

MARKER CODE



Student Personal Identification Number

Solomon Islands National Form Six Certificate

ECONOMICS

2017

QUESTION AND ANSWER BOOKLET

Time allowed: 3 Hrs + 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	53 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	<u>27 marks</u>	<u>24 minutes</u>
	TOTAL	200 marks	180 minutes

2. **Answer all questions** in the spaces provided in this booklet.
3. **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.
4. 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.
5. Check that this booklet contains pages **1– 46** in the correct order and that none of these pages is blank.

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

TOTAL MARKS

200

SECTION A: BASIC ECONOMIC CONCEPTS

(53 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. scarcity of resources in relation to wants
 - C. free working of market forces in an economy
 - D. production and distribution of material goods

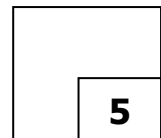
2. **Specialization** occurs when;
 - A. an economy is said to be dependent.
 - B. someone provides all his or her own needs.
 - C. a supermarket sells a variety of goods and services at an affordable price.
 - D. people concentrate on the production of goods and services which they are best suited.

3. **Oligopoly** is a market structure in which there is/are;
 - A. a single seller.
 - B. only two sellers.
 - C. more than two sellers.
 - D. a large number of firms sell products which are very close substitutes.

4. During Christmas festivity the price of betel nut bags sold at Point Cruz wharf usually goes up to \$1,000 per bag. The BEST illustration of this situation is that;
 - A. both its demand curve and its supply curve moves to the left.
 - B. both its demand curve and its supply curve moves to the right.
 - C. Its demand curve remains the same but its supply curve moves to the left.
 - D. its demand curve remains the same but its supply curve moves to the right.

5. The factor income that is generated from **entrepreneurship** is;
- A. rent
 - B. wages
 - C. profit
 - D. interest

A. Q.1-5



Part 2: Short Answer Questions (48 marks)

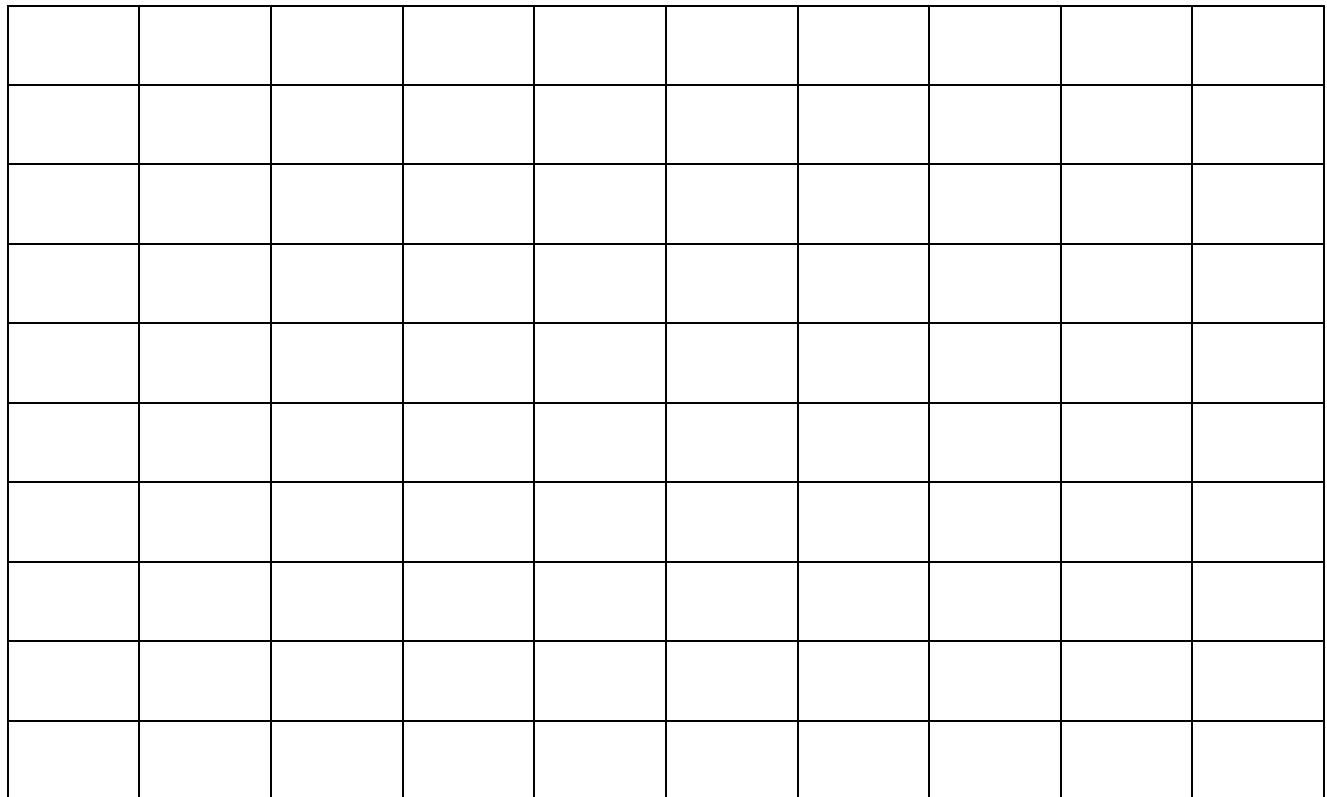
6. Production Possibilities Curve (7 marks)

