

MARKER CODE

Student Personal Identification Number



Solomon Islands National Form Six Certificate 2019

ECONOMICS QUESTION AND ANSWER BOOKLET

FRIDAY 8th NOVEMBER 9:00 AM

TIME: 3 Hours Plus 10 Minutes
Reading Time.

1. This paper is divided into FIVE sections. Answer ALL five sections

	<u>Marks</u>	<u>Suggested time</u>
Section A. Basic Economic Concepts	54 marks	48 minutes
Section B. Money	33 marks	30 minutes
Section C. International Trade and Payments	40 marks	36 minutes
Section D. Economic Functions of Government	47 marks	42 minutes
Section E. Economic Development	26 marks	24 minutes
TOTAL	200 marks	180 minutes

1. **Answer all questions** in the spaces provided in this booklet.
2. **Write your Student Personal Identification Number (SPIN)** on the top right hand corner of this page and on the fold-out flap on the last page.
3. If you require more paper, ask the supervisor for extra sheets. Write your SPIN on additional sheets used and tie them inside this booklet at the appropriate space.
4. Check that this booklet contains pages **2– 39** in the correct order and that none of these pages is blank.
5. Do NOT use correction fluid.
6. Mobile phones are NOT allowed in the Examination room.

YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION

TOTAL MARKS

200

SECTION A: BASIC ECONOMIC CONCEPTS

(54 MARKS)

Part 1: Multiple Choice Questions (5 Marks)

Circle the letter of your chosen answer.

1. Economics is fundamentally concerned with the;
 - A. financial aspects of everyday life.
 - B. free working of market forces in an economy.
 - C. production and distribution of material goods.
 - D. scarcity of resources in relation to needs and wants.

2. All of the following criteria are correct for Perfect competition except that all firms;
 - A. are price takers.
 - B. sell an identical product.
 - C. have freedom of entry and exit.
 - D. have a relatively big market share.

3. In economics, the concept of scarcity refers to;
 - A. existence of free goods.
 - B. non-existence of free goods.
 - C. limited factors of production.
 - D. unlimited factors of production.

4. During cyclone Pam, there is a fall in the production of betel nut but its demand remains the same. What will happen to the **demand and supply curve** of betel nut?
 - A. Both the demand curve and the supply curve moves to the left.
 - B. Both the demand curve and the supply curve moves to the right.
 - C. Supply curve moves to the left and the demand curve remains the same.
 - D. Supply curve moves to the right and the demand curve remains the same.

5. The factor of production that is always associated with **profit** is;
 - A. natural resources.
 - B. entrepreneurship.
 - C. human resources.
 - D. man-made resources.

Q1 -5

	5

Part 2: Short Answer Questions (49 Marks)

6. Production Possibilities Curve (11 marks)

If Sikaiana Island grows coconuts only, then it can produce 100,000 tons, but if it grows only breadfruits, then it can produce 60,000 tons. If the island decides to grow both coconuts and breadfruits, then various amount of yields can be produced as shown by Production Possibilities (A to E) in the table below.

Possibilities	Coconuts per year ('000 tons)	breadfruits per year ('000 tons)
A	100	0
B	90	30
C	80	40
D	60	50
E	0	60

- a) Draw a Production Possibilities Curve (PPC) on the grid provided on the next page. You are to put coconuts on the y-axis and breadfruits on the x-axis. Label your graph carefully.

(5 marks)

b) What does the production possibility curve (PPC) shows?

(2 marks)

c) Calculate the opportunity cost of the following.

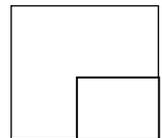
(i) Increase from 0 tons to 30,000 tons of breadfruits

(2 marks)

(ii) Increase from 60,000 tons to 80,000 tons of coconuts

(2 marks)

