TONGA FORM SIX CERTIFICATE

2014

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.

<table>
<thead>
<tr>
<th>SECTION</th>
<th>CONCEPTS/THINGS</th>
<th>MARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>BASIC ECONOMIC CONCEPTS</td>
<td>55</td>
</tr>
<tr>
<td>B</td>
<td>MONEY</td>
<td>35</td>
</tr>
<tr>
<td>C</td>
<td>INTERNATIONAL TRADE AND PAYMENTS</td>
<td>40</td>
</tr>
<tr>
<td>D</td>
<td>ECONOMIC FUNCTIONS OF GOVERNMENT</td>
<td>44</td>
</tr>
<tr>
<td>E</td>
<td>ECONOMIC DEVELOPMENT</td>
<td>26</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>

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 – 35 in the correct order and that page 34 is 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
An outward shift of the entire Production Possibility Frontier indicates ____________.
A. full employment of resources
B. increasing specialisation
C. better economic growth
D. increasing return to scale

Question 2
Which of the following is associated with the shift of the demand curve to the right?
A. Increase in demand leading to an increase in quantity supplied.
B. Increase in quantity supplied leading to an increase in demand.
C. Increase in supply leading to an increase in quantity demanded.
D. Increase in quantity demanded leading to an increase in supply.

Question 3
Under perfect competition, no individual firm has the ability to control market price. That is because _____________________________________________________________.
A. there are many sellers of differentiated products to many buyers
B. there are no barriers for sellers to enter the market
C. they are selling similar or homogeneous products to many retailers
D. there are many small sellers of similar products to many buyers

Question 4
Which of the following factors is assumed to be constant when drawing a supply curve?
A. Price of labour
B. Price of a compliment
C. Taste and preference
D. Consumers’ level of income

Question 5
Which of the following is associated with the government setting a price ceiling?
A. Quantity supplied exceeds quantity demanded.
B. Increase sales under black market.
C. Demand exceeds supply.
D. Producers will maximize profit.
PART II        SHORT ANSWERS   (50 MARKS)

Question 6 : Basic Economic Concepts (10 marks)

1. Complete the table below with examples from the Fishing Industry.

<table>
<thead>
<tr>
<th>Resources</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial</td>
<td></td>
</tr>
<tr>
<td>Man-made resources</td>
<td></td>
</tr>
<tr>
<td>Renewable resources</td>
<td></td>
</tr>
</tbody>
</table>

(3 marks)

2. Define the following economic terms.
   a) Productivity of labour

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

   b) Diminishing return to scale

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

   c) Diseconomies of scale

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

   (3 marks)

3. Explain clearly the relationship between the following economic terms.
   a) Scarcity and Specialisation

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

   b) Economies of scale and Production

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

   (4 marks)
1. Apart from the Production Possibility Frontier, what is another economic term for the Production Possibility Curve?  

______________________________________________________________________________  

(1 mark)

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

![Production Possibility Curve for Country X](image)

a) Explain clearly what the Production Possibility Curve shows.  

______________________________________________________________________________  

______________________________________________________________________________  

______________________________________________________________________________  

______________________________________________________________________________  

(1 mark)

b) On the PPC above, plot in the following points

   i) A combination of production Country X can produce while some resources will be wasted or remain idle – label it W.

   ii) A combination of production Country X can produce only if there is an improvement in level of technology – label it Y.

   iii) A combination of production that represent specialisation – label it S  

(3 marks)
c) If Country X is operating as a Planned Economy, which combination (A or B) is it most likely to be producing at? Give a reason for your answer.

A or B ______________________
Reason:
____________________________________________________________________________
____________________________________________________________________________

(2 marks)

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

____________________________________________________________________________
____________________________________________________________________________

(1 mark)

e) Suppose Country X is currently producing at point A. If decision makers decide to give up 40,000 of consumer goods, how many extra tonnes of investment goods can be produced? (1 mark)

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(1 mark)

f) Calculate the opportunity cost of producing one tonne of investment goods in Country X. Show ALL necessary workings.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(2 marks)

g) Give ONE factor that will increase the production of consumer goods while keeping production of investment goods at its current level.

