Economics

CAPE® Economics Past Papers

LIST OF CONTENTS

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 01

$1\frac{1}{2}$ *hours*

25 MAY 2005 (a.m.)

READ INSTRUCTIONS CAREFULLY

1. This paper consists of **FIFTEEN** questions. Candidates must attempt **ALL** questions.

2. Candidates **MUST** write answers in the answer booklet provided.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

SECTION I

1. (a) State ONE reason why it is necessary to make economic choices.   [1 mark]

    (b) State THREE major questions that must be asked when deciding what goods and services should be produced.   [3 marks]

    (c) Susan uses the two hours available to her to answer her email messages rather than study for her Economics examination.

        What is the cost to her of choosing to read her email messages rather than study for her Economics examinations? Briefly explain your answer.   [2 marks]

                                                                    Total 6 marks

2. (a) Use the information in the following table to construct a production possibilities frontier (PPF).

                                TABLE 1

Pineapples	Mangoes
0	500
200	450
350	375
425	275
475	125
500	0

                                                                    [3 marks]

    (b) Mark the point (300,300) on your diagram.   [1 mark]

    (c) State why this point does not represent an efficient use of resources.   [1 mark]

    (d) What does the shape of the PPF you have drawn say about the opportunity costs of producing ONE more unit of pineapples or mangoes?   [1 mark]

                                                                    Total 6 marks

3. (a) List TWO factors that affect the demand for coffee.   [2 marks]

    (b) Explain how ONE of the factors listed in (a) above affects the demand for coffee.
                                                                    [4 marks]

                                                                    Total 6 marks

4. The following table shows the demand for and supply of milk.

TABLE 2: DEMAND FOR AND SUPPLY OF MILK

Price of pint of milk $	Quantity Demanded	Quantity Supplied
21	1 000	5 000
18	2 000	4 000
15	3 000	3 000
12	4 000	2 000
9	5 000	1 000

(a) Draw the demand and supply diagram for milk. **[3 marks]**

(b) On the diagram drawn in (a) above, show the equilibrium price and equilibrium quantity. **[2 marks]**

(c) Define the term 'equilibrium'. **[1 mark]**

Total 6 marks

5. The following diagram shows the Marginal Cost Curve (MC), the Average Total Cost Curve (ATC), and the Average Variable Cost Curve (AVC).
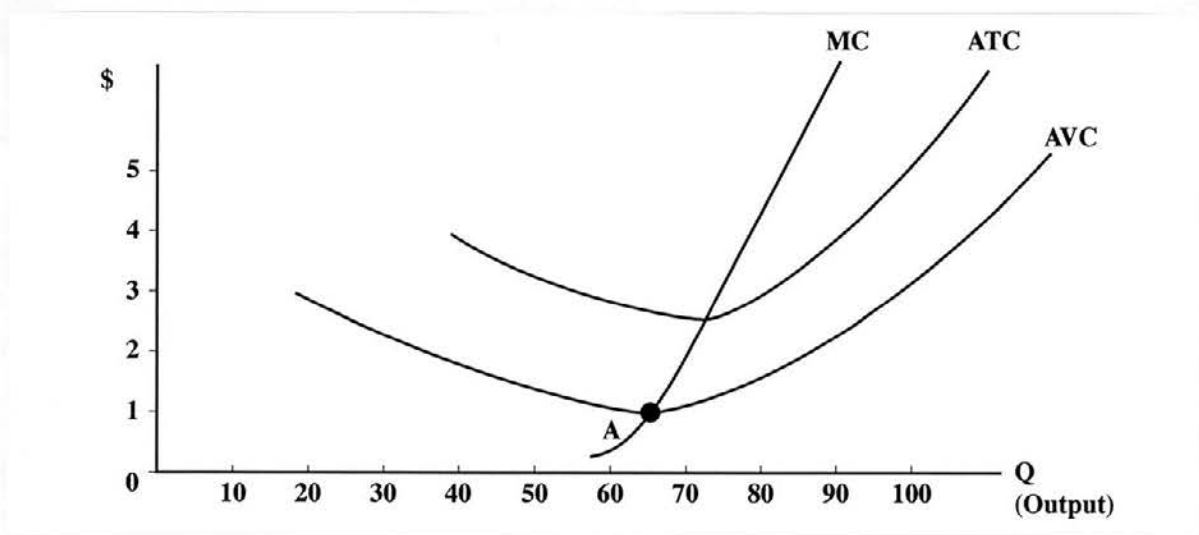
(a) What is the difference between the Average Total Cost Curve (ATC) and the Average Variable Cost Curve (AVC)? **[1 mark]**

(b) Why does the Marginal Cost Curve (MC) cut the Average Total Cost Curve (ATC) and the Average Variable Cost Curve (AVC) at their lowest points? **[2 marks]**

(c) Explain why point 'A' is the shut-down point of the firm. **[3 marks]**

Total 6 marks

GO ON TO THE NEXT PAGE

SECTION II

6.   (a)   State TWO ways in which a firm in monopolistic competition differs from a monopolist.

                 [4 marks]

        (b)   'Monopolistic competition produces inefficiently even in the long-run because it has excess capacity.'

               Explain this statement.   **[2 marks]**

                                                                  Total 6 marks

7.   (a)   What is the difference between price leadership in an oligopoly and a cartel arrangement?

                 [4 marks]

        (b)   Give an example of a **successful cartel arrangement** and state why you think the example chosen is successful.   **[2 marks]**

                                                                  Total 6 marks

8.   (a)   How do oligopolists believe their competitors will respond to price rises and price reductions that result in a kinked demand curve?   **[4 marks]**

        (b)   What do the beliefs explained in (a) above suggest about the elasticity of demand for the product?   **[2 marks]**

                                                                Total 6 marks

9.   (a)   List TWO examples of 'public goods'.   **[2 marks]**

        (b)   Name TWO characteristics of public goods.   **[2 marks]**

        (c)   Briefly describe ONE of the characteristics named in (b) above.   **[2 marks]**

                                                                   Total 6 marks

10.   (a)   Define the term 'externalities'.   **[2 marks]**

        (b)   List ONE example of an external good **or** benefit and ONE example of an external bad **or** cost that occur in your country.   **[2 marks]**

        (c)   Explain how the external good **or** benefit and the external bad **or** cost you listed in (b) above, affect efficient resource allocation.   **[2 marks]**

                                                                  Total 6 marks

SECTION III

11. Jack's Inc. paid wages in the amount of $20 000, rent $2 000 and interest $1 500. The business realised a profit of $5 000.

    (a)   What was Jack's Inc. cost of production?   **[2 marks]**

    (b)   Link EACH of the factors of production, namely, **land**, **labour**, **capital** and **entrepreneurship**, with the dollar amount paid by Jack's Inc.   **[4 marks]**

        Total 6 marks

12. A farmer went to the city to purchase a new tractor and some fertilizers. He also bought a loaf of bread, cheese and milk for his family.