Imagine all Provinces in Solomon Islands grow only coconuts and taros. If all the Provinces only grow coconut, then they could produce 100,000 tons per year. But if they only grow taro, then they could produce 50,000 tons per year. However, if part of the land is used for coconut and part of it is used for taro, then various amount of possible production can be obtained as shown in the table below.

Production Possibilities schedule for coconut and taro.

Possibilities	Coconuts per year ('000 tons)	Taro per year ('000 tons)
A	100	0
B	90	20
C	80	30
D	60	40
E	0	50

- a) Draw a **Production Possibilities Curve (PPC)** on the grid provided below. You are to put coconuts on the y-axis and taros on the x-axis. Label your graph carefully. (3 marks)



b) What does the **Production Possibility Curve** (PPC) show?

(2 marks)

c) Calculate the **Opportunity Cost** of the increase of 80,000 tons to 90,000 tons of coconut.

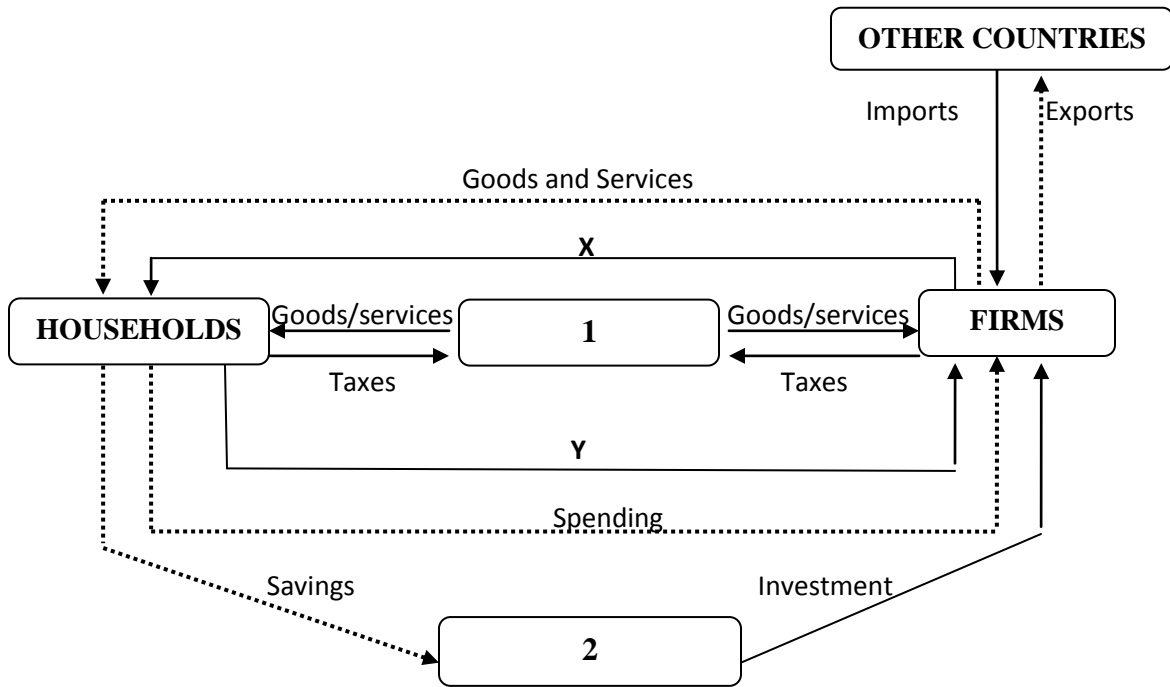
(2 marks)

A. Q.6

7

7. Five-sector Circular Flow Model (9 marks)

Study the diagram below and answer the questions a), b), c) & d).



a) NAME the sectors labelled 1 and 2 in the above diagram.

- 1. _____
 - 2. _____
- (2 marks)

b) Label the **flows** marked X and Y.

- X. _____
 - Y. _____
- (2 marks)

c) State any ONE example of the **injections and the leakages** in an economy.

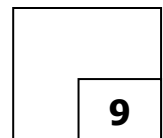
i. Injections: _____ (1 mark)

ii. Leakages: _____ (1 mark)

d) Explain the **interdependence relationship** between households and firms.

(3 marks)

A. Q.7



8. Supply and Demand (8 marks)

Use the information given below and your knowledge to answer the questions a), b), c), & d).

Supply and Demand Schedule for fish in Gizo market

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

- a) Draw the Supply and Demand graph for Reef fish at Gizo 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

(3 marks)

b) At the price of \$13.00 per kilogram, what **situation** exists in the market?