____________________________________________________________________________
____________________________________________________________________________

(1 mark)
Question 8: Market Structures

1. Use the scale of “Perfect to Imperfect Competition” below to answer the question that follows.

![Perfect Competition to Imperfect Competition Scale](image)

Identify the appropriate type of market from the list below that is associated with each of the number in the scale above. Write the number of your choice beside each type of market.

Note: This question applies ONLY to the Tongan economy.

a) Market for Electricity
   ______________

b) Market for Vegetables
   ______________

c) Market for Petrol
   ______________

d) Market for Restaurants
   ______________

(4 marks)

2. Name the type of Market Structure that is associated with each of the following features.

a) Product sold is differentiated due to services provided before, during and after sales
   _____________________________________________________________________

b) There is only one buyer and many sellers.
   _____________________________________________________________________

c) The demand and supply forces determine the market price.
   _____________________________________________________________________

d) Product sold is differentiated with strong barrier to entry.
   _____________________________________________________________________

(4 marks)
Question 9: The Market Forces - Demand and Supply (13 marks)

1. Read the passage below carefully with attention to details and answer the questions that follow.

   Market for “One-Way Trip to ‘Eua” on MV ‘Onemato
   (A hypothetical data)
   The following information is a result of a survey done on how people respond to different prices of a one-way trip to ‘Eua on MV ‘Onemato.
   - The MV ‘Onemato can take a maximum of 600 passengers where the cost is at $16 per pessanger
   - At $10 – 1,000 people are willing and able to buy a ticket
   - At $15 – 800 people are willing and able to buy a ticket
   - At $20 – 600 people are willing and able to buy a ticket
   - At $25 – 400 people are willing and able to buy a ticket
   - At $30 – 200 people are willing and able to buy a ticket
   - At $35 – 100 people are willing and able to buy a ticket

   a) From the information above, identify the following:

      i) The equilibrium quantity __________________________
      ii) The price where the market clears __________________________
      iii) A price where there will be 200 tickets unsold __________________________

   (3 marks)

   b) Calculate the profit or loss that will be made at Equilibrium. Show ALL necessary workings.

   Profit or Loss (Circle your choice) Amount $________________________

   (2 marks)
c) Using only the information given on page 7, draw the Supply Curve for a One-Way Trip to ‘Eua on the grid below.

Supply Curve for a One-Way Trip to Eua

$per\, passenger

Number of Tickets

(2 marks)

d) Explain clearly the shape of the supply curve you have drawn in c) above and what does it signifies.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(2 marks)

e) Explain clearly the effect of the following events on the Demand for or Supply of “One-Way Trip” to Eua.

i) 5% COLA has been paid to civil servants

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

ii) MV Onemato extended its cargo area to areas used for passengers before to meet the demand for lamp posts shipment from Eua to Tongatapu.

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(4 marks)
Question 10: National Income and Production (7 marks)

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

   ![Circular Flow Model Diagram]

   a) Identify the flow that is associated with the following by writing the letter of that flow in the spaces provided.
   i) Derived demand _____________________
   ii) Final demand _____________________
   iii) Gross National Income _____________________ (3 marks)

   b) “Consumers cannot live without producers and vice-versa”.
   Using appropriate **economic concepts**, explain the meaning of this statement.
   ______________________________________________________________________________
   ______________________________________________________________________________
   ______________________________________________________________________________
   ______________________________________________________________________________
   (2 marks)

   c) State the equation for Aggregate Demand (AD).

   AD = ________________________________________________________________________
   (1 mark)

   d) One limitation of using GDP as a measure of economic growth is that it does not include ALL goods and services produced in the economy.
   Identify ONE (1) example of those goods or services.

   ______________________________________________________________________________
   (1 mark)
SECTION B       MONEY       (35 MARKS)

PART I : MULTIPLE CHOICES           (5 MARKS)

Circle the letter of the BEST answer.

