

MARKER CODE				



STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE

2018

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 Skill Level.

SECTIONS	TOPICS	TOTAL SKILL LEVEL
A	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	23
B	RESOURCE ALLOCATION VIA PUBLIC SECTOR	22
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	25
	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 **2-19** 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.

1. Pelei lives alone on a small island which has fertile soil for vegetables growing and good fishing. He has estimated his yearly production possibility schedule as follows.

Use the information to answer questions 1.a - d.

Product (baskets)	Combinations					
	A	B	C	D	E	F
Fish	50	48	40	30	18	0
Vegetables	0	5	10	15	20	25

- a. State an assumption that is relevant to Pelei's production possibility curve/frontier for Fish and Vegetables. (PPC)

Skill level 1	
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- b. Assume Pelei is currently producing at point **C**.

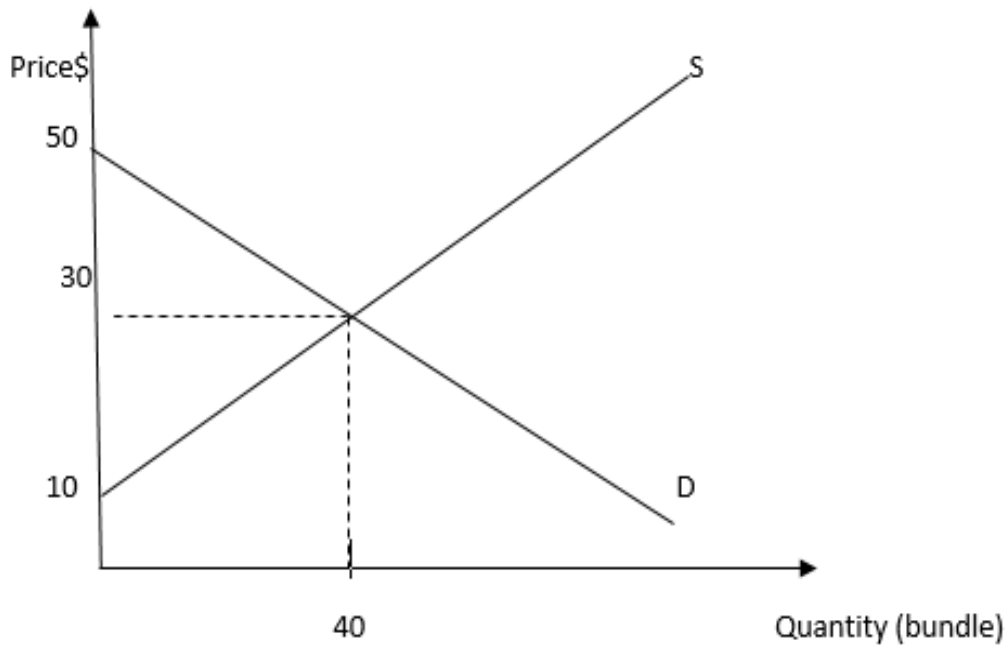
Explain the opportunity cost of moving to point **D** on his PPC.

Skill level 3	
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2. Assume that the weekly market demand and supply of yams at the Talamahu market in Tongatapu are given by the graphs below.

Use the information to answer questions a- f.

Graph 1: Demand and Supply of Yams.



- a. From **Graph 1**, define the law of supply.

Skill level 1	
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- b. State the cause of a movement along the demand curve for yams?

Skill level 1	
1	
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- c. State **ONE** (1) factor that can cause the demand curve for yams to move to the right.

Skill level 1	
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- d. Calculate the market revenue from the above graph.

Skill level 3	
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- e. Describe **ONE** (1) cause of a surplus situation in the supply of yams at the Talamahu market?

Skill level 2	
2	
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- f. On **Graph 1**, demonstrate how cyclone Gita could have affected the market for yams.

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

1. Study the abstract.

"Government wants to achieve economic growth because producing more goods and services can raise people's living standards. Economic growth can indeed transform people's lives and enable them to live longer because of better nutrition, housing and health care"

Source: <http://www.yourarticlelibrary.com/economics>

- a. Define Government?

Skill level 1	
1	
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NR	

- b. Explain a different Economic function of the Government apart from the one discussed in the article given.

Skill level 3	
3	
2	
1	
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- c. Describe **ONE** (1) example of how the Government of Tonga tries to promote health care in Tonga.

Skill level 2	
2	
1	
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- d. i. Define merit goods.

Skill level 1	
1	
0	
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- ii. Describe **ONE** (1) example from the article.

Skill level 2	
2	
1	
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- e. Define negative externalities of Consumption.

Skill level 1	
1	
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- f. Define market failure.

Skill level 1	
1	
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2. **Figure 1** below outlines one of the government issues in Tonga. Study it carefully then answer the questions that follow.

Figure 1



- a. Define Inflation.

Skill level 1	
1	
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- b. State **ONE** (1) effect of inflation on consumers.

Skill level 1	
1	
0	
NR	

- c. State the Economic aim of the government that is related to this issue of Inflation.

Skill level 1	
1	
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NR	

- d. Discuss any **ONE** (1) of the government policy that can be used by the government of Tonga to control Inflation.

Skill level 4	
4	
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- e. Discuss **ONE** (1) way of how the Government of Tonga can improve the growth of its economy.

