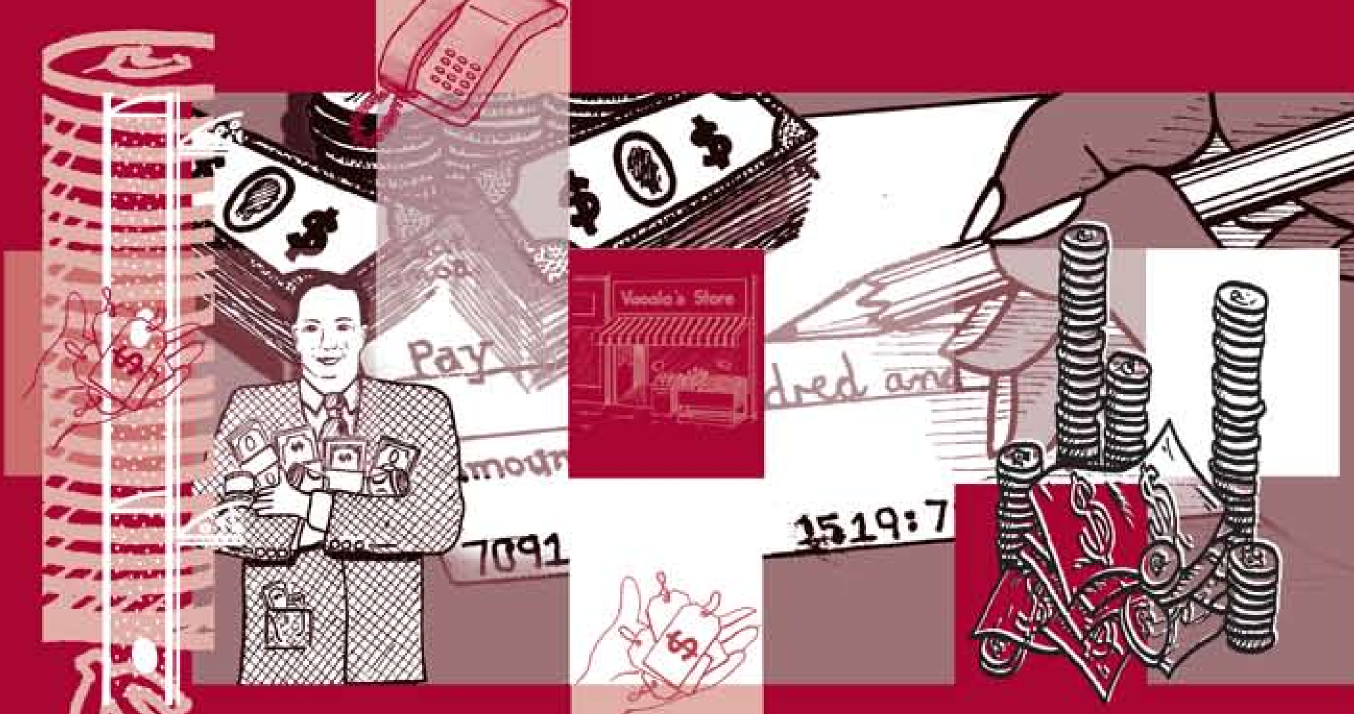
Year 13



Economics

Learning Guide

Student Learning Guide

Sāmoa Business Studies Curriculum
Economics Year 13

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Sāmoa Business Studies Curriculum
Economics Year 13

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INTRODUCTION

This Learning Guide has been prepared to help students (and teachers) to identify the relevant sections in the textbook that is currently being used, *Achievement Economics @ Year 12*, written by Anne Younger. The focus for this text is on the New Zealand economy and refers to the external assessment system used by the New Zealand education system (NCEA). Students and teachers should ignore this, though the layout of the text is useful as it gives a statement of the Achievement Objectives for each unit.

How to use this Learning Guide

The Learning Guide identifies each of the strands and relevant Achievement Objectives in the Economics Year 13 curriculum statement. The content that is relevant to each Achievement Objective is identified and, if appropriate, a comment is made to give further assistance. Not all Achievement Objectives are covered in the textbooks. These are identified in the guide and suggestions are made where relevant.

Economics – Year 13 Teaching and Learning Programme

It is recommended that teachers develop a teaching programme that allows for a logical and systematic way of learning about economics. The textbook provides a logical order for teaching the various areas but it is recommended that teachers prepare a teaching programme which allocates time for each area of study to ensure that all Achievement Objectives are covered adequately and in a timely fashion. A well developed teaching programme should also include required internal assessment tasks, ensuring that the relevant topics are taught adequately before students are required to complete such tasks.