(1 mark)

c) Which **curve** would a government subsidy shift? Explain.

(2 marks)

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

(2 marks)

A. Q.8

8

9. Economic concepts (4 marks)

Honiara Hot bread kitchen is baking different types of breads in a day. In its baking division it employs some workers. Its output varies in the following manner: it continues to increase the number of workers it employs while holding constant factors such as baking equipment, space and management.

Number of workers	1	2	3	4	5	6	7	8	9	10
Number of breads.	50	120	210	320	450	600	690	750	800	850

a) From the data given above, state from which numbers of workers the Baking Division of Honiara Hot bread kitchen is facing:

(i) Economics of scale

(2 marks)

(ii) Diseconomies of scale

(2 marks)

A. Q.9

4

10. Components of Aggregate Demand (5 marks)

Study the following extract and answers the questions that follow.

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)

- b) Explain the economic relationship that the aggregate demand curve show?

_____ (2 marks)

- c) Explain how an increase in government spending affect aggregate demand?

_____ (2 marks)

A. Q.10

5

11. Market Structures (6 marks)

a) Explain the DIFFERENCE between Monopolistic competition from Perfect competition?

(2 marks)

b) Explain the DIFFERENCE between Oligopoly from Perfect competition?

(2 marks)

c) Explain the DIFFERENCE between a price taker firm and a price maker.

(2 marks)

A. Q.11

6

12. Gross Domestic Product (9 marks)

The price of green coconut and dry coconut sold at Honiara main market

Year	Price of green coconuts (\$)	Quantities of green coconuts sold/day	Price of dry coconuts (\$)	Quantities of dry coconuts sold/day
2015	4	200	0.5	300
2016	5	250	1	500
2017	6	260	2	600

The base year is 2015

- a) Calculate the **nominal GDP** for both green coconuts and dry coconuts in 2015.

Nominal GDP for 2015.

(2 marks)

- b) Calculate the **real GDP** for both green coconuts and dry coconuts in 2017.

Real GDP for 2017.

(2 marks)

- c) Explain WHY Real GDP is a better measure of economic growth than Nominal GDP?

(3 marks)

d) Distinguish between the economic terms Gross National Income (GNI) and Gross National Expenditure (GNE).

(2 marks)

A. Q.12

9

Q1-5

5

 + Q6

7

 + Q7

9

 + Q8

8

+ Q9

4

 + Q10

5

 + Q11

6

 + Q12

9

 =

53

SECTION B: MONEY

(33 marks)

Part 1: Multiple Choice Questions (5 marks)

Circle the letter of your chosen answer.

1. Modern money or fiat money
 - A. is not true money.
 - B. has no intrinsic value
 - C. has no intrinsic value but is guaranteed by the government
 - D. has a lot of intrinsic value but is guaranteed by the government

2. 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

3. The following are core functions of a reserve bank except:
 - A. banker to the government
 - B. implementer of fiscal policy
 - C. implementer of monetary policy
 - D. banker to the major registered banks

4. The money supply in circulation in an economy will decrease if the government borrows from;
 - A. overseas
 - B. the Public
 - C. the Central Bank
 - D. the commercial banks

5. The event that will lead to an increase in the demand for money is a/an;
 - A. decrease in the price level
 - B. increase in the interest rate
 - C. increase in the supply of money
 - D. increase in the level of aggregate output

Q1- 5

5

Part 2: Short Answer Questions

(28 marks)

6. Functions and characteristics of money **(4 marks)**

a) Explain ONE function of money.

(2 marks)

b) Explain ONE characteristic of money.

(2 marks)

Q.6

4

7. Quantity Theory of Money (4 marks)

The Quantity theory of Money is
 $MV = PQ$

a) Given $P = \$10$, $Q = 6000$ million, and $V = 2$. Calculate M .

(2 marks)

b) Given $M = \$200$; $V = 5$, $P = \$2$. Calculate Q

(2 marks)

Q.7

4

8. The Effect on the Money Supply **(6 marks)**

Use your knowledge and understanding to answer the questions a), b) & c).

a) Define foreign aid?

(2 marks)

b) If the government borrows from the central bank, what effect will this have on the money supply of the economy? **Explain.**

(2 marks)

c) Explain the term **moral suasion**?

(2 marks)

Q.8

6

9. The Commercial Bank Balance Sheet **(3 marks)**

Consider the following balance sheet of Tom bank and answer the questions a) & b).

Tom bank Balance sheet

Assets		Liabilities	
Cash reserves \$100		Deposits	\$1,000
Loans \$900			
Total	\$1,000	Total	\$1,000

a) What is the purpose of **cash reserves**?

(1 mark)

b) Calculate the Reserve Assets Ratio (RAR) from the above table.

(2 marks)

Q.9

3

10. Rate of Inflation **(4 marks)**

Use the data given below and your knowledge to answer questions a) & b).