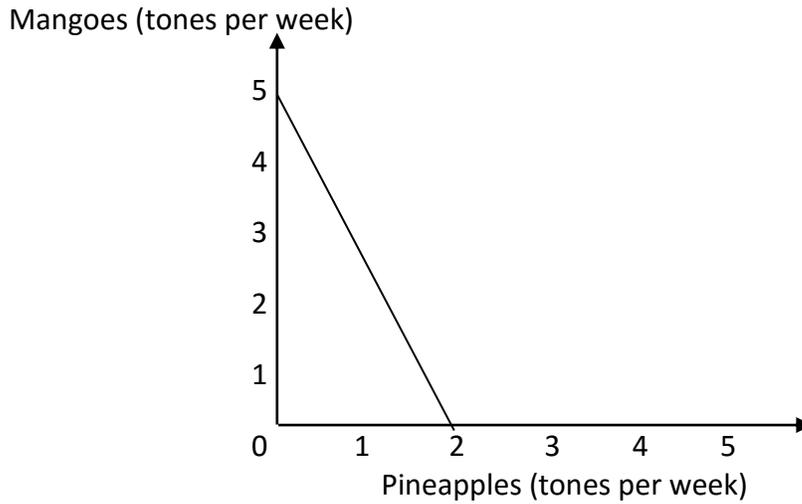
Q6



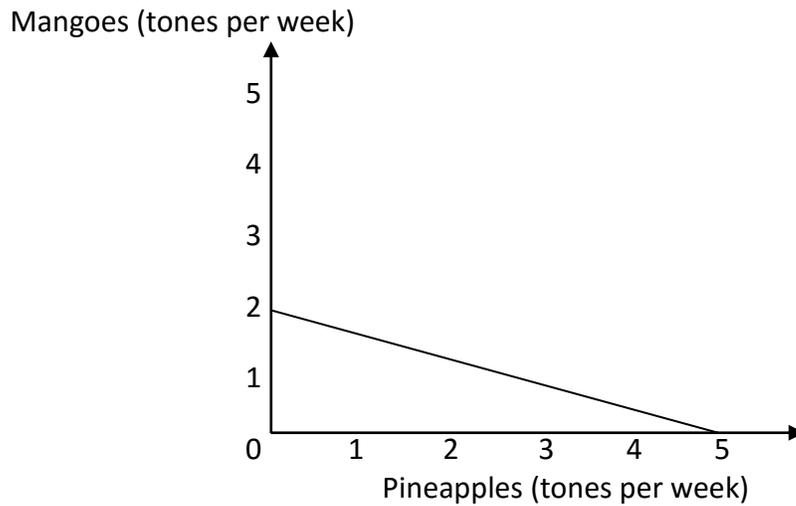
7. Economic concepts (8 marks)

1. The graphs below show the production of mangoes and pineapples in two countries, Vanuatu and Solomon Islands.

i) Vanuatu



ii) Solomon Islands



a) Vanuatu and Solomon Islands can become specialized in growing fruit crops that are most suitable to their country. By looking at the graphs above, which fruit crops are they going to be specialized at?

(i) Vanuatu: _____

(ii) Solomon Islands: _____ (2 marks)

Explain how **specialization** of a labor can help to increase production.

(2 marks)

b) If Vanuatu and Solomon Islands to become specialized only in one fruit crop, they are going to depend on each other for the other fruit crop (Interdependence). Describe ONE (1) disadvantage of Interdependence.

(2 marks)

c) Explain how access of market can affect production.

(2 marks)

Q7

8

8. Supply and Demand (13 marks)

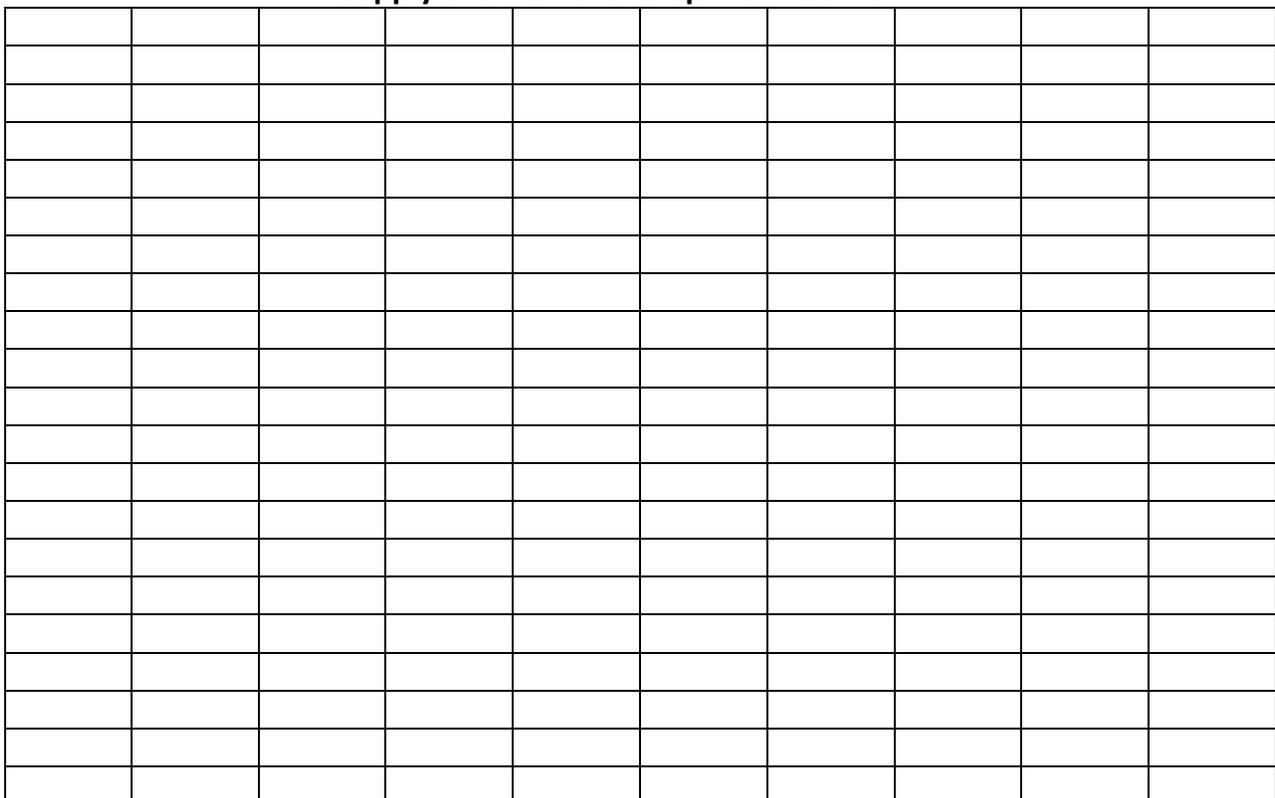
Use the information given below and your knowledge to answer the questions that follow.