Some sections of the textbook may be useful for the teaching of the Year 12 Economics curriculum.

PRODUCTION THE DIVERSITY AND GOALS OF PRODUCERS Students will investigate and develop skills and understanding of: **1. The role of government in the economy** when they:		
Achievement Objectives	**Textbook reference**	**Comments / Suggestions**
a. Describe the structure of the Samoan government;		
b. Identify and explain the major functions of government;		See below. Each chapter in the textbook has a unit that looks at the role of government in the different issues relevant to the economy.
c. Investigate the economic aims of governments.		See below. Each of the units relevant to the role of the government in the economy explores the economic aims of governments. An introduction to this is given in the notes included below.

Role of Government

The government has four distinct roles in the economy:

1. **Regulatory**

The state has the role of providing the legal framework within which business takes place. This includes contract law, regulations for the workplace, such as the minimum wage, health and safety, etc., and controls which business can operate under.

2. **Allocative**

In this role, the state owns and uses resources to produce goods and services that are not provided by the private sector. Examples of these are public hospitals, schools, water and so on.

3. **Redistributive**

In this case, the government interferes in the market by redistributing income and wealth from higher-income earners to the lower-income earners. This is done through progressive taxation, where the higher income-earners are taxed at a much higher rate than those who earn lower income. Many developed countries have a social welfare structure where the government is able to transfer money to the economically disadvantaged through benefits and tax allowances.

4. **Stabilisation**
In this role, government keeps an eye on the macro-economic economy to ensure that its economic objectives such as high levels of employment and low inflation are met. The state can stabilise the economy to prevent wild swings in activity between **boom** and **depressions** or to stop **inflation** from getting out of control. It is important to note that usually when the government uses a policy tool to achieve one of its objectives, it also influences others. An example of a conflict in goals occurs when policies used to reduce the rate of inflation will increase the rate of unemployment.

Objectives of Government
Society needs one overall group to be responsible for the issues that concern and affect it. A society needs a governing body that is given the responsibility by its members to make rules that all must abide by. In post-industrial society, the governing body that has emerged is called Government. The role of government is continually changing. It is generally accepted in developed and developing countries that in the economic sphere, government takes overall responsibility for five areas:

- Full employment
- Price stability
- Balance of payments equilibrium
- Economic growth
- Equity (fairness) in the distribution of income.

These objectives, like all economic decisions must be prioritised. The prioritisation of these objectives depends on the philosophical economic stance of the nation, and the government of the day.

Activities
Copy and complete the following questions in pairs or in small groups. A discussion with others will help you to gather your own thoughts about a response.

1. What is the philosophy of the current government of Samoa? Discuss this question in a group and collect newspaper articles or other data that support your response to this question.
2. What influence does the philosophy of other nations in the Pacific region have on the government of Samoa and the way it develops its economic policies?
3. How long has the present government of Samoa been in power? Identify some economic policies that have had a negative and positive influence on this government's term in power.

Economic Philosophy

There are currently two extremes of opinion regarding the role and size of the state (government) in the economy:

- Those who believe there the state should have very little to do with the economy except as a lawmaker. People who believe that there is no role for government in the economy argue for a **market economy**. They think that people should have maximum freedom to go about their daily lives with no interference from the state. Taxes should therefore be low and government should get out of businesses that could easily be run by private enterprise.
- Those who believe that a civilised society needs careful planning and it is the role of the state to guide, supervise and control the forces in a country in order that wider needs are met. Therefore, the state should look after the interest of citizens and offer a generous "safety net" for those unable to cater for themselves and that fairness and full employment and the environment are the most important issues for the state.

There has been a move towards the market economy philosophy for many developed and developing countries. This has led to a greater emphasis on issues such as economic growth and inflation, for example, and lesser importance on full employment and equity.

Style of Government

The style of government adopted by the political party in power, reflect their economic philosophy. The policies developed by governments also reflect the style of governance. An example of this is when the Government of Samoa established privatised state-owned industries e.g. Samoa Tel (telecommunications) and EPC (power and electricity).

Activities

Copy and complete the following in your books:

1. Identify where Samoa fits in the continuum in regards to the economic philosophy of the government. How does this fit with the economic philosophy of other small nations in the Pacific region?
2. How has the economic philosophy of more developed nations such as New Zealand and Australia influenced the economic policies of countries in the Pacific such as Samoa?

Why is the State involved in the Economy?