Year	Consumer Price Index(CPI)	Annual rate of inflation (%)
1990	130.7	-
1991	136.2	(a)
1992	140.3	(b)

You are required to calculate the annual rate of inflation for year 1991 and 1992. *Round off your answers to two places.*

a) Year 1991: Annual rate of inflation

(2 marks)

b) Year 1992: Annual rate of inflation

(2 marks)

Q.10

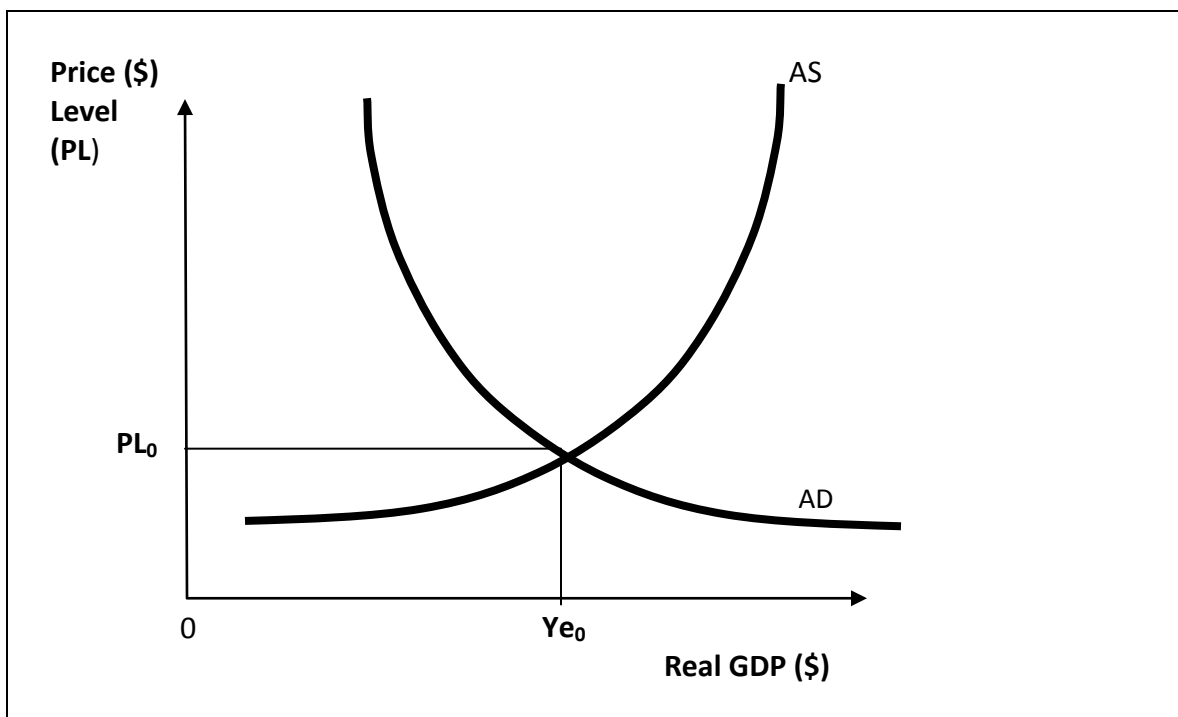
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11. The Effects of Inflation **(3 marks)**

Use your knowledge and understanding to answer question a).

- a) 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.

Aggregate Supply and aggregate Demand Model



(3 marks)

Q.11

3

12. Policies to Combat Inflation **(4 marks)**

For each policies given below, explain how they would be used to combat and counter inflationary pressures.

a) **Exchange rate** policies

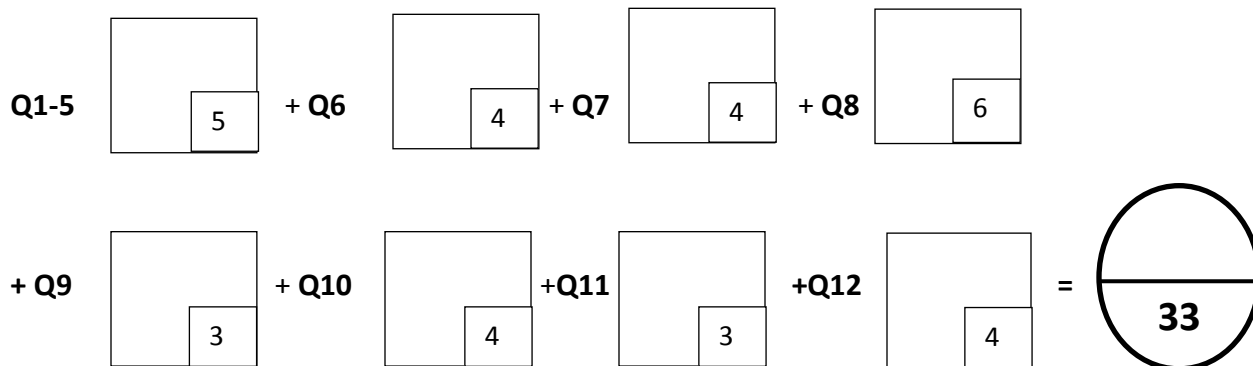
(2 marks)

b) **Income** policies

(2 marks)