Supply and Demand Schedule for fish in Auki market

Price \$/pound	Quantity Demanded (pound)	Quantity Supplied (pound)
10	17	0
13	14	2
16	12	8
21	10	10
24	9	14
27	6	18
30	5	20

- a) Draw the Supply and Demand graph for Reef fish at Auki market. Ensure that you label your graph carefully indicating clearly on the graph the equilibrium price and quantity.

Supply and Demand Graph for Reef fish



(5 marks)

b) Explain the situation that exist in the market at the price of;

(i) \$16.00 per pound.

(2 marks)

(ii) \$24.00 per pound.

(2 marks)

c) Explain why the government subsidy shift the supply curve.

(2 marks)

d) How would this shift affect the equilibrium price and quantity?

(2 marks)

Q8

13

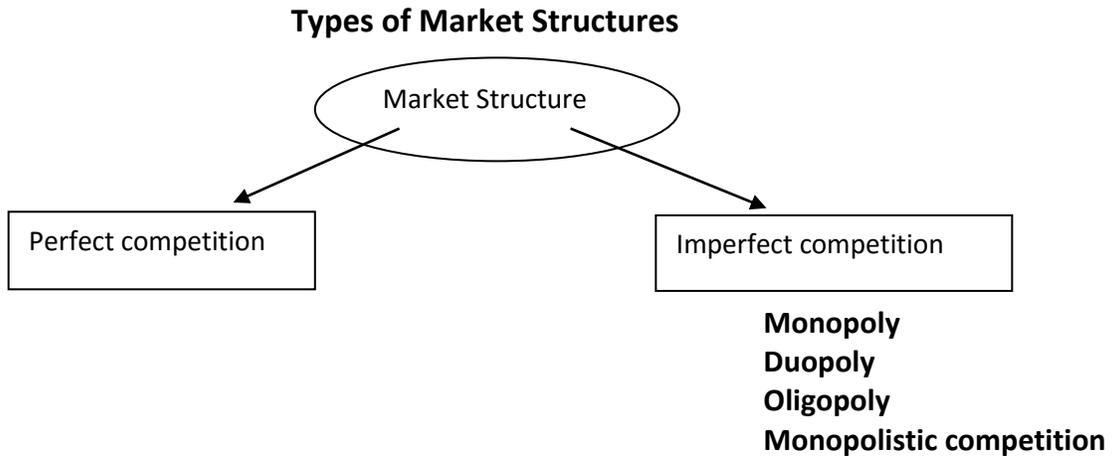
9. Basic Markets and Market Structures (6 marks)

1. Use your knowledge to answer question (a) below.

a) Describe ONE (1) advantage of a **factor market** in our Country, Solomon Islands.

(2 marks)

2. Use the diagram below and your knowledge to answer questions (a-b) that follow.



- a) Explain how market sets the price under a perfectly competitive market structure.

(2 marks)

- b) Distinguish between a 'monopoly' and a 'monopsony'.

(2 marks)

Q9

6

10. Gross Domestic Product

(8 marks)

1. Distinguish a Gross National Income (GNI) from Gross National Expenditure (GNE).

(2 marks)

2. Use the information given below with your knowledge to answer questions (a-c) that follow:

Price and quantities of green coconuts and oranges sold at main market.

Year	Price of green coconuts (\$)	Quantities of green coconuts sold per day	Price of orange (\$)	Quantities of orange sold per day
2016	2	50	1	100
2017	3	100	2	150
2018	4	150	3	200

The base year is 2017.