The main reason the government interferes in the working of the economy is to address shortcomings of the market – or **market failure**. The main causes for market failure arise from:

1. The failure to provide for resources in the future – conservation;
2. The failure to provide for certain categories of goods, known as **public goods** – goods the private sector cannot provide as it is not profitable for investors. Examples of this are defence and police.
3. The external effects of market activity that neither producers nor consumers are prepared to pay for in the marketplace, e.g. pollution that is emitted by some producers as a result of their economic activity. In such situations, the state can legislate to charge the producer for emission of such waste.
4. The creation of monopolies that exploit consumers, such as telecommunications services.
5. The uneven distribution of income the market producers. In a market economy, people will produce those goods and services that will earn the greatest profit. Therefore some goods that do not enjoy a large share of the market, e.g. goods for disabled people, will not be produced unless the state offers an incentive for producers to do so.

PRODUCTION THE DIVERSITY AND GOALS OF PRODUCERS Students will investigate and develop skills and understanding of: **2. The main economic issues faced by government** when they:		
Achievement Objectives	**Textbook reference**	**Comments / Suggestions**
a. Identify and describe economic issues governments commonly face; b. Investigate different measures and policies developed by governments to address economic issues of employment, growth, trade, inflation and inequality *(include types and principles of taxation when looking at different measures developed by governments)*; c. Analyse how government measures and policies impact on different economic issues; d. Categorise the measures used as monetary, fiscal or other.	Government intervention in the market – Unit 1.9, pp 47 – 56; Government and Inflation – Unit 2.7, pp 90 – 96; The Government and Unemployment – Unit 3.9, pp 133 – 140; The Government and Trade – Unit 4.9, pp 180 – 187; The Government and Growth – Unit 5.8, pp 223 – 229; The Government and Inequality – Unit 6.5, pp 245 – 250.	The textbook refers to the New Zealand economy and policies established by the New Zealand government to address issues that influence its economy. The examples referred provide a good basis for discussion generally and the teacher can provide examples in the Samoan context by keeping up-to-date with developments through the media – television, newspaper articles, radio broadcasts, etc.

Government Policy Tools

Economic policies available to government to achieve its goals can be broadly divided into three types:

1. Fiscal Policy

Fiscal policy is the use of the government budget to change taxation and spending policies so that certain goals can be met. An example of this is the increase in the indirect tax of VAGST. The government uses changes in its income and expenditure to influence the amount of demand in the economy. To reduce demand, the government may reduce its spending / or increase its tax revenues. This reduces people's disposable incomes and so removes spending power from the economy. As time passes, the reduced spending will lessen price rises as businesses see demand for their goods and services reduced.

2. Monetary Policy

This is policy that controls money and credit availability in the economy through the Central Bank. Monetary policy works through the control of the Central Bank in Samoa, whereas in New Zealand, the Reserve Bank has control. These banks work to control registered banks (commercial banks), in particular over their ability to make loans from their deposit base. The public uses the commercial banks to make deposits for excess funds that they do not need to use immediately. They also loan from the bank. The Central Bank is used in the same way by commercial banks. Each commercial bank has what is known as a settlement account with the Central Bank. All transactions between commercial banks go through the Central Bank. Each bank must have enough funds in their settlement account to meet any daily transactions it has with other banks.

It is through the settlement account that the Central Bank influences interest rates. The settlement accounts have to be in credit at the end of each day; each night all the day's cheques are entered into the banking system and there must be sufficient money to meet payment obligations. In some cases where a bank does not have enough in its settlement account, it has a liability (owes money) to another bank. Sometimes banks are not able to borrow from each other to ensure their settlement cash is positive. In these cases, they must sell some of their Central Bank bills which they hold, back to the Central Bank. A Central Bank bill is an investment that a registered bank takes advantage of as it offers interest usually for short-term over 3 months. The Central Bank will buy back these bills if they are less than 28 days to maturity, but only at a discount. This penalises the banks that have to borrow in this way, and encourages them to keep sufficient settlement cash on hand. If the Central Bank wishes to tighten monetary policy directly, it can reduce the amount of settlement cash in the system. This means that each bank will have less in their settlement account and will increase the likelihood of having to borrow from other banks or sell some of their Central Bank bills. This forces up interest rates – the principle of supply and demand mean there is less loanable money in the system for registered banks to borrow. This rise in wholesale interest rate will feed through into the retail interest rates that registered banks charge their borrowers and reward their savers, i.e. the public.