Question 1
Which of the following is NOT a function of money?
A. Enable selling and buying goods and services
B. Allow businesses to borrow from banks
C. Precaution against sudden future expenses
D. Maintaining its value over time

Question 2
M3 involves which of the following?
A. Demand deposits
B. Term deposits
C. Saving deposits
D. Cheque deposits

Question 3
Velocity of circulation refers to the number of _________________________________.
A. times at which quantity of money increases in a year
B. times goods and services changes hands from sellers to buyers
C. dollars used to finance foreign exchange transactions in a year
D. dollars’ worth of transactions financed by one dollar in a year

Question 4
An open market bond sale by the National Reserve Bank tend to _________________.
A. increase the assets of the Banking System
B. reduce the level of money supply
C. increase the liabilities of the Banking System
D. reduce the level of interest rate

Question 5
Which of the following is NOT a function of the National Reserve Bank of Tonga?
A. Printing of new legal tender.
B. Banker of the government of Tonga.
C. Lending money to large businesses.
D. Control level of money supply.
Question 6: Money Supply

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>$0.2 million</td>
</tr>
<tr>
<td>Price level</td>
<td>$8</td>
</tr>
<tr>
<td>Gross Domestic Product</td>
<td>$4 million</td>
</tr>
<tr>
<td>Velocity of Circulation</td>
<td>5</td>
</tr>
<tr>
<td>Required Reserve</td>
<td>8%</td>
</tr>
</tbody>
</table>

a) Calculate the following. Show ALL necessary workings.

i) Quantity of money in circulation

ii) Number of transactions

iii) Value of reserve

b) Explain clearly the effect of the following on general price level.

i) Reduction in quantity of money in circulation

(2 marks)
ii) Reduction of Required Reserve.

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

(2 marks)

2. Explain clearly the effect of the following on the quantity of money in circulation.

a) Government borrowing from the public

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

(2 marks)

b) Government borrowing from the World Bank

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

______________________________________________________________________

(2 marks)

3. How does the government borrow from the public?

______________________________________________________________________

______________________________________________________________________

(1 mark)
Question 7 : Inflation

1. Suppose the CPI figure for September 2014 was at 1029 and general price level have increased by 0.15% from September 2014 to end of October 2014.

a) Calculate the CPI figure for October 2014. Correct your answer into two decimal places. Show ALL necessary workings.

CPI for October 2014 ____________________ (2 marks)

b) Constructing of CPI figures involves identifying the average cost of different “baskets of goods”.

Identify ONE (1) of those baskets of goods.
____________________________________________________________________________ (1 mark)

c) “Increasing CPI figures means increasing inflation rate”.

Do you agree or disagree? __________________________

Why? ______________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)

2. Explain clearly how the following events would affect general price level of goods and services.

a) 5% COLA paid out to all civil servants at the beginning of the year

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)
b) Government budget deficit
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)

c) The million dollar aid from World Bank for Ha’apai reconstruction
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)

3. Explain how the following group of people would be affected (better-off or worse-off) during an inflationary period.

a) Savers
Better-off or Worse-off: __________________________
Explanation _______________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)

b) Importers
Better-off or Worse-off: __________________________
Explanation _______________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
(2 marks)
SECTION C: INTERNATIONAL TRADE & PAYMENTS (40 MARKS)

PART I MULTIPLE CHOICES (5 Marks)

Circle the letter of the BEST answer.

