MARKER CODE				

STUDENT ENROLMENT NUMBER (SEN)									

TONGA FORM SIX CERTIFICATE

2023

ECONOMICS

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours + 10 minutes reading

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.

SECTION	STRANDS	TOTAL SKILL LEVEL
ONE	RESOURCE ALLOCATION VIA THE MARKET SYSTEM	22
TWO	RESOURCE ALLOCATION VIA THE PUBLIC SECTOR	11
THREE	AGGREGATE ECONOMIC ACTIVITY AND POLICY	37
	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 space 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 contain pages 2-15 in the correct order and that none of the pages is blank.

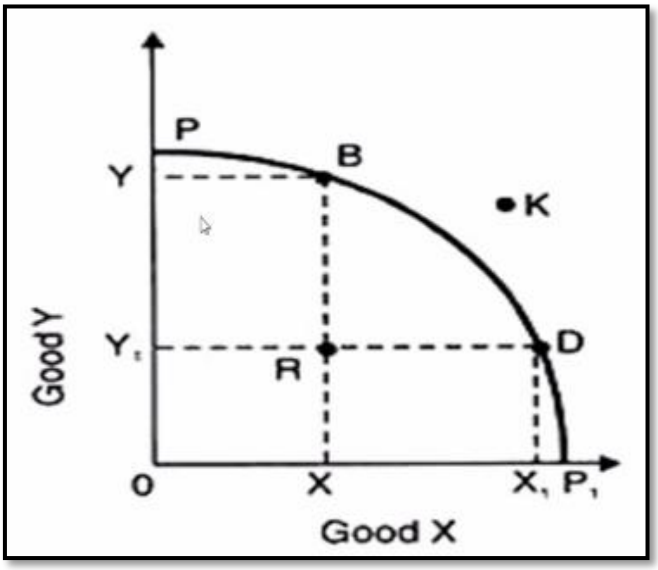
YOU MUST HAND IN THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.

SECTION ONE: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

Question 1: Basic Economic Concepts

Figure 1, provides the hypothetical data for the island of Manini. Study the diagram carefully, then answer **a.** to **d.**

Figure 1: Scarcity on PPC



a. State **ONE (1)** limitation of this PPC.

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Skill level 1	
1	
0	
NR	

b. With reference to the PPC, define 'Opportunity cost'.

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Skill level 1	
1	
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c. Describe the concept of scarcity that is revealed by the movement along the PPC from point **B** to **D**.

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Skill level 2	
2	
1	
0	
NR	

d. Deduce the basic economic concepts that arise from the production combinations being labeled on the PPC.

Skill level 3	
3	
2	
1	
0	
NR	

Question 2: **Demand, Supply & Market**

Study the two graphs below, then answer **a.** to **h.**

Figure 2: Market for Fish

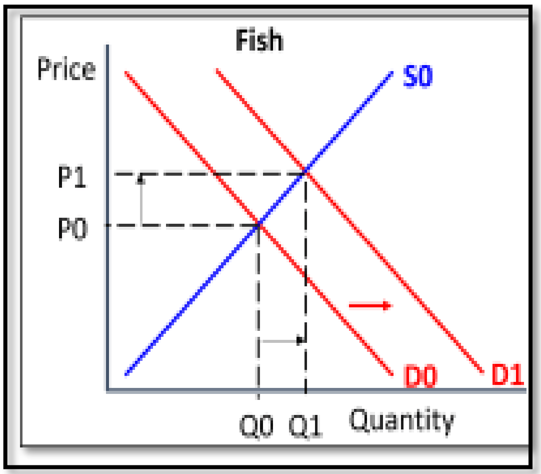
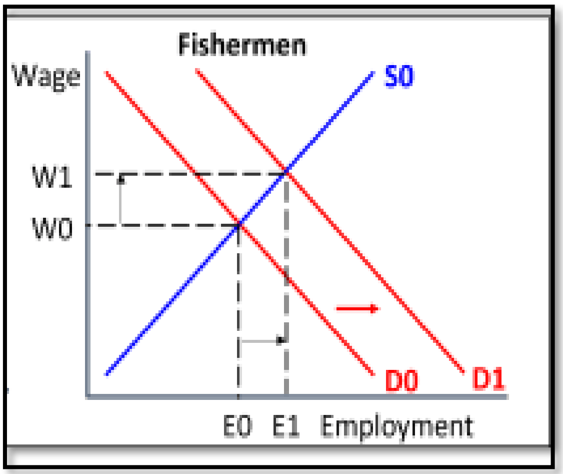


Figure 3: Market for Fishermen



a. State **ONE (1)** factor that could shift the demand curve for **Figure 2** from D0 to D1.

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Skill level 1	
1	
0	
NR	

b. Explain how the stated factor in **a.** above, causes the Demand curves for **Figure 2** to shift from D0 to D1.

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Skill level 3	
3	
2	
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0	
NR	

c. State the cause of the movement along the Supply curve for **Figure 3**.

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Skill level 1	
1	
0	
NR	

d. Graphically illustrate the movement along the supply curves ***(from point A to point B)*** as a result of the changes in Demand curves, for both markets.

Skill level 3	
3	
2	
1	
0	
NR	

Skill level 1	
1	
0	
NR	

e. Define 'Factor Market'.

Skill level 1	
1	
0	
NR	

f. Define 'Derived Demand'.

g. Based on the two figures given **(Figure 2 and Figure 3)** on page 4, list **ONE (1)** example of the good market and one example of the factor market.

Skill level 2	
2	
1	
0	
NR	

h. With specific examples from **Figure 2** and **Figure 3**, differentiate between derived demand and final demand.