3. Direct Controls

The government can make laws to directly control the economy. Examples of such laws include control on prices and wages, and import restrictions. Governments that have a 'more market' philosophy to the economy do not use these types of policies often as they prefer that the market influence changes to bring about equilibrium.

PRODUCTION THE CONCEPTS RELATED TO MAKING ECONOMIC CHOICES Students will investigate and develop skills and understanding of: **3. Economic concepts applicable to international trade** when they:		
Achievement Objectives	**Textbook reference**	**Comments / Suggestions**
a. Explain the relationship of specialisation and exchange to international trade;	Pages 141 – 187	As with the rest of the textbook, the examples used and discussions related to the different economic concepts and principles are applied to the New Zealand economy. Students should be encouraged to consider the examples related to the economy of Samoa. Current newspaper articles are a useful resource that should be used by teachers for this.
b. Distinguish between absolute and comparative advantage;		
c. Use simple mathematical examples to illustrate comparative advantage by calculating opportunity cost;		
d. Distinguish between terms of trade and gains of trade;		
e. Use simple mathematical examples to illustrate gains from trade following specialisation.		

International Trade

International trade is based on the principle of comparative advantage and world demand patterns. A country exports in order to import and increase its standard of living. Most international trade takes place among rich, developed nations, predominantly in manufactured goods and services. Poorer, developing countries often have to rely on a narrow commodity base for their exports. The main differences between domestic and international trade are that the latter involves different currencies and often has artificial restrictions imposed on it.

Terms of trade refer to the relationship between a country's export prices and its import prices (page 174). This index measures the quantity of imports that can be bought with a given unit of exports.

Comparative Advantage

Comparative advantage arises from differences in costs of production in different countries, which in turn are caused by different factor endowment or resources a country has at its disposal, and technologies.

PRODUCTION THE CONCEPTS RELATED TO MAKING ECONOMIC CHOICES Students will investigate and develop skills and understanding of: **4. The importance of markets** when they:		
Achievement Objectives	**Textbook reference**	**Comments / Suggestions**
a. Recall and distinguish between different markets which exist in the economy, such as goods and services and factor markets;		The textbook for Year 12 has very good coverage of this topic that should be used as a basis for revision.
b. Identify and describe features of the different market structures of perfect and imperfect competition.		

Markets

A market is anywhere buyers and sellers come into contact in order to buy and sell goods and services. It may be a physical place, such as the craft market, or situations such as a newspaper 'for sale' column or 'situations vacant' section.

Perfect Competition

Perfect competition is a market situation in which no firm or individual is able to influence the working of the market. Firms are small in size and exist in large numbers. Therefore, perfect competitors are **price takers**, as they are too small to influence price. Firms produce identical (homogenous) products and there are no barriers to entry into the market, with anyone wanting to set up in business. The market structure also requires that firms know about prices of inputs and technology available (perfect knowledge) and buyers have knowledge of the price of finished goods and services.

Imperfect Competition

Firms are subdivided into monopolistic, oligopoly, duopoly, monopoly and monopsony. They are price makers because of their ability to make their products appear different, that is, relative to their competitors their products are not homogenous. For any imperfect competitor to sell an additional unit they must lower the price.

Monopolistic or monopolistically competitive

This market structure has a large number of firms selling goods and services that are close substitutes to (slightly differentiated from) those of competitors. They have weak barriers to entry and other firms may enter the industry with ease, for example hairdressers, tradespeople. Monopolistic firms are probably the most common of all market structures in Samoa and firms compete using location, standard of service, or goodwill. The competition between suppliers is strong.

Oligopoly
A small number of firms produce goods or services which are close substitutes and are typically large scale, for example oil companies in New Zealand (in Samoa, there is currently only one oil company that is able to supply to the public – therefore it is a monopoly!), and banks in Samoa. Oligopolies are price makers and try to increase market share by avoiding price competition and in particular price wars (sales). A feature of oligopolies is that they have strong barriers to entry, such as high capital costs to set up or technological expertise or knowledge which keeps competitors out. Oligopolies may also have legal barriers – trademarks/patents that protect other firms copying their product. An oligopolist has a kinked demand curve. A duopoly is an industry that has two producers of a good or service i.e. it is the smallest oligopoly.

Monopoly (or monopolist)
Single seller of good or service for which there are few, if any substitutes. An example would be SamoaTel or Samoa Water Authority. Monopolies have strong barriers to entry in the same way that oligopolies do. Pure monopoly implies that there are no substitutes while a near monopoly is one with relatively few substitutes. A near monopoly would be air travel in Samoa.