Question 1
The terms of trade of a country will be favourable when the amount of exports needed to ____________________________________.
A. buy an unit of imports goes down
B. buy an unit of imports goes up
C. pay for our imports goes down
D. pay for our imports goes up

Question 2
Which of the following items would NOT be included in calculating the current account of the Balance of Payment account?
A. The foreign exchange earnings of Tonga Airport Limited
B. Interest payments on money borrowed from abroad by local businesses
C. Revenue from the sale of a piece of land to a foreign investor
D. Revenue from the sale of sea cucumber to a foreign company

Question 3
Which of the following is most likely to lead to an improvement in our balance of invisible trade?
A. Foreign aid programme to neighbouring countries increase
B. Increase in number of visitors from Asian countries
C. Reduction in import of Toyota vehicles from Japan
D. A reduction in income tax rate to stipulate investments

Question 4
Under a system of flexible exchange rate, an increase in consumer level of income will most likely leads to a ________________________________
A. rise in demand for imports causing a depreciation of the Pa’anga
B. rise in demand for imports causing an appreciation of the Pa’anga
C. fall in demand for imports causing a depreciation of the Pa’anga
D. fall in demand for imports causing an appreciation of the Pa’anga

Question 5
If the Japanese Yen is appreciated relative to the Tongan Pa’anga, then ____________.
A. Tongan goods will be cheaper to buy in Japan
B. Tongan goods will be more expensive to buy in Japan
C. Japanese goods will be cheaper to buy her in Tonga
D. the Pa’anga is stronger than the Yen
PART II       SHORT ANSWERS       (35 MARKS)

Question 6: Theory of Absolute and Comparative Advantage       (11 marks)

Study the hypothetical Production Possibility Curves for Vava’u and ‘Eua below and answer the questions that follow.

1. Based on the theory of absolute advantage, which island should:
   a) specialise in the production of vanilla ______________________________
   b) export yam ______________________________
      (2 marks)

2. Calculate the opportunity cost of producing one ton of Yam in each island. Correct your answer into two decimal places. Show ALL necessary workings

   Vava’u: ______________________________
   ‘Eua: ______________________________
      (2 marks)
3. Calculate the opportunity cost of producing **one ton of Vanilla** in each island. Correct your answer into two decimal places. Show ALL necessary workings.

<table>
<thead>
<tr>
<th>Vava’u:</th>
<th>‘Eua:</th>
</tr>
</thead>
</table>

(2 marks)

4. From your calculations in question 6, No. 2 and 3 on page 16 and 17, which country should export Vanilla?

____________________________________________________________________________

(1 mark)

5. What are the gains from trade?

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(2 marks)

6. How do you know that both countries gain from trade?  
   *(Hint: You need to use your gain from trade to calculate the net gains for each country if they are to engage in trade)*

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(2 marks)
Question 7: Foreign Exchange Market

(8 marks)

Study the information below and answer the questions that follow.

USD versus TOP

In September 2014, the price of USD 1.00 equals TOP 0.5632. In October 2014, the government deliberately set the exchange rate at USD 1.00 equals TOP 0.6241

1. What is the exchange rate system used in the information above?

______________________________________________________________________________

(1 mark)

2. What is the appropriate economic term given to the trend of the TOP against the USD as shown in the information above?

______________________________________________________________________________

(1 mark)

3. During September 2014, which currency is stronger?

______________________________________________________________________________

(1 mark)

4. Use the information above to calculate how much TOP needed to buy a second hand car from the US costing USD 8,000.00 in October 2014? Show ALL necessary workings.

TOP ________________________________  (2 marks)

5. This question is not related to the information given above.

Explain clearly how a depreciation of exchange rate would affect a Balance of Trade Deficit?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

(3 marks)
Question 8 : Balance of Payment Account (16 marks)

1. Study the hypothetical data below for Bro-land and answer the questions that follow.

<table>
<thead>
<tr>
<th>Items</th>
<th>$million</th>
<th>Items</th>
<th>$million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism revenue</td>
<td>89</td>
<td>Merchandise receipts</td>
<td>171</td>
</tr>
<tr>
<td>Foreign investments</td>
<td>111</td>
<td>Loan from IMF</td>
<td>118</td>
</tr>
<tr>
<td>Repayment of IMF loan</td>
<td>(36)</td>
<td>Interest on IMF loan</td>
<td>(21)</td>
</tr>
<tr>
<td>Transport payments</td>
<td>(35)</td>
<td>Investment overseas</td>
<td>(87)</td>
</tr>
<tr>
<td>Interest from overseas investment</td>
<td>16</td>
<td>Imported merchandise</td>
<td>(138)</td>
</tr>
<tr>
<td>Inward remittances</td>
<td>189</td>
<td>Profit on foreign investment</td>
<td>(25)</td>
</tr>
<tr>
<td>Foreign aid</td>
<td>245</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Use the information above to calculate the Balance of Payment Account for Bro-land by completing the table on the page 20.