Q.12

	4
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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 which it trades with, 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. **Terms of trade** for a country are the ratio of;
 - A. export prices to import prices
 - B. its currency to other currencies
 - C. value of exports to value of imports
 - D. its opportunity costs to world opportunity costs

4. The term **tariff** as used in international trade refers to as;
 - A. tax on imports.
 - B. government payment to encourage exports
 - C. the place of goods when they leave the producing country
 - D. limit on the quantity of a good that can be imported into a country

5. Which of the following is **not** the role of the World Trade Organization (WTO) on trade in the Pacific?
 - A. Help with the balance of payment adjustment
 - B. Provide a mechanism for handling trade disputes
 - C. Provide a forum for member countries to negotiate trade rules
 - D. Monitor and reviewing domestic trade policies of individual member countries

C. Q.1-5

5

Part 2: Short Answer Questions (35 marks)

6. The Basis of Trade and Gains of Trade (10 marks)

1. a) Explain ONE reason why countries trade with each other

(2 marks)

b) Explain the term **favorable movement** in the terms of trade.

(2 marks)

2. Sololand and Zealand, two hypothetical economies, has the following production output using 1 unit of labor.

Commodity	Sololand	Zealand
Copra (tonnes)	10	2
Sheep	1	12

a) What is the **opportunity cost** of producing 1 sheep in

Sololand: _____
(1 mark)

b) What is the **opportunity cost** of producing 1 unit of copra in

Zealand: _____
(1 mark)

c) State and explain which country has the **absolute advantage** in the production of copra.

(i) State; _____

(2 marks)

(ii) Explain; _____

(2 marks)

d) State and explain which country has the **comparative advantage** in the production of sheep?

(i) State; _____
(ii) Explain; _____
(2 marks)

C. Q.6

10

7. Foreign Exchange **(6 marks)**

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) Explain the DIFFERENCE between a fixed exchange rate and a flexible exchange rate

(2 marks)

- b) Given below are the exchange rates between Solomon Islands and four of its major trading partners. The exchange rates are as at 1st of July 2016 and are expressed per \$1.00 SBD.

USD = 0.1273
AUD = 0.1653
NZD = 0.1810
JPY = 15.5903

- (i) Use the exchange rates to convert the following foreign currency amounts into Solomon Islands currency:

AUD\$230: SBD\$ _____
(1 mark)

JPY¥800: SBD\$ _____
(1 mark)

- (ii) Convert the following amounts of Solomon Islands dollar into the following currencies.

SBD\$1,000: USD\$ _____
(1 mark)

SBD\$5,500: NZD\$ _____
(1 mark)

C. Q.7

6

8. Balance of payments **(7 marks)**

The following figures were extracted from New Zealand's BOP for the year ended March 2014/2015. (All figures are in millions of dollars).

i. Exports of goods	11,491
ii. Export of services	3,357
iii. International investment income (net)	(2,383)
iv. Imports of goods	10,513
v. Imports of services	488
vi. Balance on transfers	239
vii. Non-official capital flow (net)	797
viii. Net official borrowing	6,557

From the above records, calculate the following;

a) Balance on merchandise trade

(1 mark)

b) Balance on invisibles

(2 marks)

c) Balance on current account

(2 marks)

d) Balance on capital account

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(2 marks)

C. Q.8

7

9. Trade Protectionism **(8 marks)**

1. Use your knowledge to answer questions a) & b).

a) The infant industry argument is probably the most economically sound argument in favor of protectionism.

Discuss the term **infant industry** argument.

(3 marks)

b) Discuss why **export-led growth** appear to work better than import substitution.

(3 marks)

2. Use the information given below and your knowledge to answer question a).

An Embargo is a form of protectionism

a) Explain ONE reason why Embargo might be used by any government as a form of protection. (2 marks)

C. Q.9

8

10. Marketing Boards and International Monetary Fund (IMF) **(4 marks)**

Use your knowledge to answer questions a) & b).

a) Discuss the role of **Marketing Boards** in the Pacific.