Skill level 3	
3	
2	
1	
0	
NR	

SECTION TWO: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

Question 1: The Government.

Negative externalities are one of the main causes of market failure, meaning that the market is not operating at its optimal level and that there is a loss of social welfare.

Source: ***https://www.mytutor.co.uk/answers/24028/GCSE/Economics/What-are-negative-externalities-and-what-policies-can-the government-implement-to-reduce-them/***

a. Define 'Negative externalities of consumption'.

Skill level 1	
1	
0	
NR	

b. Define positive externalities of production.

Skill level 1	
1	
0	
NR	

c. Describe a fiscal policy measure for negative externalities of consumption.

Skill level 2	
2	
1	
0	
NR	

d. Explain **ONE (1)** side effect of the government measure stated in **c.**, in addressing the economic issue of market failure as a result of the negative externalities of consumption.

Skill level 3	
3	
2	
1	
0	
NR	

e. Discuss how efficient this Government Measure, given in **d.** is, in addressing the Economic issue of the negative externalities of consuming tobacco in Tonga.

Skill level 4	
4	
3	
2	
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NR	

SECTION THREE: AGGREGATE ECONOMIC ACTIVITY AND POLICY

Question 1:

a. State **ONE (1)** assumption of a Basic Circular Flow Model.

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Skill level 1	
1	
0	
NR	

b. Construct a 5-sector circular flow model, showing the flows of income between these sectors, clearly indicating all the injections and leakages into the economy.

Skill level 3	
3	
2	
1	
0	
NR	

Question 2:

Suppose an Australian consumer wants to purchase goods from a Tongan company here in Nuku‘alofa. The Tongan company only accepts TOP as payment. Somehow the Australian consumer needs your help with the exact amount he needs to purchase his goods.

Figure 4

Bank of the South Pacific Exchange Rates for September & October, 2023.

Sep-23				***Oct-23***			
BSP Buys	***Currency***			***BSP Buys***	***Currency***		
Notes Buy	***Country***	***Code***	***Notes Sell***	***Notes Buy***	***Country***	***Code***	***Notes Sell***
0.6854	*Australian Dollar*	*AUD*	*0.6194*	*0.6891*	*Australian Dollar*	*AUD*	*0.6231*
0.6113	*Canadian Dollar*	*CAD*	*0.5277*	*0.6124*	*Canadian Dollar*	*CAD*	*0.5288*
0.4304	*Euro*	*EUR*	*0.3482*	*0.436*	*Euro*	*EUR*	*0.3538*
0.9848	*Fiji Dollar*	*FJD*	*0.8926*	*0.993*	*Fiji Dollar*	*FJD*	*0.9008*

Source: ***https://www.bsp.to/international/exchange-rates/?date=2023-09-08***

a. Define ‘Flexible Exchange Rates System’.

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Skill level 1	
1	
0	
NR	

b. Suppose the cost of the goods is TOP $345,668. 00. Calculate the AUD that the consumer needs to give to the BSP. *(Assuming he arrived in September 2023).*

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Skill level 2	
2	
1	
0	
NR	

c. Explain **ONE (1)** cause of the changes in the value of the Tongan pa‘anga for the months of September and October.

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Skill level 3	
3	
2	
1	
0	
NR	

d. In the month of October 2023, the Australian consumer wishes to purchase the same goods he bought in September, as long as the exchange rates remain the same. With reference to the exchange rates for the month of October, evaluate **ONE (1)** impact of the changing exchange rates of local currency on the Balance of Payment account for Tonga.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question 3:

a. Define 'Money Supply'.

Skill level 1	
1	
0	
NR	

b. State **THREE (3)** measures of money supply.

Skill level 1	
1	
0	
NR	

c. State **ONE (1)** factor that affects the Money Supply.

Skill level 1	
1	
0	
NR	

d. Explain how a given factor affects the Money Supply of a country.

Skill level 3	
3	
2	
1	
0	
NR	

Question 4:

Study the information given below and then answer the questions that follow.

Figure 5

Tonga's inflation rate for 2023 is 14.1%, a 3.04% increase from 2022.
Tonga's inflation rate for 2022 was 10.97%, a 5.33% increase from 2021.
Tonga's inflation rate for 2021 was 5.64%, a 5.99% increase from 2020.

Source: ***http://www.reservebank.to/index.php/economic/mr.html***

a. Identify a Fiscal Policy to stabilize the price.

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Skill level 1	
1	
0	
NR	

b. Describe **ONE (1)** challenge faced by the Tongan economy in stabilizing the price.

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Skill level 2	
2	
1	
0	
NR	

c. Explain the significance of the Reserve Bank in reducing high inflation in Tonga.

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Skill level 3	
3	
2	
1	
0	
NR	

d. Discuss **ONE (1)** policy that could control inflation in the Tongan economy.

Skill level 4	
4	
3	
2	
1	
0	
NR	

Question 5:

The table below shows the hypothetical data for the secondary sector economy.
Study the information carefully, then answer the questions that follow.

Figure 6

Total adult population over the age of 16	253.5 million
In the labor force	159.1 million (62.8%)
Employed	151.4 million
Unemployed	7.7 million
Out of the labor force	94.4 million (37.2%)

a. Define the 'Labour Force'.

Skill level 1	
1	
0	
NR	

b. Define the 'Secondary Sector'.

Skill level 1	
1	
0	
NR	

c. Calculate the proportion of the labor force in the Secondary Sector.

Skill level 2	
2	
1	
0	
NR	

d. Explain **ONE** (1) impact of immigration on unemployment in this economy.

Skill level 3	
3	
2	
1	
0	
NR	