Monopsony
Sole buyer of a product, for example, NZ Apple and Pear Marketing Board.

CONSUMPTION

THE CONCEPTS RELATED TO MAKING ECONOMIC DECISIONS

Students will investigate and develop skills and understanding of:

1. How government earns and spends its income when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Identify and describe the major sources of government revenue; b. Identify and describe the major areas of government expenditure; c. Investigate the components and aims of a government budget.	Page 136. This refers to the NZ Fiscal Responsibility Act (1994) which is relevant to the way the government budgets. It refers also to net public debt as a percentage of GDP. Pages 245 – 250	The textbook does not make direct reference to the preparation of the government budget or the details included in this statement. Teachers should provide students with the budget figures over the previous three years from booklets available from Treasury or the Central Bank.

The Government's Budget

The Budget is a statement of the government's expenditure plans over the next financial year and the way it intends to raise the revenues during the same period. There are several ways that the budget can be presented, very similar to how a budget can be prepared for an individual. A significant feature of government spending is the proportion that goes on the largest areas of Education and Health. The first table on the next page gives the government expenditure by functional classification for New Zealand.

Fig 1: Government Expenditure by Functional Classification

Year ended 30 June	1994	1995	1996	1997
Social security and welfare	11 479	11 438	11 897	12 510
Education	4 629	4 812	4 967	5 286
Health	4 602	4 889	5 137	5 495
Core government services	1 723	1 367	1 556	1 510
Law and order	1 150	1 199	1 217	1 243
Defence	1 049	1 042	978	1 048
Transport and communication	815	759	785	839
Economic and industrial services	711	750	723	761
Primary services	299	313	274	292
Heritage culture and recreation	241	236	244	271
Housing and community dvpt	39	49	46	51
Other	14	191	114	348
Finance costs (debt servicing)	3 788	3 658	3 547	3 220
Foreign exchange (losses/ gains)	(898)	(405)	-----	-----
Supplementary estimates prov.	------	------	150	200
Total expenses	29 639	30 298	31 635	32 874

Source: Government Budget Tables

Fig 2: Government Revenue and Operating Balance

Year ended	1994	1995	1996	1997
Direct taxation	17 535	19 753	21 193	20 885
Indirect taxation	10 120	10 342	10 738	11 835
Fees, fines, penalties and levies	190	223	223	242
Total taxation and charges	27 895	30 318	32 154	32 962
Plus Earnings through Operations:				
Investment income	1 368	2 001	1 460	1 433
Sales of goods and services	713	678	630	642
Other operational revenue	499	435	361	318
Unrealised (losses / gains)	(292)	(76)	-----	(65)
Total Operational Revenue	2 288	3 038	2 451	2 328
Total Revenue	30 183	33 356	34 605	35 290
Operating Balance*	**755**	**2 603**	**3 287**	**2 416**

Source: Government Budget Tables

Two important conclusions that can be drawn from Fig 2 are:

- The majority of government revenue is gained through direct taxation, mainly through income tax;
- The budget surplus has increased over the period shown in the tables.

Activities

Copy and complete the following in your books:

1. Using the tables in Fig. 1 and 2, construct two pie graphs of NZ government expenditure and revenue for the year 1 July 1996 to 30 June 1997.
2. Give a specific opportunity cost for each of the following government budgetary actions that will affect the department or agency concerned.
   a. Providing less money for the public hospitals.
   b. Increased funding for private and church schools.
   c. Increased duty on the proceeds from Lotto Samoa.
   d. Increased spending on child immunity programmes.
   e. Raising the age at which the elderly will received superannuation payments.
3. Use resources from your teacher to draw up a table that shows the budget for the Samoa government over the last three years. What categories of expenditure does Samoa have that are the same as New Zealand? What categories are different?

THE MARKET

THE INTERACTION OF HOUSEHOLDS AND FIRMS IN THE MARKET

Students will investigate and develop skills and understanding of:

1. The supply of money and its components when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Recall the functions and characteristics of money;	Page 74	
b. Describe the common measures and components of the money supply;	Page 75; Page 91	
c. Investigate the functions of central banks, commercial banks and development banks;		See the notes given in the section on Monetary Policy earlier in this guide
d. Explain the quantity theory of money (MV=PT) and use it to illustrate the relationship between the supply of money and prices;	Page 78	MV=PQ (Q is defined as the number of transactions carried out during the period – which is the same as T)
e. Describe the separate effect that these factors will have on the supply of money: government borrowing from the public; overseas and the central bank; foreign aid; remittances and increased lending by commercial banks.	Pages 80 – 96	Students to discuss the issues as raised in the textbook about the causes and influences of inflation to identify the effects that each of the factors will have on the money supply.