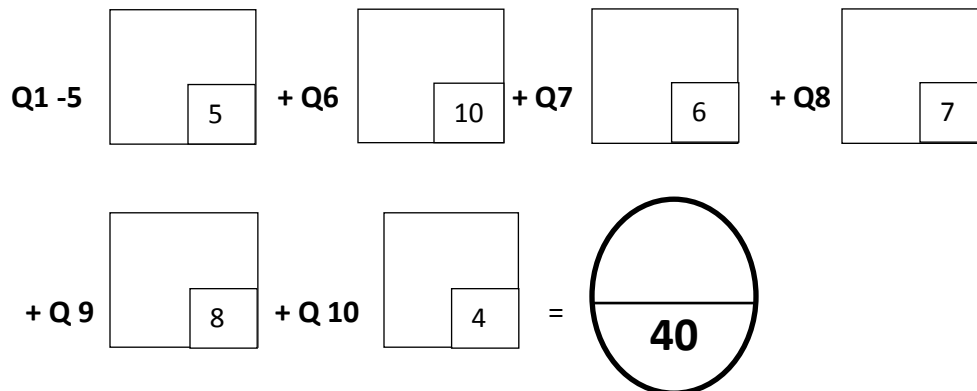
(2 marks)

b) Explain the MAIN role of **IMF** on trade in the Pacific.

(2 marks)

C. Q.10

4



SECTION D: ECONOMIC FUNCTIONS OF GOVERNMENT (47 marks)

Part 1: Multiple Choice Questions (5 marks)

Circle the letter of your chosen answer.

1. The economic functions of a government is to redistribute income, stabilize the economy,
 - A. provide private goods and correct market failures
 - B. provide private goods and enforce market failures
 - C. enforce laws and contracts and correct market failures
 - D. enforce laws and contracts and provide consumer goods

2. The THREE types of taxes are;
 - A. regressive, retaining and proposed
 - B. proportional, proposed and regressive
 - C. regressive, proportional and probable
 - D. progressive, proportional and regressive

3. Central government receives most of its **income** from;
 - A. payroll tax
 - B. gambling rates
 - C. government grants
 - D. personal income tax

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

5. A modern welfare state performs the following economic functions except it;
 - A. remedies market failures
 - B. redistributes income and resources
 - C. manages international economic welfares
 - D. promotes short term economic growth only

D. Q.1-5

5

Part 2: Short Answer Questions (42 marks)

6. Government Budget and Taxation **(10 marks)**

1. Study the information given below and your knowledge to answer questions a) & b).

Country A's Government Budget

Income	\$ (millions)	Expenditure	\$ (millions)
Income tax	7,580	Administration	950
GST	3,200	Education	1,700
Custom duty	900	Social Services	3,800
Highway tax	250	Health	2,000
Motor spirits tax	200	Transport	600
Other taxes	370	Foreign relations	900
Interest	500	Debt servicing	2,000
Profits from trading	500	Miscellaneous	2,500
Borrowing (to cover deficit)	950		
	14,450		14,450

- a) By how much is expenditure greater than income?

_____ (1 mark)

- b) State ONE source of government borrowing

_____ (1 mark)

- c) What **percentage** of total expenditure is spent on foreign relations, debt servicing and miscellaneous?

(3 marks)

Use your knowledge to answer questions a) & b).
Personal income on Blue Islands uses the progressive tax as stated below.

Tax on personal income on Blue Islands.

Level of income (\$)	Income tax rate (%)
Next \$10,000	40%
Next \$10,000	30%
Next \$10,000	20%
Next \$10,000	10%
\$0 - \$10,000	0%

a) John's annual salary is \$30,000.00 per annum. Calculate his net pay

(3 marks)

b) Mary's annual salary is \$20,000.00 per annum. Calculate her net pay

(2 marks)

D. Q.6

10

7. The roles of the government **(6 marks)**

Explain the following roles of the government;

a) Distributive;

(2 marks)

b) Regulatory;

(2 marks)

c) Stabilization

(2 marks)

D. Q.7

6

8. 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) What is a **price floor**?

(1 mark)

b) What is a **minimum wage**?

(1 mark)

c) Explain how this **minimum wage** will affect the unskilled labor market?

(2 marks)

D. Q.8

4

9. Foreign Trade, Aid and Investment **(4 marks)**

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

a) Explain ONE main difference between foreign trade and foreign aid?

(2 marks)

b) Explain ONE example of how foreign aid helps Solomon Islands to improve its essential services?

(2 marks)

D. Q.9

4

10. Government Measures to address economic issues **(14 marks)**

1. Use your knowledge to answer question a).

a) What is the DIFFERENCE between proportional tax and regressive tax?

(2 marks)

2. Use your knowledge on exports and imports to answer questions a), b) & c).

a) Anna lived in Fiji and wants to buy a new car from Japan worth FJ\$10,000.00. At the time, the Fiji currency **depreciated** against the Japanese yen by 5%.

How much will Anna buy for the new car using Fiji's currency?

(2 marks)

b) Peter lived in Australia and always spent AUD\$500 a month to buy kava from Vanuatu. At the time, the Australia currency **appreciated** against the Vanuatu vatu by 20%.

How much will Peter spent on Vanuatu kava using Australia's currency monthly?

(2 marks)

c) Explain the effect of **appreciation** of the Australian currency on importer like Peter?

(2 marks)

d) Explain the effect of **depreciation** of Fiji's currency on importer like Anna?