(9 marks)

Take note of the following:

- Put your numbers in the shaded area provided
- Number with brackets refers to cash outflows
- For Deficit or Surplus, CIRCLE your choice relative to the outcome of your calculation
- The number of spaces under each heading is NOT necessarily the number of items you expect to have for each heading.
<table>
<thead>
<tr>
<th>BRO-LAND BALANCE OF PAYMENT ACCOUNT</th>
<th>$million</th>
<th>$million</th>
<th>$million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance of Trade Deficit or Surplus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance of Invisibles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance on Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance on income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance on transfers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance of Invisibles Deficit or Surplus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Account Deficit or Surplus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CAPITAL ACCOUNT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital Account Deficit or Surplus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BALANCE OF PAYMENT DEFICIT or SURPLUS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. Identify the **effect** of the following activities on a **Current Account Surplus**.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Effect on Current Account Surplus (Increase/ Decrease/ No Effect)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air fares to Tonga from NZ has increased</td>
<td></td>
</tr>
<tr>
<td>Tongan Pa’anga is stronger than Japanese Yen</td>
<td></td>
</tr>
<tr>
<td>Government borrowing from World Bank was approved</td>
<td></td>
</tr>
<tr>
<td>Number of workers migrating overseas dropped</td>
<td></td>
</tr>
</tbody>
</table>

(4 marks)

3. Define the following economic terms.

a) **Current Account Deficit**

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

b) **Balance of Trade Surplus**

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

c) **Foreign Investment**

____________________________________________________________________________
____________________________________________________________________________
____________________________________________________________________________

(3 marks)
SECTION D: ECONOMIC FUNCTIONS OF THE GOVERNMENT (44 MARKS)

PART I MULTIPLE CHOICES (5 MARKS)

Circle the letter of the BEST answer.

Question 1
Which of the following is TRUE about collective goods?
A. Funded from tax revenue, non-rival in nature and free for all
B. Consumption of first consumer reduces quantity supplied
C. Non-excludable, rival in nature and free for all
D. Produced by private businesses using subsidies from the government

Question 2
An expansionary monetary policy is most likely to involve which of the following?
A. Government sales of bonds and securities
B. Government buying back bonds and securities
C. Reduction in income tax rate
D. Increase in interest rate

Question 3
Which of the following is a likely effect of a Budget Deficit?
A. Increase in general price level and gross domestic product
B. Favourable balance of payment and increase unemployment
C. Increase unemployment and equal distribution of income
D. Stable economic growth and fewer employment opportunities

Question 4
Consumption tax is an example of which type of tax?
A. Direct taxes
B. Regressive taxes
C. Progressive taxes
D. Proportional taxes

Question 5
Sione is unemployed because he does not know how to use the computer or computer illiterate. What is this type of unemployment?
A. Technological
B. Frictional
C. Cyclical
D. Structural
PART II    SHORT ANSWERS    (39 MARKS)

Question 6: Government Intervention    (9 marks)

Market failure is the primary reason or the main justification for government intervention. This means that the demand and supply forces sometimes failed to achieve allocative efficiency.