- a) Calculate the **nominal GDP** for both green coconuts and oranges in 2016:

Green Coconut:

Oranges:

(2 marks)

- b) Calculate the **real GDP** for both green coconuts and oranges in 2017:

Green Coconuts:

Oranges:

(2 marks)

- c) Calculate the **real GDP** for both green coconuts and oranges in 2018:

Green Coconuts:

Oranges:

(2 marks)

Q10

8

11. Components of Aggregate Demand

(3 marks)

Study the following extract and answer the questions that follows.

Keynesian economists believe that a change in total spending (including consumption, investment and government spending and spending on imports) has a multiplied impact on income. They also believe that we can calculate the extent of the resulting change in income using the multiplier.

[Adapted from OBE for FET Economics]

a) Write down the **aggregate demand** equation.

(1 mark)

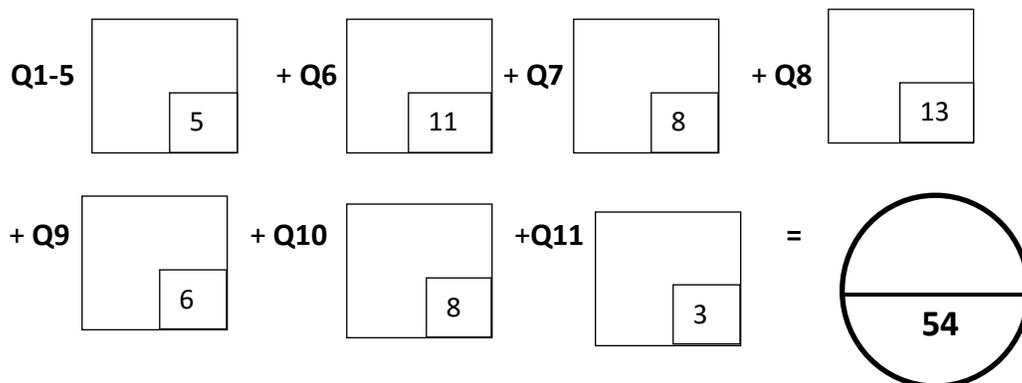
a) What economic relationship does the aggregate demand curve show?

(2 marks)

Q11

3

SECTION A:



SECTION B: MONEY

(33 MARKS)

Part 1: Multiple Choice Questions (5 Marks)

Circle the letter of your chosen answer.

1. The Money Supply, (M1), includes;
 - A. notes and coins in circulation.
 - B. notes, coins and current account bank deposits.
 - C. notes, coins, bank deposits and commercial bills.
 - D. notes, coins, bank current account in circulation and term deposits.

2. The Money Supply, (M3) refers to as;
 - A. fiat money.
 - B. near money.
 - C. broad money.
 - D. narrow money.

3. The **primary expansion** of _____ in an economy occurs through the process of increase in the reserves of the banking system.
 - A. interest rates
 - B. credit creation
 - C. moral suasion
 - D. money supply

4. The money supply in circulation in an economy will decrease if the government borrows from the;
 - A. public.
 - B. Central Bank.
 - C. donor partners.
 - D. Commercial Banks.

5. Which of the following events will lead to an increase in the demand for money?
 - A. A decrease in the price level.
 - B. An increase in the interest rate.
 - C. An increase in the supply of money.
 - D. An increase in the level of total output.

Q1-5

5

Part 2: Short Answer Questions

(28 Marks)

6. Functions and characteristics of money (4 marks)

a) Describe **Medium of Exchange** as a function of money.

(2 marks)

b) Describe **acceptability** as a characteristic of money.

(2 marks)

Q6

4

7. Quantity Theory of Money (4 marks)

The Quantity theory of Money is; $MV = PQ$

a) Given $P = \$10$, $Q = 2000$ million, and $V = 4$. Calculate M

(2 marks)

b) Given $M = 500$; $V = 10$, $P = \$5$. Calculate Q

(2 marks)

Q7

4

8. The effect on the money supply. (6 marks)

1. Use your knowledge and understanding to answer the following questions

a) What is a **foreign aid**?

(2 marks)

b) What is a **remittance**?

(2 marks)

c) If interest rates in the commercial banks decrease, what effect will this have on the money supply of the economy?

(2 marks)

Q8

6

9. Rate of Inflation (4 marks)

1. Use the data given below and your knowledge to answer questions (i-ii) that follow.

Schedule of Rate of Inflation for 'Economy A' for 2016, 2017 and 2018.

Year	CPI (\$)	Annual Rate of Inflation (%)
2016	200 million	-
2017	260 million	(i)
2018	(ii)	35%

(i) Calculate the **annual rate of inflation** for 2017.

(2 marks)

(ii) Calculate the **Consumer Price Index (CPI)** for 2018.

