MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX 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	26
B	RESOURCE ALLOCATION VIA PUBLIC SECTOR	5
C	AGGREGATE ECONOMIC ACTIVITY AND POLICY	39
	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 have been deliberately left blank.

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

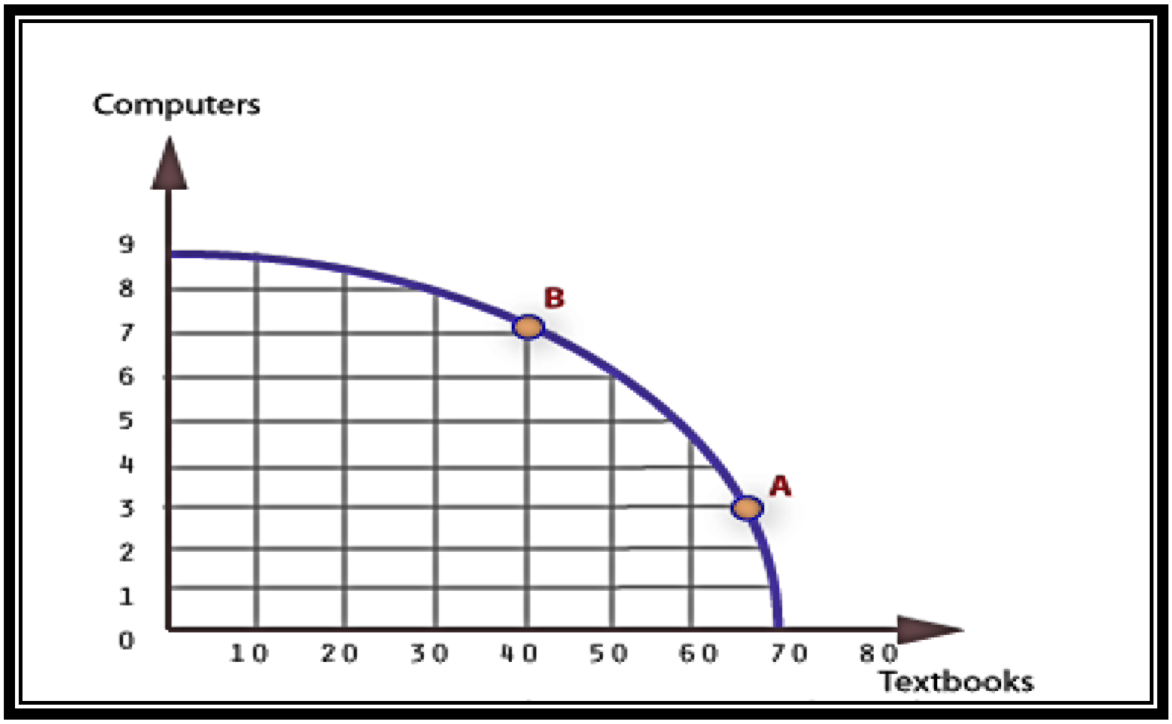
SECTION A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

QUESTION 1: BASIC ECONOMIC CONCEPTS

The PPC below relates to how a firm in Tongatapu, splits its resources between making textbooks and computers only.

Study the PPC, then answer the following questions.

PPC for Textbooks and Computers



a. Define Scarcity.

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Skill level 1	
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NR	

b. Define Choices.

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Skill level 1	
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c. Describe all the possible choices this firm has.

Skill level 2	
2	
1	
0	
NR	

d. Explain how the concepts of scarcity, opportunity cost, efficient, inefficient and unattainable are being used in this PPC.

Skill level 3	
3	
2	
1	
0	
NR	

QUESTION 2: DEMAND, SUPPLY and THE MARKET

The hypothetical information below relates to the quantity of watermelons demanded and supplied per month by individuals at each price level, in the economy of Palataisi. Study the information carefully then answer parts a- d. All figures are in 00's.

Price $/water melon	Quantity Demanded by Liulupe (00's)	Quantity Demanded by Nena (00's)	Quantity Demanded by Samuela (00's)	Market Demand (00's)	Quantity Supplied by Owen (00's)	Quantity Supplied by Losa (00's)	Quantity Supplied by Sau (00's)	Market Supply (00's)
2	25	13	30		15	18	14	
5	22	11	28		17	19	15	
8	18	10	26		18	20	17	
10	15	9.5	25.5		20	22	18	
12	13	8	22		21	23	19	
15	10	7	20		23	24	20	
20	5	5.5	18.5		23.5	28	21	

a. Based on the information given, define Individual Demand for watermelons.

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Skill level 1	
1	
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b. With the support of **ONE** example from the table; explain **ONE** cause of a movement to the right along Liulupe's individual demand curve for watermelons.

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Skill level 3	
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c. Define the Market Supply for watermelons.

Skill level 1	
1	
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NR	

d. Draw the market demand and the market supply curves of watermelons for Palataisi economy.

Skill level 3	
3	
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1	
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NR	

e. With reference to the graph in (d) above, what is the equilibrium quantity?

Skill level 1	
1	
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f. State **ONE** cause of a shortage situation in the market for watermelons.

Skill level 1	
1	
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NR	

g. Explain how the stated cause of shortage in (f.) on page 5 would lead to a shortage situation in the market for water melon.

Skill level 3	
3	
2	
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h. Illustrate on the graph in (d) how the cause of shortage in part g. above leads to a shortage in the market for watermelons.

Skill level 2	
2	
1	
0	
NR	

i. Discuss the significance of market equilibrium in the market for watermelons.