Example:
- The market cannot produce public goods
- The market cannot control monopolies
- The market cannot control or stop businesses from polluting the environment

Thus, the government intervene with the following roles:
- Allocative role
- Distributive role
- Stabilisation role
- Regulatory role

---

| a) Identify TWO (2) reasons why private businesses cannot produce public goods. |
|----------------------------------|----------------------------------|
| i)                               | ii)                              |
|                                  |                                  |

(2 marks)

---

<table>
<thead>
<tr>
<th>b) Why the existence of a monopoly is considered a market failure?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

(1 mark)

---

<table>
<thead>
<tr>
<th>c) Identify ONE (1) way of how the government can control a monopoly.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

(1 mark)

---

<table>
<thead>
<tr>
<th>d) Identify TWO (2) ways of how the government can control businesses from polluting the environment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
</tr>
<tr>
<td>ii)</td>
</tr>
</tbody>
</table>

(2 marks)
e) Identify the type of intervention in each of the following situations.

<table>
<thead>
<tr>
<th>Situations</th>
<th>Type of Government Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government funding more scholarships for undergraduate study in 2015</td>
<td></td>
</tr>
<tr>
<td>Government’s “Welfare Payments Scheme” to elderly people</td>
<td></td>
</tr>
<tr>
<td>Government monitoring the level of inflation within 1% to 3%</td>
<td></td>
</tr>
</tbody>
</table>

(3 marks)
Question 7: Government Budget (12 marks)

1. Study the Table below and answer the questions that follow:

   **Government of Tonga Re-Current Budget 2014/15**

   ![](image)

a) Apart from the reason of using national income wisely, identify TWO other **economic aims** of a Government Budget.

   i. __________________________________________

   ii. __________________________________________

   (2 marks)

b) Identify ONE (1) item that would come under the following:

   - Domestic Revenue
   - Budget Support
   - Purchase of Goods and Services

   (3 marks)
c) The Budget for 2014/15 is a Balanced Budget.

Identify ONE (1) item from the Budget that would contribute to this Balanced Budget.

__________________________________________________________________________________________

(1 mark)

d) Identify the **likely effect (Deficit or Surplus)** of the following events on the Government Budget 2014/15 by completing the table below.

<table>
<thead>
<tr>
<th>Events</th>
<th>Deficit or Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce time allowed for harvesting sea cucumber</td>
<td></td>
</tr>
<tr>
<td>Grace period for repayment of China Loan was extended to 2016/17</td>
<td></td>
</tr>
<tr>
<td>Increase in world price of oil</td>
<td></td>
</tr>
<tr>
<td>Increase number of people migrating overseas</td>
<td></td>
</tr>
</tbody>
</table>

(4 marks)

2. Read the extract below and answer the question that follows.

**Extract from Government Budget 2014/15**

In an effort to free the Tonga economy from what the Minister of Finance referred to as an “Economic Trap” he said special attention has been directed toward upgrading infrastructures such as airports. There were also concessional loans at 1% interest to the Agriculture Marketing Fund, Fisheries Development and Export Fund, Tourism Fund, Manufacturing Fund, a **Student loan Scheme**, and an Economic Growth Facility of $10 million at 4% interest.

Explain how the Student Loan Scheme would affect the level of unemployment.

__________________________________________________________________________________________

__________________________________________________________________________________________

__________________________________________________________________________________________

__________________________________________________________________________________________

(2 marks)
Question 8: Government Economic Aims (18 marks)

1. The government offered 5% COLA to all civil servants at the beginning of the year.

   a) What is the major reason for this 5% COLA?

      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________

      (1 mark)

   b) Explain clearly how this 5% COLA would affect (hinder or achieve) the following economic aims:

      i) Price Stability

      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________

      (2 marks)

      ii) Economic Growth

      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________

      (2 marks)

      iii) Favourable Balance of Payment

      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________
      ____________________________________________________________

      (2 marks)
2. The government can control economic activities through the use of Fiscal and Monetary Policy.

a) Differentiate between Fiscal and Monetary Policy.

- Fiscal Policy

- Monetary Policy

b) Explain clearly the likely effect (achieve or hinder) of a Contractionary Monetary Policy on the economic aims of Full Employment.

3. Progressive Income Tax is the tax system being adopted here in Tonga since 2008 after the Income Tax Act was approved. This was based on the belief that Progressive Income Tax helps achieve the economic aim of Fair Distribution of Income.

a) What is the government trying to achieve under the economic aim of Fair Distribution of Income?