(2 marks)

3. Use your knowledge to answer questions a) & b).

It is estimated that the Red Devil Engineers will use almost \$10 million worth of Solomon Islands development budget funds to reconstruct the Mataniko river bank buffer to withstand heavy flash flood.

a) Explain why flood control would be considered a public good.

(2 marks)

b) How are public goods funded?

(2 marks)

D. Q.10

14

11. Government Policies (4 marks)

Use your knowledge to answer questions a) & b).

a) Define **monetary policy**?

(2 marks)

b) Define **fiscal policy**?

(2 marks)

D. Q.11

4

Q1 -5

5

 + Q6

10

 + Q7

6

 + Q8

4

+ Q9

4

 + Q10

14

 + Q11

4

 =

47

SECTION E: ECONOMIC DEVELOPMENT

(27 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. Despite their differences, Low Developing Countries (LDC) share a number of characteristics. Which one of the following is not a characteristic of LDC?
 - A. Low levels of living
 - B. Low labor productivity
 - C. Social provision of social overhead capital
 - D. Improve businesses and relations with developed countries.

3. The infant mortality rate would be very low in;
 - A. developed countries
 - B. developing countries
 - C. less developed countries
 - D. least developed countries

4. Sustainable Economic Development refers to the type of development that;
 - A. will create attainable goals for itself.
 - B. lays emphasis on the resources of developing countries.
 - C. will always ensure a balanced development of all sectors.
 - D. incurs minimum financial and environment burden on future generation.

5. The economic term that broadly describes the transfer of modern technology, skills and knowledge from advanced nation to Low Developing Countries is;
 - A. disguised skills
 - B. economic dualism
 - C. technical assistance
 - D. dependency burden

E. Q.1-5

5

Part 2: Short Answer Questions (22 marks)

6. Economic growth and Economic development (5 marks)

Use your knowledge to answer questions a), b) & c).

a) Define the **following terms**;

(i) Economic growth

(1 mark)

(ii) Economic development

(1 mark)

b) Identify ONE major source of **economic growth**

(1 mark)

c) Describe one **benefit** of economic growth to a nation

(2 marks)

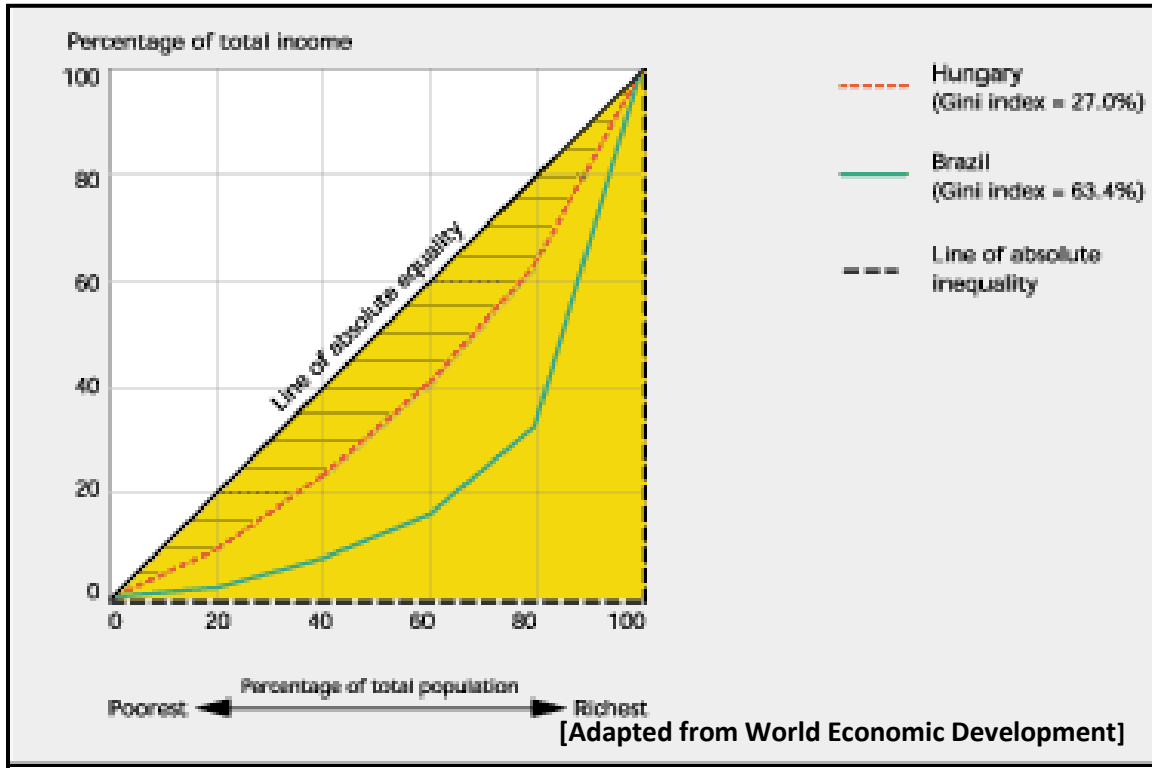
E. Q.6

5

7. Income inequality (3 marks)

Use the information in the table below to answer questions a) & b).