THE MARKET

THE INTERACTIONS BETWEEN THE DIFFERENT SECTORS IN THE ECONOMY

Students will investigate and develop skills and understanding of:

2. Inflation and its effect on the economy when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Identify the common causes and effects of inflation *(include changes in the money supply, demand pull, cost push, government deficit, imported inflation, inflationary expectations, national disasters and wage increases)*;	Pages 57 – 59 pages 74 – 96	
b. Calculate the rate of inflation from published consumer price index (CPI) figures and describe the trend over time;	Pages 60 – 73	
c. Describe the procedures used to construct the CPI.	Pages 68 – 73	

THE MARKET

THE INTERACTIONS BETWEEN THE DIFFERENT SECTORS IN THE ECONOMY
Students will investigate and develop skills and understanding of:
3. International trade performance when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Identify and distinguish between the components of Balance of Payments *(Balance of visibles (trade), balance of invisibles, current account, capital account, foreign reserves)*;	Pages 169 – 175	
b. Discuss the economic effect of a surplus or deficit Current Account;	Pages 176 – 179	
c. Explain the reasons and effects of trade restrictions through quota, tariffs, subsidies and embargoes *(include economic effect of embargoes imposed for non-economic reasons)*	Pages 152 – 168 pages 180 – 187	
d. Identify Samoa's trade commodities and trends in its trading patterns;		Reports from the Central Bank and Treasury usually give all this information. The information given below was retrieved in 2004 from the internet about the economy of Samoa. More current information can be found through the documents released on an annual basis by Treasury and the Central Bank.
e. Identify Samoa's major trading partners and their relative importance;		
f. Identify and discuss current problems faced by Samoa in developing its trade;		
g. Describe the important role of marketing agencies and boards.		

Economy	Samoa
Economy - overview:	The economy of Samoa has traditionally been dependent on development aid, family remittances from overseas, and agriculture and fishing. The country is vulnerable to devastating storms. Agriculture employs two-thirds of the labour force, and furnishes 90% of exports, featuring coconut cream, coconut oil, and copra. The manufacturing sector mainly processes agricultural products. The decline of fish stocks in the area is a continuing problem. Tourism is an expanding sector, accounting for 25% of GDP; about 88,000 tourists visited the islands in 2001. The Samoan Government has called for deregulation of the financial sector, encouragement of investment, and continued fiscal discipline, meantime protecting the environment. Observers point to the flexibility of the labour market as a basic strength for future economic advances. Foreign reserves are in a relatively healthy state, the external debt is stable, and inflation is low.
GDP:	purchasing power parity - $1 billion (2002 est.)
GDP - real growth rate:	5% (2002 est.)
GDP - per capita:	purchasing power parity - $5,600 (2002 est.)
GDP - composition by sector:	*agriculture:* 14% *industry:* 23% *services:* 63% (2001 est.)
Population below poverty line:	NA%
Household income or consumption by percentage share:	*lowest 10%:* NA% *highest 10%:* NA%
Inflation rate (consumer prices):	4% (2001 est.)
Labour force:	90,000 (2000 est.)
Labour force - by occupation:	NA
Unemployment rate:	NA%; note - substantial underemployment
Budget:	*revenues:* $105 million *expenditures:* $119 million, including capital expenditures of $NA (2001/2002)
Industries:	food processing, building materials, auto parts
Industrial production growth rate:	2.8% (2000)
Electricity - production:	105.1 million kWh (2001)
Electricity - production by source:	*fossil fuel:* 58% *hydro:* 42% *other:* 0% (2001) *nuclear:* 0%
Electricity - consumption:	97.74 million kWh (2001)

Electricity - exports:	0 kWh (2001)
Electricity - imports:	0 kWh (2001)
Oil - production:	0 bbl/day (2001 est.)
Oil - consumption:	1,000 bbl/day (2001 est.)
Oil - exports:	NA (2001)
Oil - imports:	NA (2001)
Agriculture - products:	coconuts, bananas, taro, yams, coffee, cocoa
Exports:	$15.5 million f.o.b. (2001)
Exports - commodities:	fish, coconut oil and cream, copra, taro, automotive parts, garments, beer
Exports - partners:	Australia 66.1%, US 10%, Japan 3.7% (2002)
Imports:	$130.1 million f.o.b. (2001)
Imports - commodities:	machinery and equipment, industrial supplies, foodstuffs
Imports - partners:	New Zealand 23.3%, Fiji 20.2%, Australia 15.7%, Japan 13.1%, Taiwan 6.4%, US 4.2% (2002)
Debt - external:	$197 million (2000)
Economic aid - recipient:	$42.9 million (1995)
Currency:	tala (SAT)
Currency code:	SAT (former WST code is still in wide use)
Exchange rates:	tala per US dollar - 3.37 (2002), 3.48 (2001), 3.29 (2000), 3.01 (1999), 2.95 (1998)
Fiscal year:	June 1 - May 31