    (a)   For which of the goods purchased by the farmer are the demands considered 'derived demands'?   **[2 marks]**

    (b)   Explain why you consider the demands for the goods in (a) above 'derived demands'.   **[2 marks]**

    (c)   List TWO other goods for which the demands can be considered 'derived demands'.   **[2 marks]**

        Total 6 marks

13.   (a)   List TWO basic human needs.   **[2 marks]**

    (b)   Define the following terms:

        (i)   Absolute poverty   **[2 marks]**

        (ii)   Relative poverty   **[2 marks]**

        Total 6 marks

14.

Wage Rate $ vs No. of Workers
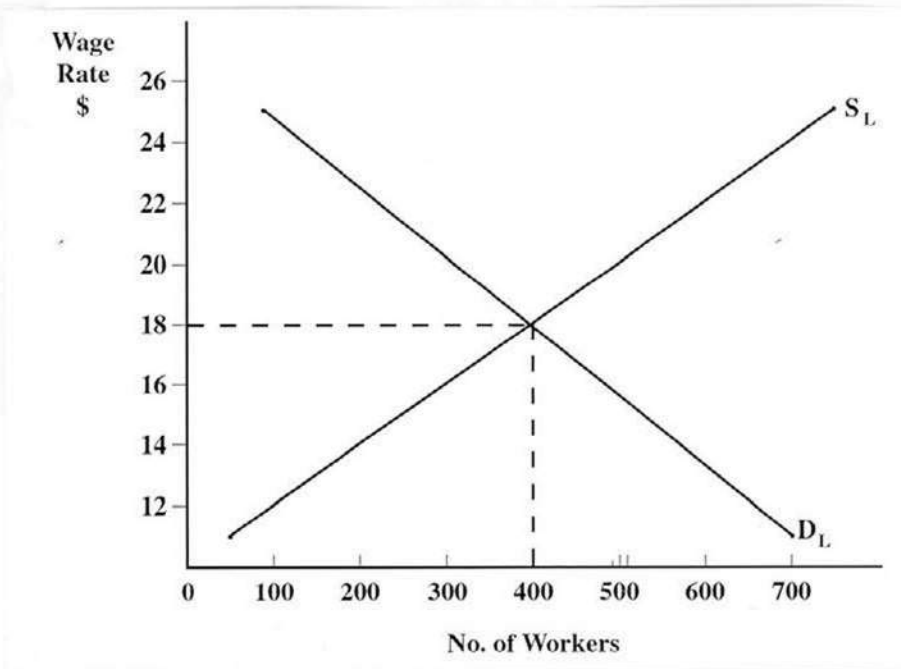
The diagram above shows the demand (D_L) and supply (S_L) curves for labour.

(a)   What is the equilibrium wage and how many workers are employed at that wage?

[2 marks]

(b)   Calculate the following if a union representing workers negotiates a wage rate of $22.

   (i)   The number of workers who will be employed   [2 marks]

   (ii)   The number of workers who will be laid off   [2 marks]

Total 6 marks

15.   A large number of workers are leaving Country A for jobs in Country B.

(a)   How will this movement of labour affect wage rates in Country A and Country B?

[2 marks]

(b)   Sick persons are persons more likely to buy health insurance than persons who are healthy, and persons with fire insurance are less likely to take proper precautions against fire. To which of the following do the behaviours described above refer?

   (i)   Asymmetric information

   (ii)   Moral hazard

   (iii)   Adverse selection   [4 marks]

Total 6 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

$2\frac{1}{2}$ *hours*

26 MAY 2005 (a.m.)

READ INSTRUCTIONS CAREFULLY

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates MUST answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. The following table shows labour inputs for different levels of output at John and Sons Ltd.

Labour (L)	Output (Q)	Average Physical Product (APP)	Marginal Physical Product (MPP)	Average Variable Cost (AVC)	Marginal Cost (MC)
0	0	0	0	0	0
1	30	–	–	–	–
2	70	–	–	–	–
3	120	–	–	–	–
4	200	–	–	–	–
5	260	–	–	–	–
6	300	–	–	–	–

Annual wages, which are the only variable costs (VC), amount to $10 000 annually. The price of the product is $200.

(a) Copy the table above in your answer booklet and complete it. **[12 marks]**

(b) Define EACH of the following OR write the formula for calculating it.

    (i) Average physical product (APP)

    (ii) Marginal physical product (MPP)

    (iii) Average variable cost (AVC)

    (iv) Marginal cost (MC) **[8 marks]**

(c) State what happens to average physical product (APP) and marginal physical product (MPP) as output increases. **[2 marks]**

(d) State what happens to average variable cost (AVC) and marginal cost (MC) as output increases. **[2 marks]**

(e) (i) How will output be affected when a variable input is added to a fixed input? **[4 marks]**

    (ii) How do increasing levels of output affect costs? **[4 marks]**

(f) Draw a diagram showing the marginal cost curve (MC) and the price ($200) of the product. **[12 marks]**

(g) What level of output will the firm produce?
State how you arrived at your answer. **[6 marks]**

Total 50 marks

GO ON TO THE NEXT PAGE

2. (a) Define the following terms:

      (i) Demand

      (ii) Supply   **[4 marks]**

    (b) Briefly explain the difference between a 'change in demand' and a 'change in the quantity demanded'.   **[2 marks]**

The diagram below represents the demand for digital cameras.
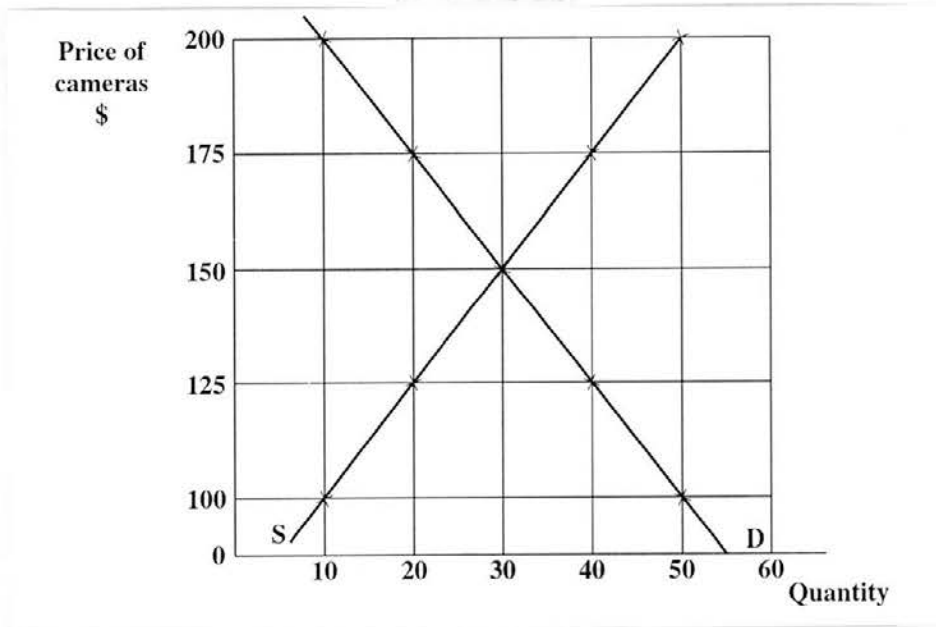
    (c) (i) Copy the diagram above in your answer booklet.   **[2 marks]**

      (ii) Identify the equilibrium price and state the quantity of digital cameras traded at that price.