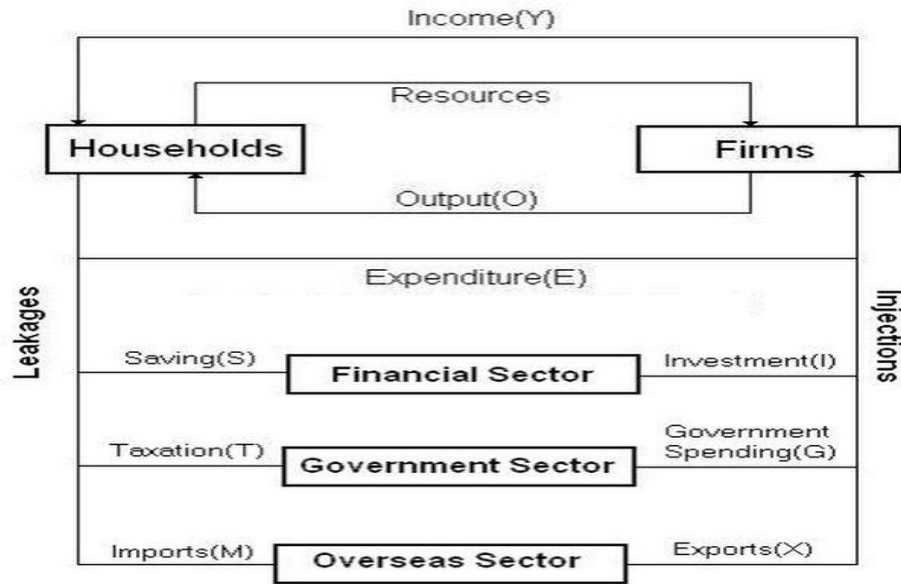
Skill level 4	
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SECTION C: AGGREGATE ECONOMIC ACTIVITY AND POLICY

1. **Figure 2** below is related to the Economy of Liutoaola.

Study it carefully and then answer the questions that follow.

Figure 2



- a. Define the model presented above.

Skill level 1	
1	
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- b. Describe the **ONE** (1) component of the Aggregate Demand from this model.

Skill level 2	
2	
1	
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2. The table below is a hypothetical information regarding the productions of two islands in the Pacific Region.

Use it to answer the questions that follow. *(The production combinations are the output per worker for each product in a year.)*

Products		
	Vaihi Island	Vahiti Island
Taro (kg)	600	300
Kumala (kg)	500	600

- a. Define International Trade.

Skill level 1	
1	
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- b. Define Comparative advantage.

Skill level 1	
1	
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- c. If both Islands agree to trade based on comparative advantage. Calculate the gains or losses from trade. *(Assume each island has 600 workers in each industry)*

Skill level 3	
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- d. Tariffs and Licensing Requirements are two types of trade restrictions which are used by the Vahiti Government on the Import of Cheese.

Describe **ONE** (1) type of trade restrictions.

[illegible]

Skill level 2	
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- e. Explain how the local cheese firms and the government of Vahiti may benefit from imposing the two types of trade restrictions in part c. above.

[illegible]

Skill level 3	
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3. Study **Figure 3**, then answer the questions that follow.

Figure 3



Source: <http://dulcinea.co.nz/nukualofa/>

- a. Describe the function of money that is demonstrated by **Figure 3**.

Skill level 2	
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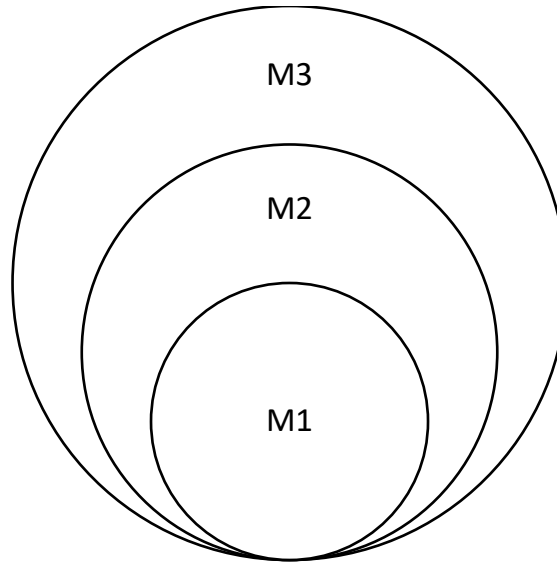
- b. Explain the significance of money to both the consumers and the producers of vegetables in the market.

	Skill level 3	
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4. **Figure 4** below outlines the relationship between the different categories of the money supply.

Study it carefully then answer the questions that follow.

Figure 4



- a. Describe the M1 Components of the money supply.

Skill level 2	
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- b. State **ONE (1)** factor that can affect the money supply.

Skill level 1	
1	
0	
NR	

5. Table below is an extract from the BSP Bank exchange rates as of July 19, 2018.

Use the information given, to answer following questions.

Notes to Buy	Country	Code	Notes Sell
0.6309	Australian Dollar	AUD	0.5649
0.6249	Canadian Dollar	CAD	0.5413
0.4188	European Euro	EUR	0.3366

Source: <http://www.bsp.to/International/Foreign-Exchange/Exchange-Rates.aspx>

- a. Define strong International Currencies.

Skill level 1	
1	
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NR	

- b. An Australian visitor wants to exchange his AUD \$400 to Tongan Pa'anga.

Calculate the amount of Tongan Pa'anga he would get.

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