THE MARKET

THE INTERACTIONS BETWEEN THE DIFFERENT SECTORS IN THE ECONOMY
Students will investigate and develop skills and understanding of:
4. The relationship between international trade and exchange rates when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Describe and distinguish between managed, fixed and floating exchange rates;	Pages 160 – 168 Pages 167 – 168 and page 180	Students can collect the exchange rates for the Samoa tala in relation to other foreign currencies and use these to distinguish between weak and strong international currencies. How do events such as wars, natural disasters and the world price of commodities such as oil, affect the exchange rate for strong currencies such as the US$?
b. Investigate and explain reasons for appreciation / depreciation and revalutation / devaluation of the exchange rate;		
c. Explain the effects of revaluation and devaluation and appreciation and depreciation on exports, imports and Balance of Payments;		
d. Distinguish between weak and strong international currencies;		
e. Calculate foreign exchange rates.		

THE MARKET

THE INTERACTIONS BETWEEN THE DIFFERENT SECTORS IN THE ECONOMY
Students will investigate and develop skills and understanding of:
5. The characteristics of the economy of developed and developing countries when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
a. Identify and describe characteristics of the economy for developed and developing countries;	Pages 251 – 257	The Ministry of Foreign Affairs can provide more information relevant to Samoa and the development aid it receives from overseas donors. The newspaper and television reports on donations and contributions from overseas nations are useful resources also.
b. Compare and contrast characteristics of the economy for developed and developing countries *(refer to the PSSC prescription Section V to identify characteristics required to be included)*;		
c. Recognise the importance of foreign aid and foreign investment to Samoa's economy.		

THE MARKET

THE INTERACTIONS BETWEEN THE DIFFERENT SECTORS IN THE ECONOMY

Students will investigate and develop skills and understanding of:

6. The recent developments in Samoa's economy when they:

Achievement Objectives	Textbook reference	Comments / Suggestions
(a) Identify the major components of national income and expenditure of the economy of Samoa;	There are no references to the economy of Samoa in the textbook. The New Zealand situation that is expanded on in the textbook can be used to compare and contrast to that of Samoa.	Notes from previous government budget releases and information about the economy of Samoa have been included in the notes below. These will be out-of-date but teachers and students can use these as a starting point. This information is readily available from the Central Bank. The Observer newspaper always covers the budget release very well and should be used as a resource each year.
(b) Describe the recent trends in the economy of Samoa;		
(c) Recognise and discuss measures adopted by the government of Samoa to develop the economy;		
(d) Identify international agencies which aid development in the economy of Samoa (incl. IMF);		
(e) Evaluate the contributions made by international agencies to aid development in the economy of Samoa.		

THE ECONOMY OF SAMOA

This session aims to assist teachers to become more familiar with the economy of Samoa. The objective for this is to make more readily available relevant content that teachers can integrate into their teaching programmes.

1. An overview of the economy

The economy of Samoa has traditionally been dependent on development aid, family remittances from overseas, and agricultural exports. The country is vulnerable to devastating storms. Agriculture employs two-thirds of the labour force, and furnishes 90% of exports, featuring coconut cream, coconut oil and copra. The manufacturing sector mainly processes agricultural products. Tourism is an expanding sector, accounting for 15% GDP, about 85000 tourists visited the islands in 2000. The Samoan Government has called for deregulation of the financial sector, encouragement of investment and continued fiscal discipline. Observers point to the flexibility of the labour market as a basic strength for future economic advances. Foreign reserves are in a relatively healthy state, the external debt is stable and inflation is low.

Key economic statistics (for 2000 unless otherwise stated).