                                                                        [2 marks]

    (d) (i) List FIVE factors that will influence the **demand** for digital cameras.

                                                                        [5 marks]

      (ii) Explain how FOUR of the factors listed in (d)(i) above, will affect the demand for digital cameras.   **[12 marks]**

    (e) With the aid of a diagram show how an increase in ONE of the four factors in (d) (ii) above will affect the demand curve.   **[6 marks]**

    (f) (i) List FIVE factors that will influence the **supply** of digital cameras.

                                                                         [5 marks]

      (ii) Explain how FOUR of the factors listed in (f)(i) above will affect the supply of digital cameras.   **[12 marks]**

                                                                Total 50 marks

GO ON TO THE NEXT PAGE

SECTION II

Answer ONE question from this section.

3. (a) Define the term 'market structure'. [3 marks]

(b) List FOUR types of market structures that exist in the CARICOM region and give ONE example of EACH type. [8 marks]

(c) Select TWO of the market structures listed in (b) above and compare them with respect to EACH of the following:

    (i) Barriers to entry

    (ii) Number of firms and buyers

    (iii) Nature of the goods they produce

    (iv) Market power and control over price

    (v) Profit in the long-run [25 marks]

(d) (i) Define the following terms:

        (a) Efficiency
        (b) Consumer surplus
        (c) Producer surplus [6 marks]

    (ii) Discuss the efficiency with which resources are used in

        (a) a monopoly

        (b) perfect competition. [8 marks]

Total 50 marks

4. (a) Define the term 'market failure'. [2 marks]

(b) 'The price of oil is rising due to political instability in some oil-producing countries.' Explain why this is NOT an indication of market failure. [6 marks]

(c) Define EACH of the following and explain how EACH causes market failure.

    (i) Monopolistic power

    (ii) Externalities

    (iii) Public good [24 marks]

GO ON TO THE NEXT PAGE

(d)   Explain EACH of the following:

      (i)   How regulation can be used to remove the effects of monopoly power

                                                            [6 marks]

      (ii)   How taxation **or** subsidy can be used to remove the effects of externalities

                                                            [6 marks]

      (iii)   How government intervenes to ensure optimal production of public goods

                                                            [6 marks]

                                                                Total 50 marks

SECTION III

Answer ONE question from this section.

5.   (a)   Explain the meaning of EACH of the following terms:

      (i)   Functional distribution of income

      (ii)   Inequality

      (iii)   Gini co-efficient

      (iv)   Lorenz curve   **[8 marks]**

   (b)   (i)   What is the range of values of the Gini co-efficient?   **[3 marks]**

      (ii)   What do the values of the Gini co-efficient indicate about the equal OR unequal distribution of income?   **[6 marks]**

   (c)   (i)   List THREE measures that government can take to achieve an equal distribution of income.   **[3 marks]**

      (ii)   Explain how EACH of the measures listed in (c)(i) is used to achieve the goal of income equity.   **[9 marks]**

   (d)   (i)   Define the term 'poverty'.   **[3 marks]**

      (ii)   What is the difference between absolute poverty and relative poverty?

                                                            [6 marks]

   (e)   How does the **unequal** distribution of income affect the standard of living of the citizens in a country?   **[6 marks]**

   (f)   Discuss the role of education in the elimination of poverty.   **[6 marks]**

                                                                 Total 50 marks

6.   (a)   Define the term 'social welfare'.   **[2 marks]**

       (b)   List FOUR services that governments in the region provide for their citizens free of charge OR at below cost.   **[8 marks]**

       (c)   Discuss how EACH of the following influences governments' decision to provide the welfare services listed in (b) above.

              (i)   Vote getting

              (ii)   Welfare equity

              (iii)   Beneficial externality   **[15 marks]**

       (d)   Define EACH of the following. Give an example of EACH.

              (i)   Asymmetric information

              (ii)   Moral hazard

              (iii)   Adverse selection   **[15 marks]**

       (e)   (i)   Define the term 'minimum wage rate'.   **[2 marks]**

              (ii)   Discuss TWO effects that the minimum wage rate may have on the welfare of workers.

                                                           [8 marks]

                                                   Total 50 marks

END OF TEST

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

$1\frac{1}{2}$ *hours*

25 MAY 2005 (a.m.)

READ INSTRUCTIONS CAREFULLY

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. All working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

1. Tele Cel Inc. provides telecommunication services to consumers in your country. The services include land and cellular phones, facsimile (fax) and internet. Tele Cel Inc. is a subsidiary of a transnational company with its head office in a metropolitan country. The agreement between Tele Cel Inc. and the government of your country includes exclusive rights to supply the services demanded in the domestic market for a long duration, but the global environment is now in favour of open, global competition.

(a)   State the laws of demand and supply.   **[4 marks]**

(b)   The following table gives the output (Q), price (P), and total cost (TC), of the firm. Complete the table by computing the firm's total revenue (TR), marginal revenue (MR) and marginal cost(MC).

Output (Q)	Price (P)	Total Revenue (TR)	Marginal Revenue (MR)	Total Cost (TC)	Marginal Cost (MC)
0	132	–	–	12 800	–
100	124	–	–	18 400	–
200	116	–	–	21 800	–
300	108	–	–	23 600	–
400	100	–	–	24 400	–
500	92	–	–	24 800	–
600	84	–	–	25 400	–
700	76	–	–	26 800	–

[8 marks]

(c)   (i)   Using the information from the table above calculate the elasticity of demand between prices 84 and 76.   **[5 marks]**

(ii)   Using the marginal revenue (MR) and marginal cost (MC) data, state what level of output maximizes profit.   **[3 marks]**

Total 20 marks

2. (a) Name the maket structure in which Tele Cel Inc. operates. Give a reason to support your answer. **[3 marks]**

(b) List THREE other types of market structures and state which of the three listed is MOST different from the market structure in which Tele Cel Inc. operates.
Give a reason for your answer. **[6 marks]**

(c) A regulator is established to ensure that Tele Cel Inc. is efficient, while making enough profit to remain in business. The regulatory solution is to set the price where average cost equals average revenue.