(2 marks)

Q 9

4

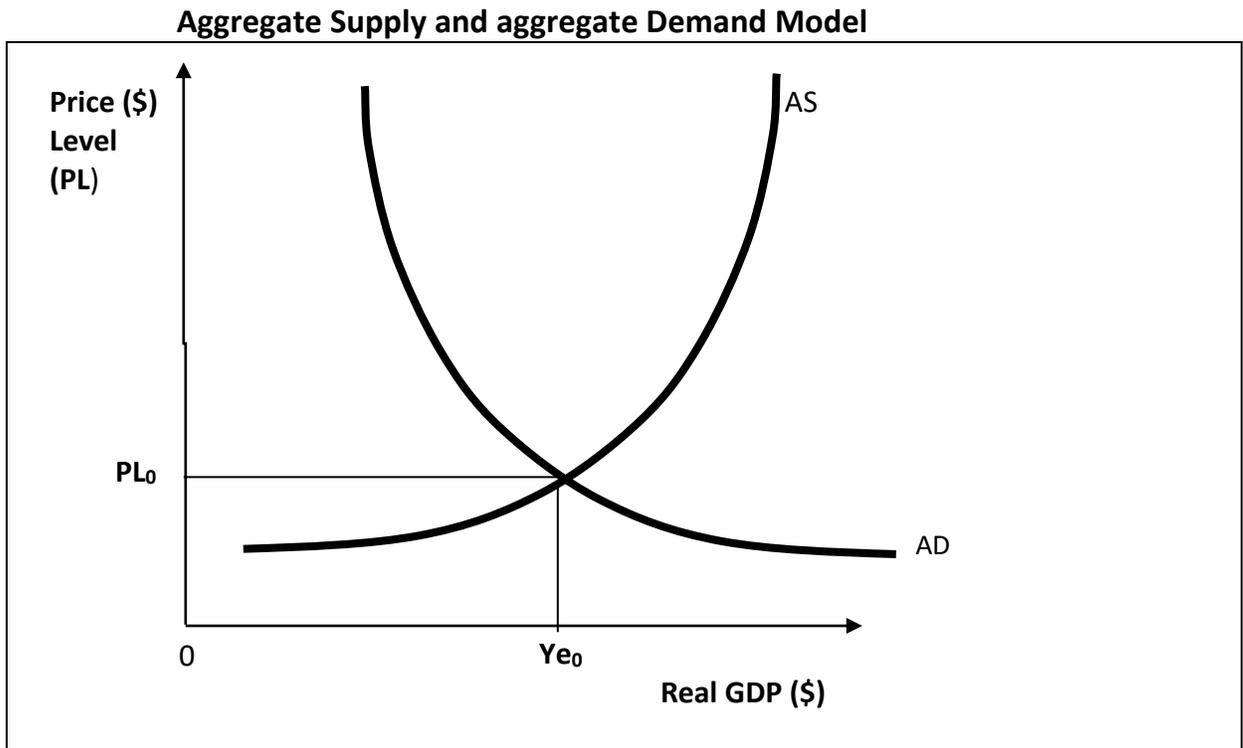
10. The Effects of Inflation (6 marks)

Use your knowledge and understanding to answer questions (a-b) that follow.

a) Describe ONE (1) effect of inflation in Solomon Islands.

(2 marks)

- b) Use the Aggregate Supply (AS) and Aggregate Demand (AD) model below to show the effect of Solomon Islands government's cut in its spending to reduce its budget deficit in 2017.



(4 marks)

Q10

6

11. Policies to Combat Inflation (4 marks)

1. Most Governments around the world always use the monetary policies to combat inflation in their country. Explain how each of these two policies can combat inflation.

a) **Income policies.**

(2 marks)

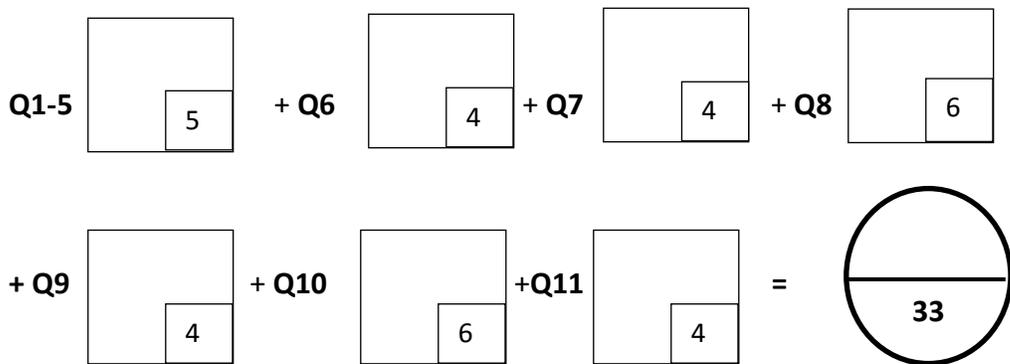
b) **Exchange rates.**

(2 marks)

Q11

4

SECTION B:



SECTION C: INTERNATIONAL TRADE AND PAYMENTS

(40 MARKS)

Part 1: Multiple Choice Questions (5 Marks)

Circle the letter of your chosen answer.