Skill level 4	
4	
3	
2	
1	
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NR	

SECTION B: RESOURCE ALLOCATION VIA PUBLIC SECTOR

QUESTION 1: FUNCTIONS OF THE GOVERNMENT.

Study the abstract below, then answer the questions that follow.

> *One of the main issues in economics is the extent to which the government should intervene in the economy. Free market economists argue that* ***government intervention*** *should be strictly limited as government intervention tends to cause an inefficient allocation of resources. However, others argue there is a strong case for government intervention in different fields.*
>
> *Source: https://www.economicshelp.org/blog/5735/economics/should-the-government-intervene-in-the-economy/*

a. Define **market failure**.

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Skill level 1	
1	
0	
NR	

b. Define **government intervention**.

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Skill level 1	
1	
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c. Explain **ONE** way of how the Government intervenes in the operation of the market to overcome market failure.

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Skill level 3	
3	
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SECTION C: AGGREGATE ECONOMIC ACTIVITY and POLICY

QUESTION 1: AGGREGATE ECONOMIC ACTIVITY and POLICY

The table below is a hypothetical information regarding the four different Indexes from the Statistics Department of the economy of Mannono Island. Study the information carefully, then answer the following questions.

Year	Consumer Price Index	Producer Price Index	Export Price Index	Import Price Index
2017	102	100	100	105
2018	105	102	103	106
2019	104	106	110	104

a. Define **Productivity**.

Skill level 1	
1	
0	
NR	

b. Define **Terms of Trade**.

Skill level 1	
1	
0	
NR	

c. Calculate the terms of Trade for 2019.

Skill level 2	
2	
1	
0	
NR	

d. Explain the significance of the Terms of Trade calculated in (c.) on page 8 to the economy of Mannono Island.

Skill level 3	
3	
2	
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NR	

*You are also given this additional information regarding the productions of mobile phones and beef in Manono & Manini Islands, given that they have the same amount of labour and capital resources. Study it carefully to answer **(e.)**.*

	Mobile Phones (unit)	**Beef** (box)
Manono Island	100	200
Manini Island	80	100

e. Discuss how comparative advantage leads to productivity hence a trade for both islands.

Skill level 4	
4	
3	
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Based on the information given, Manini Island has the comparative advantage in the production of Mobile Phones (because it has a lower opportunity cost of 1.25 box compared to 2 of Manono Island) while Manono Island has the comparative advantage in the production of beef. If each island specializes in the production of their goods that have a lower opportunity cost, then both islands would benefit more from trade.

f. State **ONE** advantage of free trade for both islands.

Skill level 1	
1	
0	
NR	

g. Explain **ONE** disadvantage of free trade for both islands.

Skill level 3	
3	
2	
1	
0	
NR	

h. State **ONE** type of Trade Restriction.

Skill level 1	
1	
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i. Describe **ONE** effect of implementing the type of trade restrictions stated in (h.) on page 10.

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Skill level 2	
2	
1	
0	
NR	

QUESTION 2: MONETARY and FISCAL POLICY

Study the picture below then answer the following questions.

Source: https://www.google.com/search?q=national+reserve+bank+of+tonga

a. Define Bank.

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Skill level 1	
1	
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NR	

b. State **ONE** other type of banks that are not shown in the picture.

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Skill level 1	
1	
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c. Describe **ONE primary function** of the type of bank stated in (b.) above.

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Skill level 2	
2	
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d. Explain **ONE** significance of the National Reserve Bank of Tonga.

Skill level 3	
3	
2	
1	
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NR	

QUESTION 3: ECONOMIC ISSUES

Read the article below then answer the questions that follow.

First Tongan repatriation flight takes off from New Zealand.

The first repatriation flight since the Covid-19 lockdown has departed for Tonga, carrying 150 passengers……

Health CEO Dr. Siale 'Akau'ola said passengers include doctors, nurse, police, soldiers, public servants including one Government CEO who all remain on the government pay roll.

They were being given priority because they were needed in Tonga to support the repatriation work

The Government announced that eventually all those needing repatriation to Tonga would be returned, "but the families must be patient, as they are doing their best to make sure that repatriation is safe" and will protect Tonga.

As yet, Tonga is one of the few countries in the Pacific that is Covid 19 free.

It is estimated there are 7000 Tongans overseas that need repatriation. New Zealand alone has about 1000. Other countries where Tongans are at and need repatriation include Australia, USA, Fiji, China, Japan and Britain.

https://www.rnz.co.nz/international/pacific-news/420576/tonga-to-start-repatriation-of-stranded-residents

a. Define Equality.

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Skill level 1	
1	
0	
NR	

b. Based on the above information, describe **ONE** shortfall of the Tongan economy in its attempt to attain **equality** for the Tongan citizens stranded overseas.

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Skill level 2	
2	
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NR	

c. Explore how the Tongan economy can attain equality for its stranded citizens overseas due to Covid- 19.

Skill level 3	
3	
2	
1	
0	
NR	

d. Define Equity.

Skill level 1	
1	
0	
NR	

e. Explore **ONE** way from the article, on how the Tonga government tries to attain equity for the Tonga citizens who are stranded overseas due to Covid-19.

Skill level 3	
3	
2	
1	
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NR	

f. With regards to this issue of Equity; discuss two other ways of how the Tongan economy can achieve equity for all Tongan overseas and within Tonga. (do not repeat the solutions in (e.) on page 15)

Skill level 4	
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