(i) Define the term 'normal profit'. **[2 marks]**

(ii) State whether the firm would be making normal OR abnormal profits.
Give a reason for your answer. **[4 marks]**

(iii) Define the term 'efficiency'. **[2 marks]**

(iv) State whether the level of output is efficient. Give a reason for your answer.
[3 marks]

Total 20 marks

3. (a) (i) Define the term 'labour force'. **[2 marks]**

(ii) Discuss TWO ways in which the economy of the host country benefits from the presence of Tele Cel Inc. **[8 marks]**

(b) (i) How does the presence of Tele Cel Inc. affect the distribution of income in the country? **[3 marks]**

(ii) Will the Gini co-efficient increase or decrease? **[1 mark]**

(c) Explain how the regulation of the prices of the services provided by Tele Cel Inc. can be affected by the problem of asymmetric information. **[6 marks]**

Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

$1\frac{1}{2}$ *hours*

10 JUNE 2005 (p.m.)

READ INSTRUCTIONS CAREFULLY

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. All working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

1.

Government Budgets for Selected Countries: 2002

(Percentage surplus or deficit of GDP)
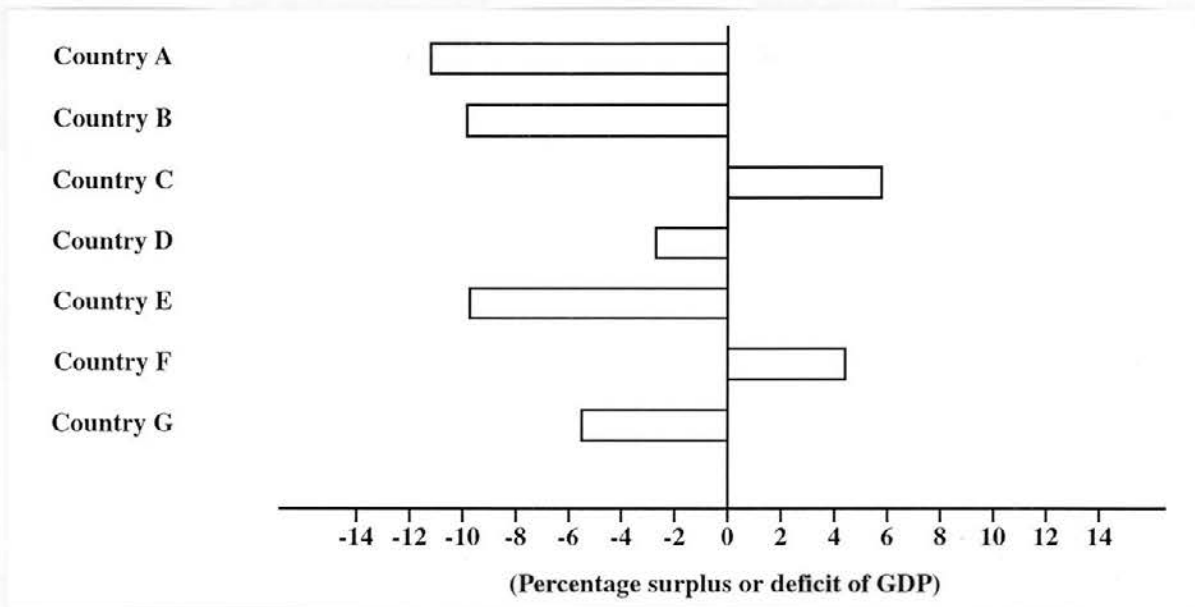
(a)   (i)   Name the countries that had budget surpluses.   **[2 marks]**

       (ii)   Name the countries that had budget deficits.   **[5 marks]**

       (iii)   Which country had the biggest deficit in relation to its **Gross Domestic Product** and what was the size (percentage) of the deficit?   **[4 marks]**

(b)   (i)   How can the national debt be a burden to future generations?   **[5 marks]**

       (ii)   List TWO effects of prolonged government deficits on an economy.

                                                                 [4 marks]

                                                     Total 20 marks

2. (a) The list below contains BOTH microeconomic and macroeconomic issues. From the list select TWO macroeconomic issues.

  - Tax revenues
  - Specialization and the market
  - Demand and supply
  - Budget deficits and surpluses
  - Market structures
  - National debt   **[2 marks]**

  (b) (i) Explain the meaning of EACH macroeconomic issue you selected in (a) above.
                                                                    [14 marks]

      (ii) State TWO ways in which the national debt of a country can be measured.
                                                                    [4 marks]

                                                                    Total 20 marks

3. (a) (i) Explain the term 'debt rescheduling'.   **[3 marks]**

      (ii) Discuss the role of the International Monetary Fund in the rescheduling of external debt.   **[5 marks]**

  (b) Name THREE ways, other than debt rescheduling, by which the external debt burden faced by Caribbean countries can be reduced.   **[6 marks]**

  (c) Several CARICOM countries have a high external debt burden. Discuss TWO ways in which a high external debt burden can affect the development of CARICOM countries.
                                                                    [6 marks]

                                                                    Total 20 marks

                                END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 01

1½ hours

24 MAY 2006 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **FIFTEEN** questions. Candidates must attempt **ALL** questions.

2. Candidates **MUST** write answers in the answer booklet provided.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

SECTION I

1.   (a)   Explain briefly why scarcity affects both the rich and the poor.   **[2 marks]**

    (b)   List TWO of the major choices that a country must make because of scarcity.

                [2 marks]

    (c)   A country can build two schools and thirty miles of roadway or three schools and twenty miles of roadway.

           State the opportunity cost of building the third school.   **[2 marks]**

                    Total 6 marks

2.   The table below shows the quantity of compact discs demanded and the quantity supplied at different times.

Table 1: The Market for Compact Discs (CD's)

Price in Dollars	Quantity Demanded	Quantity Supplied
$1	10	2
$2	8	4
$3	6	6
$4	3	8
$5	2	10

    (a)   Calculate the slope of the supply curve.   **[2 marks]**

    (b)   Determine the equilibrium price using the data in the table above.   **[2 marks]**

    (c)   Explain why there will be a shortage of compact discs if they are sold at a price of $2.00 each.   **[2 marks]**

                    Total 6 marks

3. (a) When the price of compact discs changes from $4.00 to $3.00, the quantity of compact discs demanded changes from 3 to 6. Calculate the elasticity of demand for compact discs using the mid-point formula. **[2 marks]**

    (b) Determine whether the demand for compact discs is elastic, inelastic or unit elastic. Explain your answer. **[2 marks]**

    (c) List TWO factors that determine the elasticity of demand for compact discs.