1. When a country can produce a good at a lower opportunity cost than other countries with which it trades. This refers to as;
 - A. trading.
 - B. terms of trade.
 - C. absolute advantage.
 - D. comparative advantage.

2. The main advantage of the flexible exchange rate system is the;
 - A. exchange rate risk.
 - B. automatic stabilizer of the economy.
 - C. questionable stabilizing effect of the economy.
 - D. potential for too much use of the monetary policy.

3. A quantitative restriction on the import of a particular good is referred to as;
 - A. tariffs.
 - B. quotas.
 - C. regulations.
 - D. embargoes.

4. Exports of goods and services will appear in the balance of payments accounts as a;
 - A. credit entry in the capital account.
 - B. credit entry in the current account.
 - C. debit entry in the capital account.
 - D. debit entry in the current account.

5. Which of the followings is NOT the role of the International Monetary Fund (IMF) on trade in the Pacific?
 - A. Gives direct aid to a country.
 - B. Promotes exchange rate stability.
 - C. Helps with the balance of payment adjustment.
 - D. Deals with economic crisis by providing international coordination.

Part 2: Short Answer Questions**(35 Marks)****6. The Basis of Trade and Gains of Trade. (6 marks)**

Red Island and Blue Island are two hypothetical economies engaged in copra and sheep commodities. They have the following production outputs using one (1) unit of labor.

Commodity	Red Island	Blue Island
Copra (tons)	8	3
Sheep	1	14

- a) Calculate the **opportunity cost** of producing 1 sheep in;

Red Island: _____

(2 marks)

Blue Island: _____

(2 marks)

- b) Explain which country has the absolute advantage in the production of copra.

(2 marks)

7. Foreign Exchange

(7 marks)

1. The exchange rate is the price of one country's currency in terms of another and is necessary to pay international trade. Most countries have either fixed or flexible exchange rate.

a) Describe the term **fixed exchange rate**.

(2 marks)

2. The exchange rate for Fiji (FJ\$) and United States of America (US\$) in 2017 and 2018 are shown below.

2017 FJ\$1 = US \$0.80
2018 FJ\$1 = US \$0.60

a) If a person from Fiji in 2018 wants to buy a new brand car from United States of America which it cost US\$10,000.00. How much will it cost in terms of Fiji dollars (FJ\$)?

(3 marks)

b) Explain how the demand of goods in Fiji by her international buyers affect exchange rate.

(2 marks)

Q7

7

8. Balance of payments (8 marks)

The table below shows data from Fiji’s balance of payments account in June 2012.

Category	FJD million
Exports of goods	1,300
Imports of goods	1,750
Exports of services	1,100
Imports of services	900
Income from non-residents	110
Income to non-residents	50
Inflow of current transfers	200
Outflow of current transfers	80
Capital transfers inflows	20
Capital transfers outflows	75

1. From the table above, calculate the following for Fiji.

a) Balance on goods trade.

(2 marks)

b) Balance on invisibles

(2 marks)

c) Balance on capital account

(2 marks)

2. Explain why a **persistent deficit** on the balance of payment is a burden for the Pacific Island economies?

(2 marks)

Q8

8

9. Trade Protectionism (6 marks)

1. Use your knowledge to answer questions (a and b) that follow.
- a) The 'infant industry' argument is probably the most economically sound argument in favor of protectionism.

Explain why the **infant industry** in the developing countries need to be protected?

(2 marks)

- b) Explain the term import substitution.

(2 marks)

2. Use the information given below and your knowledge to answer the questions that follow.

An Embargo is a form of protectionism

- a) Explain ONE (1) reason why Embargo might be used by any government as a form of protection.

(2 marks)

Q9

6

10. Trade Agreements and Trade Organizations (8 marks)

1. Regional Trade Agreements are increasingly becoming an important aspect of trade in the Pacific.

- a) Describe ONE (1) role of a **Regional Trade Agreement**.

(2 marks)

- b) Explain the ONE (1) benefit of Melanesia Spearhead Group (MSG) to the Solomon Islands in terms of trade.

(2 marks)

2. The International Monetary Fund (IMF) and the World Trade Organization (WTO) play a significant role on trade in the Pacific.

a) Describe the role of **IMF** on trade in the Pacific.

(2 marks)

b) Describe the role of **WTO** on trade in the Pacific.

(2 marks)

Q10

8

SECTION C:

Q1-5

5

 + Q6

6

 + Q7

7

 + Q8

8

+ Q9

6

 + Q10

8

 =

40

SECTION D: ECONOMIC FUNCTIONS OF GOVERNMENT

(47 MARKS)

Part 1: Multiple Choice Questions (5 Marks)

Circle the letter of your chosen answer.

