TONGA FORM SIX CERTIFICATES
2016
ECONOMICS

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hours + 10minutes reading

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 and tie securely.
3. This paper is divided into **THREE** sections. ALL of which must be answered.

<table>
<thead>
<tr>
<th>Sections/Topics</th>
<th>Total Skill Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section A: Resource Allocation VIA the Market System</td>
<td>30</td>
</tr>
<tr>
<td>Section B: Resource Allocation VIA Public Sector</td>
<td>20</td>
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<tr>
<td>Section C: Aggregate Economic Activity And Policy</td>
<td>20</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>70</strong></td>
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</tbody>
</table>

4. Follow instructions and answer all questions in the spaces provided in this booklet.
5. Check that this booklet contains pages 2-15 in the correct order and that page 15 has been deliberately left blank.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR BEFORE YOU LEAVE THE EXAMINATION ROOM.
SECTION A: RESOURCE ALLOCATION VIA THE MARKET SYSTEM

PART 1: MULTIPLE CHOICE QUESTIONS:

Circle the letter of the best answer.

1. Which of the following would cause a movement along a demand curve for a single product?
   A. A change in price of a close substitute.
   B. A change in price of a complement good.
   C. A change in price of the good in question.
   D. A change in the determinants of demand.

2. As all else equal, the microeconomic law of supply is defined as:
   A. “As Price Increases, Supply Increases”.
   B. “As Price Increases, Quantity Demanded Decreases”.
   C. “As Price Decreases, Quantity Supplied Decreases”.
   D. “As Price Decreases, Demand Increases”.

3. Which of the following describes a surplus situation in the market?
   A. Quantity supplied is greater than quantity demanded.
   B. Consumers won’t be able to buy as much of a good as they would like.
   C. Producers won’t be able to buy all their goods.
   D. Quantity demanded is more than quantity supplied.

4. Which of the following states one of the assumptions of the PPC?
   A. There are good A and good B.
   B. Some of the resources are fixed.
   C. Technology varies according to nature of production.
   D. There are only two goods produced.
PART 2: SHORT ANSWERS, CALCULATIONS & GRAPHICAL ANALYSIS

1. Discuss the significance of Economics upon your life as a student.

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Skill level 4

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2. With reference to the basic economic concepts of Scarcity and Opportunity Cost, evaluate their significance to everyday living.

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Skill level 4

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Skill level 3

| 3 | 2 | 1 | 0 | NR |
4. Study the diagram below and then answer the questions that follow.

<table>
<thead>
<tr>
<th>Market Structure</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
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</thead>
<tbody>
<tr>
<td></td>
<td><img src="image" alt="Diagram" /></td>
<td><img src="image" alt="Diagram" /></td>
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<td><img src="image" alt="Diagram" /></td>
<td><img src="image" alt="Diagram" /></td>
</tr>
</tbody>
</table>

a. Provide a local example of market structures, A, B and C in your village, island or country.

A: __________________________________________
   __________________________________________
   __________________________________________

B: __________________________________________
   __________________________________________
   __________________________________________

C: __________________________________________
   __________________________________________
   __________________________________________

b. Describe **TWO** (2) features of market structure E.

   __________________________________________
   __________________________________________
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</table>
5. Study the supply and demand information for cassava at the local market in Tongatapu and then answer the questions that follow.

**Demand & Supply Schedule for Cassava**

<table>
<thead>
<tr>
<th>Price ($/basket)</th>
<th>Quantity Supplied (QS)(00)</th>
<th>Quantity Demanded (Qd)(00)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
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<td>3</td>
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<tr>
<td>16</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

a. Draw the demand and the supply curves for cassava on the grid below.

![Demand and Supply Curves Grid](image-url)
b. Describe the Equilibrium Price.

__________________________________________________________________
__________________________________________________________________


c. Calculate the market revenue on the consumer spending at equilibrium.

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d. Explain what happens in the market for cassava when the price is set at a price of $12.00/basket?

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SECTION B: RESOURCE ALLOCATION VIA THE PUBLIC SECTOR

1. Study the picture below and then answer the questions that follow.

   GOVERNMENT

   a. Define what a government is.

   ____________________________________________________________________
   ____________________________________________________________________

   b. State ONE (1) Economic function of the government.

   ____________________________________________________________________
   ____________________________________________________________________
   ____________________________________________________________________

   c. Find out three local Examples of the Economic function of the government.

   ____________________________________________________________________
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   Skill level 1
   1
   0
   NR

   Skill level 3
   3
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d. Define Positive Externalities of Consumption.
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e. Define Government Interventions.
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__________________________________________________________________

2. Select ONE (1) Government Economic Issue that is common in the Pacific including Tonga and then use it to answer the questions that follow.

a. State your selected Government Economic issue.
__________________________________________________________________
__________________________________________________________________
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b. Describe the Government Economic Issue stated in part. a. above.
__________________________________________________________________
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c. State ONE (1) government measure that is used to address the Economic Issue stated in part a. above.
__________________________________________________________________
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d. Describe the government measure stated in part c. on page 8.

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e. Explain how the measure described in part d. above is used to address the economic issue stated in part a. on page 8.

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Skill level 2

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Skill level 3

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<th>NR</th>
</tr>
</thead>
</table>
f. Discuss how efficient is the Government Measure explained in part e. on page 9 in addressing the Economic Issue discussed.
1. State the **TWO** (2) types of Unemployment.

   __________________________________________________________

   __________________________________________________________

2. Name the components of the Aggregate Demand.

   __________________________________________________________

   __________________________________________________________

3. Define the following terms.

   i. Foreign Investment

   __________________________________________________________

   __________________________________________________________

   __________________________________________________________

   ii. Flexible Exchange Rates System

   __________________________________________________________

   __________________________________________________________

   __________________________________________________________

   iii. Fiscal Policy

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4. Describe the procedures of construction the CPI.

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5. Discuss the policies that can be used to control Inflation in the Tongan Economy.

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Skill level 2

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Skill level 4

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<th>1</th>
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</table>
6. Name the **TWO** (2) components of the Balance of Payments Account.

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7. Describe each of the components of the Balance of Payments account stated in number 6 above.

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8. Assume that an economy is producing only two goods as given on the table below. Study the data carefully and then answer the questions that follow.

<table>
<thead>
<tr>
<th>Good</th>
<th>2014 (base year)</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity (kg)</td>
<td>Price/ $/kg</td>
</tr>
<tr>
<td>K</td>
<td>7500</td>
<td>$5.50</td>
</tr>
<tr>
<td>L</td>
<td>5400</td>
<td>$6.80</td>
</tr>
</tbody>
</table>

a. Differentiate between Nominal GDP, Real GDP and Real GDP/capita.

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Skill level 3

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b. Calculate the Economic growth rate between 2014 and 2015.

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