GDP: purchasing power parity - $571 million
GDP – real growth rate: purchasing power parity - $3200
GDP – composition by sector:
Agriculture: 15%
Industry: 24%
Services: 61%
Inflation rate (consumer prices): 0.8%
Labour force: 90,000
Labour force – by occupation: agriculture 65%, services 30%, industry 5% (1995 est)
Budget:
Revenues: $74.8 million
Expenditures: $81.4 million (1999 est.)
Industries: food processing, building materials, auto parts
Industrial production growth rate: 10%
Electricity – production by source:
Fossil fuel: 60%
Hydro: 40% (1999 est)
Agriculture – products:
Coconuts, bananas, taro and yams.
Exports: $17million
Exports – commodities: coconut oil and cream, copra, fish, beer
Exports – partners: American Samoa 59%, US 18%, Germany 9%, New Zealand 8%
Imports: $90 million
Imports commodities: machinery and equipment, industrial supplies, foodstuffs
Imports – partners: New Zealand 37%, Australia 24%, Fiji 14%, US 14%
Debt – external: $180 million (1998 est.)

Some quotes from the "Address to the New Zealand Government delegation 8 April 2002" by the Governor of the Central Bank of Samoa, Papali'i Tommy Scanlan:

2. Economic performance

"…The Samoan economy achieved relatively strong economic growth of around 4% per annum (in real terms) over the last five years. And, for the first nine months to end September 2001, our Gross Domestic Product rose by just over 11 percent. At the same time that the economy was growing steadily, our inflation rate declined from 7.0 percent in 1997 to 4.0 percent in 2001. Moreover, our foreign exchange reserves have been maintained at levels sufficient to pay for more than four months of imports……Like all other small island countries, Samoa has been indirectly affected by the global recession last year and the events of 11 September 2001. The most notable adverse impacts were on tourism and exports. In the last quarter of 2001, our exports were much lower than the previous quarter. At the same time, the number of visitors that arrived into Samoa in the last three months of last year was also lower. For exports, the slowdown in the demand for our major export items (such as fish and garments) as well as the disruption to flight schedules to the main export markets, were the principal (negative) contributing factors. In addition, the European ban on kava last November resulted in a loss of revenue to our exporters who already had shipments en route to the importers. In the last two first months of this year, tourist arrivals were still down similarly with receipts from exports.

Remittances, on the other hand, have continued to grow, assisted mainly by the positive economic performances of New Zealand and Australia. In 2001, the total inward remittances amounted to $149 million, an increase of about 3 percent over the previous year. This level of remittances is equivalent to one third of the total value of our imports.

3. Recent policy and legislative changes

1998 saw the introduction of a number of changes to the formulation and conduct of money policy. Whereas commercial banks' interest rates and credit growth were directly controlled by the Central Bank in the years prior, these controls were lifted in January 1998. Since then, the banks are free to lend as much as they want and charge more market related interest rates. Exchange controls were gradually abolished and our currency is now freely convertible offshore. Money changers have been licenced to facilitate the exchange of foreign currencies for Tala at more competitive rates. In addition, the one percent foreign exchange levy that was in place was abolished.

In order to influence the money supply, so as to promote price stability, the Central Bank uses (as its main instrument) the issue of central bank securities. This is similar to the use of Government securities by the Reserve Bank in New Zealand. To date the buying and selling of central bank securities have been effective our objectives.

To enhance the stability of our financial system, our Financial Institutions Act was amended recently to allow the Central Bank to have prudential oversight over the non bank financial institutions. These institutions include our National Provident Fund, the Development Bank of Samoa and the Insurance Companies…..

4. The future

As the Government continues with its reform agenda, and thus achieving responsible budget outcomes, monetary policy will remain accommodative. This will allow the private sector more room to grow and thereby assist in producing further positive results for the Samoan economy. The tourism, export and the manufacturing sectors will continue to receive the attention they deserve. At the same time, care will be taken to ensure that imports and import payments do not become excessive and thus exerting too much pressure on our foreign exchange reserves, as well as on domestic prices.

5. Challenges ahead

The road to recovery has not been easy. Samoa has come through several difficult years (especially the devastation caused by the cyclones of the early 90s, and the adverse effects of the taro leaf blight and the Asian crisis in the mid '90s) by accepting some painful sacrifice. Although we had experienced relatively slower growth as a result of these events, we have not had a deep slump as experienced in some major world economies. This is good news. But, more importantly, the challenge is for us to cast our minds past the short term and focus on the question on the question of how to sustain this stable growth, especially given our vulnerability to external shocks.

Fortunately, one can say that the Samoan economy's capacity to handle shocks has improved, a factor due to a large degree to the extensive reforms being carried out by the Government. Also, the Government's ongoing commitment in implementing this program of economic and public sector reforms, has contributed in maintaining confidence and stability in the economy…"