    [2 marks]

    Total 6 marks

4. (a) Define the term 'marginal utility'. **[2 marks]**

    (b) Explain how the purchase of additional units of a commodity will affect the following:

        (i)   Total utility

        (ii) Marginal utility **[2 marks]**

    (c) Explain why a consumer may purchase more of a commodity if its price is less than its marginal utility, all things being equal. **[2 marks]**

    Total 6 marks

5. The table below shows the production costs of sugar in a certain country.

1	2	3	4	5	6
Total Output '000 tons	Total Fixed Costs $ 000	Total Variable Costs $ 000	Total Costs $ 000	Average Total Costs	Marginal Costs
0	5	0			
1	5	8			
3	5	18			
7	5	26			
9	5	32			
10	5	37			

Complete columns 4, 5 and 6 in your answer booklet.

Total 6 marks

SECTION II

6. (a) Define the term 'market structure'. **[2 marks]**

(b) In a market there are many firms producing identical goods. Explain whether this is a case of monopolistic competition or perfect competition. **[2 marks]**

(c) In which market structure are there price leaders and price followers? **[2 marks]**

Total 6 marks

7. The diagram below shows the operation for a perfectly competitive firm.
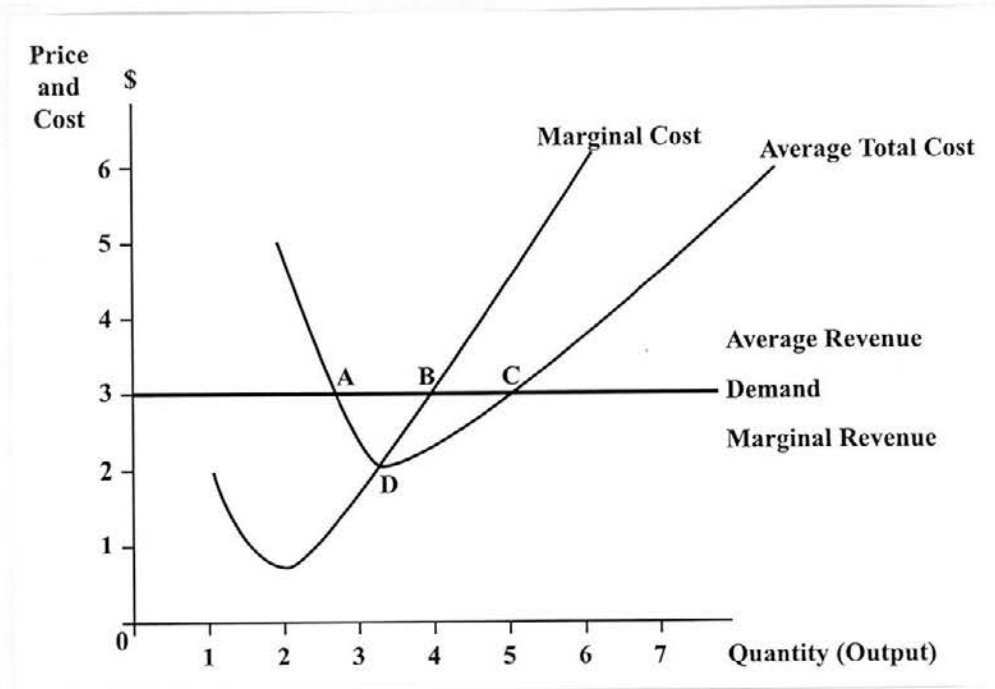
(a) (i) State the level of output at which the firm is producing.

(ii) Which intersection, A, B, C or D indicates the output level? **[2 marks]**

(b) Explain whether the firm is likely to experience normal profits, economic profits or a loss. **[2 marks]**

(c) Explain what will happen to output in the long run. **[2 marks]**

Total 6 marks

8. (a) Define the term 'multinational corporation'. **[2 marks]**

(b) List TWO resources that a multinational corporation may contribute to your country or to any member state of CARICOM. **[2 marks]**

(c) State TWO reasons why a multinational corporation might want to establish itself in any CARICOM country. **[2 marks]**

Total 6 marks

9. (a) Define the term 'market failure'.   **[2 marks]**

    (b) State TWO factors that account for market failure.   **[2 marks]**

    (c) State the type of market structure in an industry that is likely to

         (i)   produce greater output

         (ii) charge a higher price.   **[2 marks]**

                                                                  Total 6 marks

10. (a) List TWO measures of industrial concentration.   **[2 marks]**

    (b) Explain how ONE of the measures, listed in 10 (a) above, is calculated. **[2 marks]**

    (c) Explain why a good with positive externality should be subsidised.   **[2 marks]**

                                                                  Total 6 marks

SECTION III

11. (a) Explain briefly the difference between interest and profits.   **[2 marks]**

    (b) John told Jane that the price of sugar is an important factor influencing the price of land
         on which sugar cane is planted. Explain why this may be so.   **[2 marks]**

    (c) List TWO factors of production and explain how the reward of any ONE of them relates
         to the cost of production.   **[2 marks]**

                                                                  Total 6 marks

12. (a) Define the term 'value of the marginal product of labour' (marginal revenue product of
         labour).   **[2 marks]**

    (b) Explain why a perfectly competitive firm will pay a wage equal to the value of the marginal
         product of labour.   **[2 marks]**

    (c) A worker's wage may be divided into (i) transfer earnings and (ii) rent. Define the terms
         'transfer earnings' and 'rent'.   **[2 marks]**

                                                                  Total 6 marks

GO ON TO THE NEXT PAGE

13. (a) Define the following terms:

      (i)   Labour supply

      (ii)   Labour force participation rate   **[4 marks]**

  (b) Identify TWO of the following who are NOT included in the labour force.

      (i)   Self employed persons

      (ii)   Housewives

      (iii)   Bus conductors

      (iv)   Discouraged workers

      (v)   Maids   **[2 marks]**

Total 6 marks

14. (a) Explain how relative poverty differs from absolute poverty.   **[2 marks]**

  (b) List TWO causes of poverty in your country.   **[2 marks]**

  (c) The Gini coefficient for land distribution in your country is 0.65 and that for functional distribution of income is 0.56.

