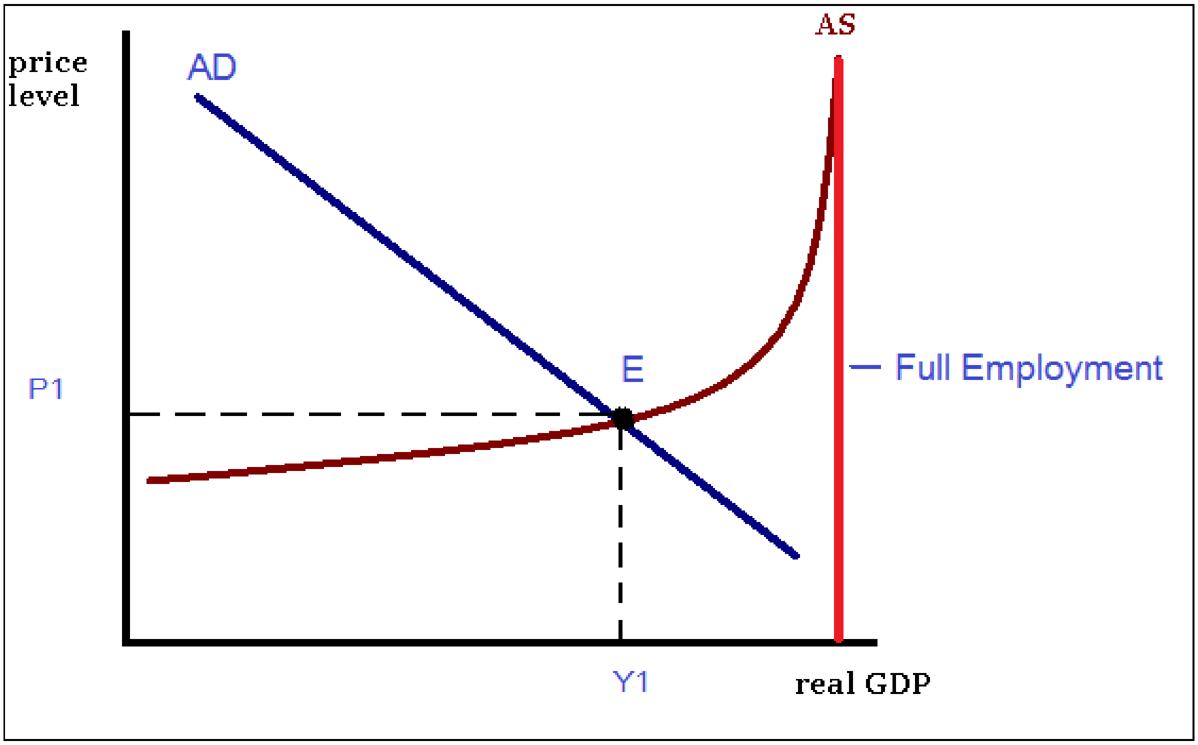
14. Use the graph below to analyse **TWO** (2) possible solutions for the Tongan economy, to work on in order to obtain Full employment.



Skill level 4	
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15. **TONGA BALANCE OF PAYMENT 2011/12 – 2015/16**

Million of Pa'anga	***2011/12***	***2012/13***	***2013/14***	***2014/15***	***2015/16***
Balance of Trade	-239.1	-248.6	-245.9	-291	-296.7
Balance of Services	-4.3	6.3	-3.1	-7.3	15.2
Current Account Balance	-55.4	-66.5	-39.9	-63.5	-1.1
Capital Account Balance	87.5	88.6	100.7	67.2	16.2
Balance of Payment	32.1	22.1	60.8	3.7	15.1

***Source*: NRBT**

From the table above, you can see the worsening trends of the Tonga Balance of Payments from 2011/12 to 2015/16. Evaluate any **TWO** (2) possible solutions for the challenges upon the Balance of Payment account of the Tongan economy.

Skill level 4	
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16. Evaluate any **TWO** (2) possible solutions for the Tonga economy to work on in order to attain equity for everyone in the country.

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