1. Which one below is NOT an economic function of a Government?
 - A. Health services.
 - B. Education services.
 - C. Establishing shops in town.
 - D. Building roads and bridges.

2. A government budget for the coming financial year shows the government's;
 - A. planned expenditure and revenue collection.
 - B. estimates of expenditure and revenue from trade.
 - C. expenditure and revenue collection from foreign goods.
 - D. planned expenditure and revenue on locally produced goods.

3. When a person in a higher income bracket is taxed more than a person in a lower income bracket; this referred to as;
 - A. regressive tax.
 - B. proportional tax.
 - C. personal income tax.
 - D. progressive income tax.

4. The unemployment that arises due to the ups and downs of the business cycle refers to as;
 - A. cyclical
 - B. seasonal
 - C. frictional
 - D. structural

5. A modern welfare state performs the following economic functions EXCEPT to;
- A. remedy market failures.
 - B. redistribute income and resources.
 - C. manage international economic welfares.
 - D. promote only short term economic growth.

Q1-5

5

Part 2: Short Answer Questions (42 Marks)

6. Government Budget (10 marks)

1. Study the information given below to answer questions (a-d) that follow.

Budget summary of Samoa in 2014		
Revenue		\$722,962,208
Ordinary Revenue	\$544,910,250	
External Grants	\$178,051,950	
Expenditures		\$792,089,820
Statutory Expenditures	\$88,339,342	
Expenditures Programs	\$492,542,095	
Development Expenditures	\$196,432,120	
Unforeseen Expenditures	\$14,776,263	
Overall budget deficit		(\$69,127,612)
Financed by:		
Soft term financing		\$73,613,155
Cash surplus after borrowing		\$4,485,543

a) Show in calculation how the (i) **budget deficit** and (ii) **cash surplus after borrowing** are arrived at.

i) Budget deficit

(2 marks)

ii) Cash surplus after borrowing

(2 marks)

b) Explain the budget item **Unforeseen Expenditures**.

(2 marks)

c) Describe how **consumption** component help contribute to the GDP of Samoa.

(2 marks)

d) Explain how an increase on **foreign earnings** could help to address unemployment issue in Samoa.

(2 marks)

Q6

10

7. Economic Issues (6 marks)

1. Use the information given below to answer questions (a-c) that follow.

Information Relating to Unemployment

The following are different categories of unemployment: Frictional, Seasonal, Structural and Cyclical. Each of these categories of unemployment manifests itself in quite a different manner. Hence, one will have to know its nature and scope very well before one can differentiate one type from another.

(a) Explain what frictional unemployment is.

(2 marks)

(b) Explain what cyclical unemployment is.

(2 marks)

(c) Explain how unemployment can lead to **crime and violence** in the Country.

(2 marks)

Q7

6

8. Government Aims and policies

(6 marks)

- 1) Government’s economic objectives or aims include achieving full employment, economic growth and development, favorable balance of payments, price stability, economic welfare and fair income distribution.

Describe what is meant by:

- a) Economic growth

(2 marks)

- b) Fair income distribution

(2 marks)

- 2. Governments use various policies to achieve their economic goals. These policies can either have an expansionary effect or a contractionary effect on the economy.

Explain how **contractionary policies** affect consumers’ economic welfare.

(2 marks)

Q8

6

9. The wage control (4 marks)

In 2010 the minimum wage for unskilled labor in Solomon Islands was increased from \$1.50 to \$4.00. This is an example of a price floor.

a) Explain the economic concept of the **price floor**.

(2 marks)

b) Explain how the demand for unskilled labor force will be affected by this increase in **minimum wage**.

(2 marks)

Q8

4

10. Foreign Trade and Aid (4 marks)

In this global economy, foreign trade and foreign aid are very important in developing nation like Solomon Islands.

a) Explain what a foreign aid is.

(2 marks)

b) Describe how foreign trade help Solomon Islands to develop.

(2 marks)

11. Government Measures to address economic issues (8 marks)

- 1) Use your knowledge on different tax methods to answer questions (a-b) that follow.

Explain the following terms:

- a) Proportional tax

(2 marks)

- b) Regressive tax

(2 marks)

- 2) Use your knowledge to answer questions (a-b) that follow.

It is estimated that the Honiara City Council (HCC) will use almost \$8 million worth of Solomon Islands' development budget funds to reconstruct the National Referral Hospital (NRH).

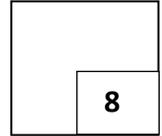
- a) Explain why hospital would be considered a **public good**.

(2 marks)

- b) Explain how public goods are funded.

(2 marks)

Q11



12. Government Policies

(4 marks)

Use your knowledge to answer questions (a-b) as follow.

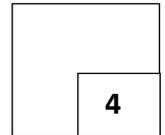
a) Describe how the **monetary policy** can help to ensure price stability.