    Explain whether land is more or less equally distributed than income in your country.
        [2 marks]

Total 6 marks

15. (a) Explain the following terms:

      (i)   Moral hazards

      (ii)   Adverse selection   **[4 marks]**

  (b) State TWO measures which the government of your country can implement to alleviate poverty.   **[2 marks]**

Total 6 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

2½ hours

25 MAY 2006 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) Define the following terms:

    (i) Equilibrium price   [2 marks]

    (ii) Pareto efficiency   [2 marks]

    (iii) Price ceiling   [2 marks]

    (b) Discuss FOUR main factors that influence EACH of the following:

    (i) The demand for beef   [12 marks]

    (ii) The supply of beef   [12 marks]

    (c) A government imposes a ceiling on the price of milk in order to increase the quantity of milk consumed by low-income families. Using your knowledge of how the market operates, explain

    (i) why all low-income families may not be able to increase their consumption of milk   [6 marks]

    (ii) how consumers and producers will react to the new situation   [4 marks]

    (iii) what the Government might do to maintain the legal price   [3 marks]

    (iv) what the Government might do to ensure that the low-income families benefit from the pricing policy.   [3 marks]

    (d) Identify ONE advantage and ONE disadvantage of the free market allocation of resources.
                                                                              [4 marks]

                                                                        Total 50 marks

2. (a) (i) Define the term 'production function'.   [2 marks]

    (ii) State where EACH of the three stages of production begins and ends.
                                                                              [9 marks]

    (iii) With the aid of the diagram on page 3, explain why production tends to occur in Stage TWO of the production stages and not in Stage ONE or Stage THREE.

02116020/CAPE 2006

Output

Total Product

Average Product
Input
Marginal Product

Average Product
Input
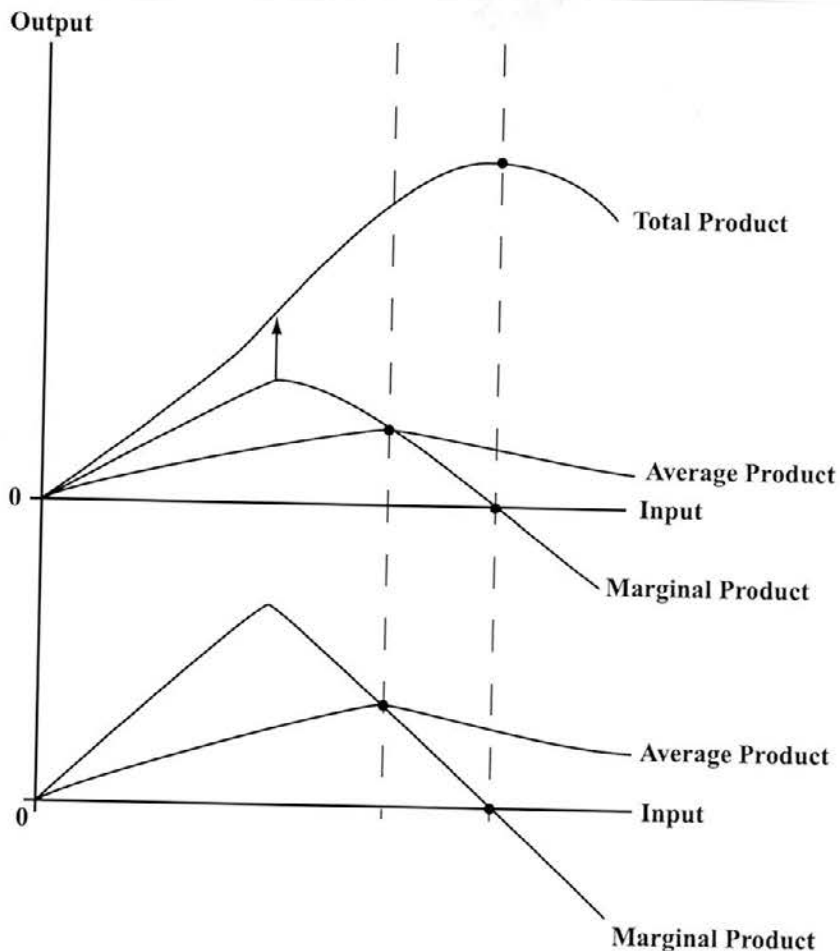
Marginal Product   **[9 marks]**

(b)   Explain the law of diminishing returns.   **[6 marks]**

(c)   Explain the following concepts:

   (i)   Constant returns to scale

   (ii)   Increasing returns to scale

   (iii)   Decreasing returns to scale

   (iv)   Economies of scale   **[8 marks]**

(d)   (i)   Discuss ONE reason for economies of scale and ONE reason for diseconomies of
                scale.   **[8 marks]**

        (ii)   Explain how economies and diseconomies of scale influence the shape of the long-
                run average cost curve of a firm.   **[8 marks]**

                                                                    Total 50 marks

SECTION II

Answer ONE question from this section.

3. (a) Define the term 'market structure'. [2 marks]

    (b) State FOUR assumptions on which perfect competition is based. [8 marks]

    (c) (i) State THREE types of market structures, other than perfect competition, and give an example of EACH. [6 marks]

        (ii) Explain how EACH of the types you mentioned in (c) (i) above differs from perfect competition. [6 marks]

    (d) An industry's long-run average cost is falling even after demand is met. Describe the type of market structure that this industry is likely to represent. [6 marks]

    (e) In a perfectly competitive industry, firms are making positive economic profit (above the normal profit).

        (i) Draw a diagram showing this situation. Label the axes, the cost and revenue curves, and indicate the profit made by firms. [16 marks]

        (ii) Explain what will happen to profit, the number of firms and output in the long-run. [6 marks]

    Total 50 marks

4. (a) Explain and give an example of EACH of the following terms.

        (i) Public goods [5 marks]

        (ii) Externalities [5 marks]

        (iii) Asymmetric information [4 marks]

    (b) Explain how EACH of the concepts listed in 4 (a) above causes a market to fail. [21 marks]

    (c) Explain how EACH of the following government measures can correct market failure:

        (i) Taxation [5 marks]

        (ii) Subsidies [5 marks]

        (iii) Regulation [5 marks]

    Total 50 marks

GO ON TO THE NEXT PAGE

SECTION III

Answer ONE question from this section.

5. (a) Define EACH of the four broad types of resources: land, labour, capital (including human capital) and entrepreneurship. State the role EACH plays in the production process.
[12 marks]

(b) Consider the following data on AURO INC.

Units of Labour	Output per Week	Marginal Product	Marginal Revenue	Marginal Revenue Product	Marginal Factor or Resource Cost
1	14				
2	26				
3	36				
4	44				
5	50				
6	54				

Assume perfect competition in the labour and output markets. The wage rate is $18 and the price of the output is $3.

(i) Complete the table in your answer booklet. **[12 marks]**

(ii) State the number of units of labour that AURO INC employs. **[4 marks]**

(c) (i) Draw a backward-bending supply curve of labour and identify the region where the income effect exceeds the substitution effect. **[6 marks]**

(ii) Explain why part of the curve has a negative slope. **[4 marks]**

(d) Give FOUR reasons why wages differ. **[12 marks]**

Total 50 marks

6.   (a)   (i)   Explain the term 'poverty line'. **[4 marks]**

          (ii)   Use the concept of poverty line to distinguish between persons who are 'absolutely poor' and persons who are 'relatively poor'. **[6 marks]**

    (b)   Explain how THREE of the following factors contribute to poverty:

          (i)   Non-ownership of resources, especially human capital

          (ii)   Unemployment

          (iii)   Large family size

          (iv)   Single parent, female-headed family

          (v)   Discrimination **[18 marks]**

    (c)   (i)   Discuss the term ' welfare programme'. **[4 marks]**

          (ii)   Discuss THREE areas from among health, education, housing, and employment in which the government of your country supports programmes aimed at poverty reduction. **[18 marks]**

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

1½ hours

24 MAY 2006 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

---

1.   The construction sector comprises many firms producing to meet the demands of varying types of consumers who come from the household sector, the business sector and the public sector. Demand for the products of the sector is volatile and fluctuates widely.