(1 mark)
b) How does Progressive Income Tax help to achieve the economic aim of Fair Distribution of Income?

______________________________________________________________

______________________________________________________________

______________________________________________________________

(1 mark)

4.

It was great news for the elderly people of Tonga when the government approved to reduce the age of those eligible for the Welfare Payment Scheme of $75 per month - from 75 to just 70 years old.

a) Is the above Welfare Payment Scheme a Fiscal or Monetary Policy?

______________________________________________________________

(1 mark)

b) Identify the effect (increase, decrease or no effect) of this reduction from 75 to 70 years old on the following:

i) Level of money supply

ii) Consumption spending

iii) Church donations

______________________________________________________________

(3 marks)

c) Apart from this Welfare Payment Scheme, identify another measure or government action that will help achieve the economic aim of Economic Welfare.

______________________________________________________________

______________________________________________________________

(1 mark)
PART I  MULTIPLE CHOICES  (5 Marks)
Circle the letter of the BEST answer.

Question 1
Which of the following is a social indicator of development?
A. Percentage of GDP saved and invested each year
B. Percentage of population who can read and write
C. Level of technical assistance from overseas donors
D. Proportion of labour working in the agricultural sector

Question 2
If productivity remains constant and the population increases at a faster rate than the labour force, then the per capita real income
A. will rise.
B. will fall.
C. will remain constant.
D. may either rise or fall.

Question 3
Which of the graphs below best represent population structure of a less developed country (LDC)?

Question 4
What type of industry is most common in developing countries?
A. Primary industry.
B. Secondary industry.
C. Tertiary industry.
D. Manufacturing industry

Question 5
Which of the following is TRUE about developing countries?
A. Production is labour intensive.
B. Production is capital intensive.
C. Less dependent on foreign investment.
D. Secondary production is high as a percentage of GDP.
Question 6; Promoting Economic Development (7 marks)

1. Read Extract 1 below and answer the questions that follow.

Extract 1
“Investing in human capital, if done right … provides the firmest foundation for lasting economic development”.


a) Define economic development.

_____________________________________________________________

_____________________________________________________________

_____________________________________________________________

(1 mark)

b) State TWO (2) examples of investing in human capital.

i) _____________________________________________________________

ii) _____________________________________________________________

(1 mark)

c) Identify TWO (2) ways of how the government would ensure that *investment in human capital is done right.*

i) _____________________________________________________________

ii) _____________________________________________________________

(2 marks)

d) Explain clearly the effect of investment in human capital on economic development.

_____________________________________________________________

_____________________________________________________________

_____________________________________________________________

_____________________________________________________________

(3 marks)
Question 7: Economic Development Indicators (14 marks)

1. Describe each of the following economic development indicators with reference to developing countries.

   a) Literacy rate

   b) GDP per Capita

   c) Composition of exports and imports

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

<table>
<thead>
<tr>
<th>Hypothetical data for Country X</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
</tr>
<tr>
<td>Labour force</td>
</tr>
<tr>
<td>Savings</td>
</tr>
<tr>
<td>Value of National Capital</td>
</tr>
<tr>
<td>National Debts</td>
</tr>
<tr>
<td>National Income</td>
</tr>
</tbody>
</table>

   a) Calculate the following economic development indicators. Show ALL necessary workings.

      i) Average value of man-made resource per worker

      Answer: ________________________________
ii) Ratio of national debts to GDP

Answer: ____________________________________________________________

(2 marks)

iii) Proportion of GDP saved

Answer: ____________________________________________________________

(2 marks)

b) Is Country X a developed or less developed country? Justify your answer.

Developed or Less Developed: _________________________________________

Justification: _________________________________________________________
_____________________________________________________________________
_____________________________________________________________________

(2 marks)
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## TONGA FORM SIX CERTIFICATE

### ECONOMICS

2014

**For Marker’s Only**

<table>
<thead>
<tr>
<th>SECTIONS</th>
<th>MARK</th>
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<td>C</td>
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