Lorenz Curves and Gini indexes for Brazil and Hungary



a) State which country has a higher level of **income inequality**.

_____ (1 mark)

b) Explain what the line of absolute equality represent.

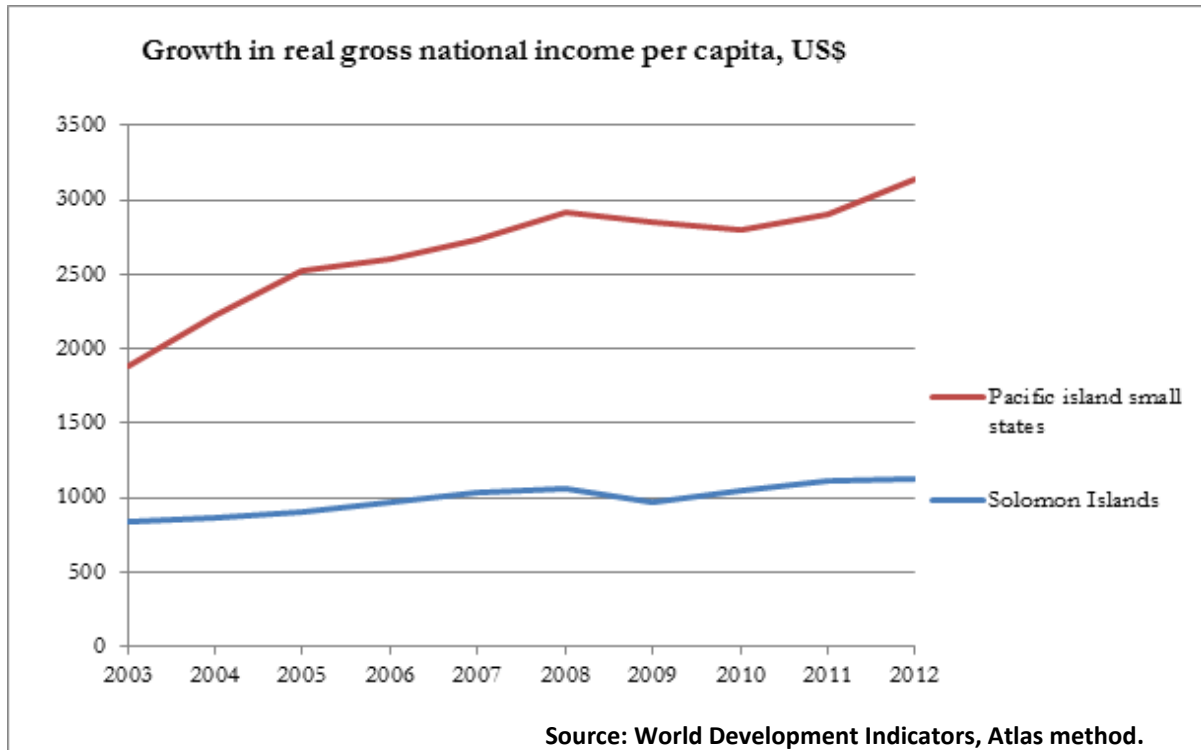
_____ (2 marks)

E. Q.7

3

8. Real Gross National Income Per Capita **(4 marks)**

Consider the graph below to answer questions a) & b).



a) Describe the trend in the growth of real gross income per capita of Solomon Islands over the ten years period.

(2 marks)

b) Explain the significance of an increase in a real gross income per capita to a nation?

(2 marks)

E. Q.8

4

9. Characteristics of Developing countries **(6 marks)**

Use the information given in the box below and your knowledge to answer questions a), b) & c).

Developing countries have specific characteristics which inhibit and prevent their growth or development. These characteristics range from the most sophisticated to the least complex. However, the ideal situation is to ensure that the level of growth and development in these countries are being encouraged and harnessed.

Explain how the following characteristics **inhibit** growth and development in Low Developing Countries (LDCs).

a) Lack of Supporting **Infrastructures**;

(2 marks)

b) Shortages of **Human Capital**;

(2 marks)

c) High levels of **Underemployment**;

(2 marks)

E. Q.9

6

10. Measures to Promote Growth and Development **(4 marks)**

Use your knowledge to answer questions a) & b).

- a) Explain how diversifying of **export markets (export products)** improve economic growth?

(2 marks)

- b) Explain ONE benefit of using **Population Control** strategy to promote economic development.

(2 marks)

E. Q.10

4

Q1 -5

5

 + Q6

5

 + Q7

3

+ Q8

4

 + Q9

6

 + Q10

4

 =

27

THE END

HISTORY 2017

Student Personal Identification Number

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FOR MARKER USE ONLY

SECTION	EXAM MARKS	CHECK MARKER
A	53	
B	33	
C	40	
D	47	
E	27	
TOTAL	200	
MARKERS INITIAL		