    (a)   Name TWO products of the construction sector demanded by EACH of the THREE main types of consumers.   **[6 marks]**

    (b)   Explain the nature of the products of the sector that causes the demand to be volatile.
    [4 marks]

    (c)   Explain the relationship which exists between rent control and the demand for the services of the construction industry.   **[4 marks]**

    (d)   Give TWO explanations why a small number of firms in the sector are very large while the majority of firms are small.   **[6 marks]**

Total 20 marks

2.   There are 150 firms in the sector. The top four firms have market shares of 30%, 25%, 20% and 15%. The other firms have market shares of 0.5% or less. They have the capacity to build small structures and effect minor repairs. The top four firms can undertake medium to large projects either individually or as joint venture undertakings. The largest firm is a branch of a foreign firm.

    (a)   Given the information on the sector, into what market structure(s) would you classify the firms? Explain your choice of market structure(s).   **[5 marks]**

    (b)   Using the four-firm concentration ratio and the Hirschman-Herfindahl index, comment on the degree of concentration in the sector.   **[6 marks]**

    (c)   (i)   Discuss TWO causes of market failure that may affect the efficiency of this sector.
    [6 marks]

         (ii)   Discuss ONE measure that government may implement to make the sector more efficient.   **[3 marks]**

Total 20 marks

3.   Carpenters and masons have been migrating to countries that pay higher wages. The CARICOM Single Market and Economy makes the movement of labour much easier.

    (a)   How would the free movement of labour affect wages in the countries losing workers AND in the host countries?   **[8 marks]**

    (b)   Discuss the effect that the movement of carpenters and masons may have on the functional distribution of income.   **[4 marks]**

    (c)   How would movement of labour affect social welfare in the host countries AND the countries losing workers?   **[8 marks]**

Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 01

1½ hours

09 JUNE 2006 (p.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **FIFTEEN** questions. Candidates must attempt **ALL** questions.

2. Candidates **MUST** write answers in the answer booklet provided.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

SECTION I

1. (a) Explain TWO of the following macro-economic variables:

    (i) Balance of payments accounts

    (ii) The exchange rate

    (iii) Inflation   **[4 marks]**

    (b) State ONE way in which inflation is measured.   **[2 marks]**

                                                                Total 6 marks

2. (a) State the components of GDP (expenditure-based) that would be affected by EACH of the following transactions:

    (i) A family buys a new refrigerator.

    (ii) Aunt Jane buys a new home.

    (iii) Your parents buy a bottle of French wine.

    (iv) The city council repairs a main highway.   **[4 marks]**

    (b) State ONE limitation of GDP as a measure of economic well-being. **[2 marks]**

                                                                Total 6 marks

3.

C = 100 + 0.75Y
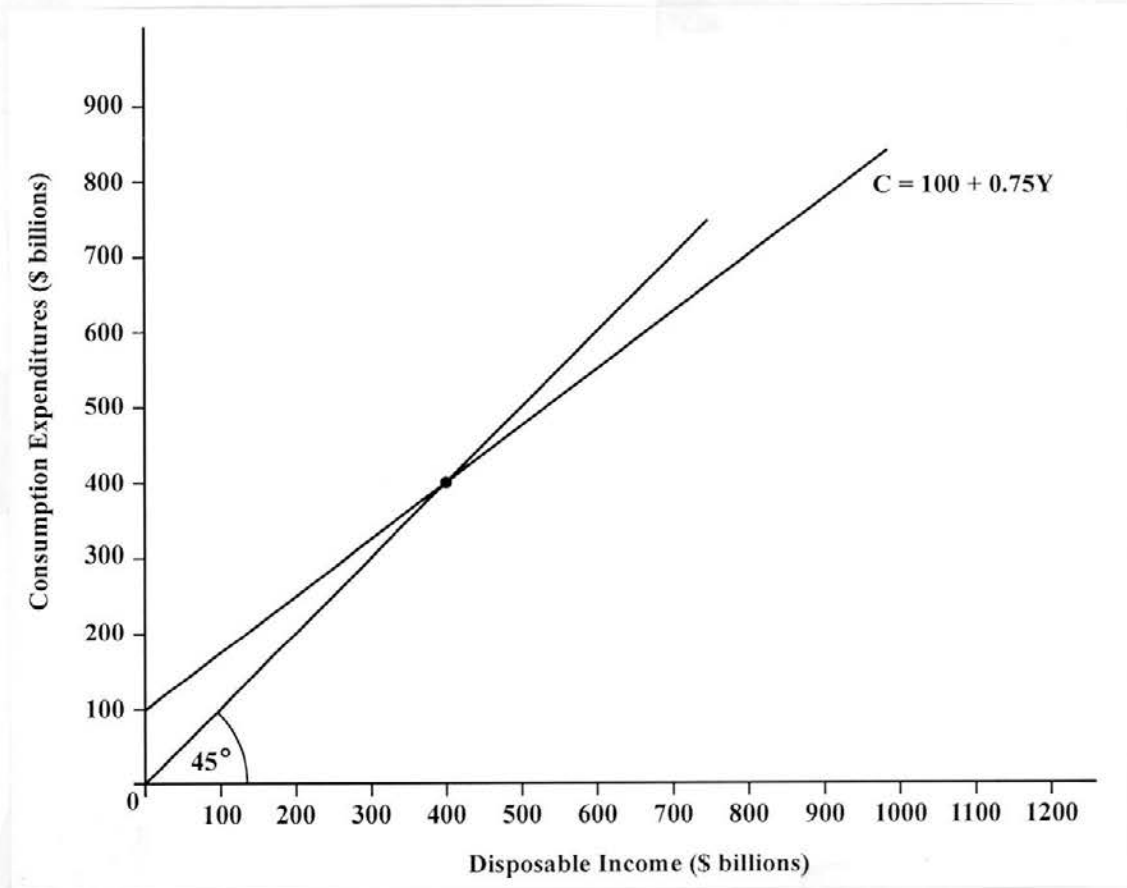
The diagram above shows the relationship between Disposable Income in billions of dollars and Consumption Expenditure in billions of dollars. Use the diagram to answer the questions that follow.