(2 marks)

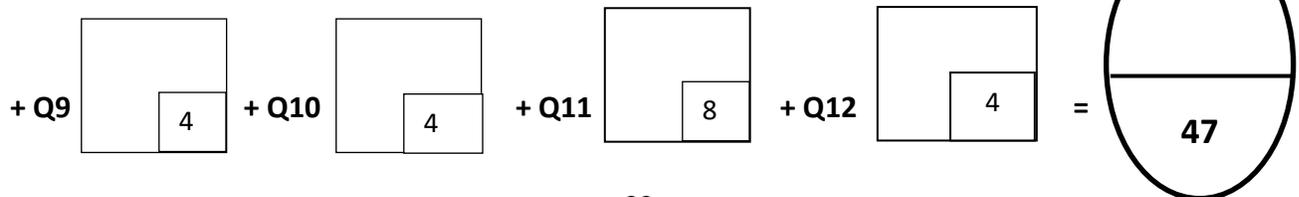
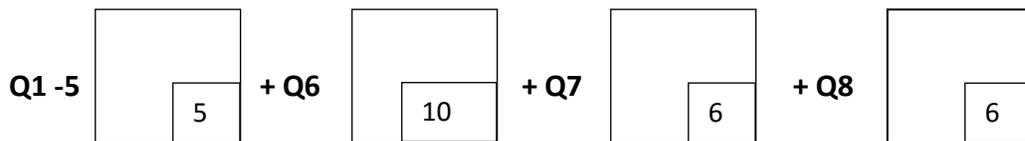
b) Explain the main role of the **fiscal policy**.

(2 marks)

Q12



SECTION D:



SECTION E: ECONOMIC DEVELOPMENT

(26 MARKS)

Part 1: Multiple Choice Questions

(5 Marks)

Circle the letter of your chosen answer

1. Economic development is about;
 - A. increasing a country's global image.
 - B. improving a country's nominal GDP per capita.
 - C. improving economic welfare and standard of living.
 - D. improving businesses and relations with developed countries.

2. Which is the MOST crucial role for government in the early stage of economic development?
 - A. conducting economic planning.
 - B. providing adequate infrastructure.
 - C. improving efficiency of tax collection.
 - D. creating marketing boards for export products.

3. In developing countries, most of the populations are working in;
 - A. export sectors.
 - B. primary sectors.
 - C. secondary sectors.
 - D. tertiary sectors.

4. Exports of developing countries are mainly;
 - A. primary products.
 - B. secondary products.
 - C. tertiary products.
 - D. processed foods only.

5. Which is a MAJOR obstacle to **capital formation** in developing countries?
- A. lack of resources.
 - B. lack of entrepreneurship.
 - C. lack of government intervention.
 - D. excess of opportunities for financial investments.

Q1-5

5

Part 2: Short Answer Questions (21 Marks)

6. Economic growth and Economic development (9 marks)

1. Use your knowledge to answer questions (a-b) that follow.

- a) Explain how the reduction of **poverty rate** is an indicator to any economic development of a country.

(2 marks)

- b) Discuss how the improved standard of living contributes to economic growth of a country.

(3 marks)

2. Both countries (Y and Z) are developing countries and the level of production for consumption and capital goods for both countries are shown in the table below.

Country	Consumption (\$millions)	Capital goods (\$millions)
Y	18	1
Z	2	16

- a) Explain which country is MOST likely to have a **positive** economic growth in the future.

(2 marks)

- b) With reference to the above information explain how you would infer the level of education in the two developing countries to identify which one is more developed.

(2 marks)

Q6

9

7. LDC, MDC and HDC (6 marks)

Countries of the world are divided into three groups. Less Developed Countries (LDC), Moderately Developed Countries (MDC) and Highly Developed Countries (HDC).

- a) Describe how **poor health** can be used as a characteristic of less developed countries (LDC).

(3 marks)

- b) Discuss ONE (1) way by which remittances contribute to the Least Developed Country's (LDC) Gross Domestic Product (GDP).

(3 marks)

Q8

6

8. Measures to promote Growth and Development (6 marks)

Use the information given below and your knowledge to answer questions (a-c) that follow.

Strategies to promote growth and development in the Least Developed Countries (LDC).

Developing nations are always actively seeking strategies to promote their development strategies. These strategies ranged from broad-based ones to individual strategies.

a) Explain how **export promotion** can promote growth in developing nations.

(2 marks)

b) Explain how **population control** can promote economic growth in developing countries.

(2 marks)

c) Explain how **increased level of education** can improve economic growth in developing countries.

(2 marks)

Q10

6

ECONOMICS 2019

Student Personal Identification Number

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FOR MARKER USE ONLY

SECTION	EXAM MARKS	MARKER	CHECKER
A	54		
B	33		
C	40		
D	47		
E	26		
TOTAL	200		
Marker / Checker Initials			