(a) Determine the level of autonomous consumption spending. **[1 mark]**

(b) Determine the marginal propensity to consume. **[1 mark]**

(c) Calculate the multiplier. **[2 marks]**

(d) Determine the equilibrium level of income. **[2 marks]**

Total 6 marks

4. (a) Define the terms 'saving' and 'investment'. **[2 marks]**

(b) State the relationship between saving and investment at equilibrium in a closed economy. **[2 marks]**

(c) Draw the Keynesian aggregate supply curve. **[2 marks]**

Total 6 marks

5. (a) Using Keynesian analysis, draw a diagram to illustrate an inflationary gap. **[4 marks]**

(b) State ONE factor that can explain the volatility of investment. **[2 marks]**

Total 6 marks

SECTION II

6. (a) (i) Define the term 'money'. **[1 mark]**

(ii) Distinguish between fiat money and commodity money. **[2 marks]**

(b) State THREE functions of money. **[3 marks]**

Total 6 marks

7. (a) Explain the term 'the demand for money'. **[2 marks]**

(b) The way in which the money supply is defined has changed a great deal over time. Many of these changes are the result of financial innovations which have led economists to use several different classifications such as M1, M2 and M3.

Differentiate between M1 and M2. **[4 marks]**

Total 6 marks

8. (a) Define the term 'monetary policy'. **[2 marks]**

(b) Explain the MAIN goal of an expansionary monetary policy. **[2 marks]**

(c) The Central Bank uses three main tools to control the money supply. List TWO of these tools. **[2 marks]**

Total 6 marks

9. (a) Explain, briefly, the effect of an increase in government spending (with no change in taxes) on aggregate income in an economy that is in recession. **[3 marks]**

    (b) Outline THREE lags that are associated with fiscal policy. **[3 marks]**

    Total 6 marks

10. (a) Distinguish between

        (i)   a budget surplus and a budget deficit

        (ii) budget deficit and national debt. **[4 marks]**

    (b) State TWO ways by which a country can reduce its debt burden. **[2 marks]**

    Total 6 marks

SECTION III

11. (a) List THREE structural characteristics of a Caribbean economy with which you are familiar. **[3 marks]**

    (b) Outline THREE factors that constrain the economic development in Caribbean economies. **[3 marks]**

    Total 6 marks

12. (a) (i)   Distinguish between 'exports' and 'imports'. **[2 marks]**

        (ii) Give ONE example of an export from the Caribbean Community (CARICOM). **[1 mark]**

    (b) Define the following terms:

        (i)   Tariffs

        (ii) Export subsidies

        (iii) Quotas **[3 marks]**

    Total 6 marks

13. (a) State TWO arguments in favour of free trade. **[4 marks]**

(b) Give ONE argument in favour of protection. **[2 marks]**

Total 6 marks

14. Hypothetical domestic prices per unit of steel and corn in the countries Highland and Lowland are given below.

	HIGHLAND	LOWLAND
Steel	20 Kors	48 Tols
Corn	30 Kors	87 Tols

Use the information shown in the table above to answer the following questions.

(a) If the exchange rate is 1 Kor to 1 Tol, determine the imported price of steel and corn for Lowland. **[2 marks]**

(b) If the exchange rate is 1 Kor = 3 Tols, determine the imported price of steel and corn for Highland. **[2 marks]**

(c) With an exchange rate of 1 Kor = 3 Tols, which country will import both steel and corn? Give a reason for your answer. **[2 marks]**

Total 6 marks

15. (a) (i) Define the term 'foreign direct investment'. **[2 marks]**

(ii) State TWO ways in which foreign direct investment can occur. **[2 marks]**

(b) State ONE advantage and ONE disadvantage of foreign direct investment in your country. **[2 marks]**

Total 6 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

*2½ hours*

(**15 JUNE 2006 (a.m.)**)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a)   The 'government purchases' component of GDP does not include spending on transfer payments such as social security benefits. Using the definition of GDP, explain why transfer payments are excluded when computing GDP.   **[4 marks]**

    (b)   State the formula for converting nominal GDP to real GDP.   **[1 mark]**

    (c)   Use the information in the table below to answer (c) (i) and (c) (ii).

Year	Price of Milk ($)	Quantity of Milk (litres)	Price of Honey ($)	Quantity of Honey (quarts)
2001	1	100	2	50
2002	2	150	3	100
2003	3	200	4	150

    (i)   Using 2001 as the base year, compute for each year

          a)   Nominal GDP

          b)   Real GDP

          c)   GDP deflator.

    (ii)   Compute the percentage change from 2001 to 2002 and from 2002 to 2003 for

          a)   Nominal GDP

          b)   Real GDP

          c)   GDP deflator.   **[30 marks]**

    (d)   Explain why economists use real GDP rather than nominal GDP to measure economic well-being.   **[5 marks]**

    (e)   On Fridays, Barry, the Barber Inc., collects $400 for haircuts. During the day, his equipment depreciates in value by $50. Of the remaining $350, Barry sends $30 to the government for sales tax, takes home $220 in wages and retains $100 in his business to add new equipment in the future. From the $220 that Barry takes home, he pays $70 as income taxes.

GO ON TO THE NEXT PAGE

Based on the information given on page 2, compute Barry's contribution to the following measures of income in the economy:

    (i)   Gross domestic product

    (ii)   Net national product

    (iii)   National income

    (iv)   Personal income

    (v)   Disposable personal income   **[10 marks]**

Total 50 marks

2.   (a)   Explain the meaning of the following terms:

    (i)   Aggregate demand

    (ii)   Aggregate demand curve

    (iii)   Aggregate supply

    (iv)   Aggregate supply curve

    (v)   Equilibrium price level   **[15 marks]**

  (b)   Using aggregate demand and aggregate supply curves to illustrate your points, discuss the impacts of the following events on the price level (P) and equilibrium GDP (Y) in the short run.

    (i)   A tax cut holding government purchases constant, with the economy operating at near full capacity

    (ii)   An increase in the money supply during a period of high unemployment and excess industrial capacity

    (iii)   An increase in the price of oil caused by war in the Middle East, assuming that the government attempts to keep interest rates constant by accommodating inflation
                     [27 marks]

  (c)   Investment is usually regarded as the most unstable component of aggregate spending. Several factors contribute to such instability.

       Explain how the variability of profits and expectations contribute to the instability of investment.   **[8 marks]**

Total 50 marks

SECTION II

Answer ONE question from this section.

3.   Fiscal policy is one of two policy channels through which the government can affect the macro-economy. Discretionary fiscal policy and automatic stabilizers are two important fiscal policy measures.

   (a)   (i)   Differentiate between 'discretionary fiscal policy' and 'automatic stabilizers'.

           (ii)   Using examples, explain how discretionary fiscal policy and automatic stabilizers work during periods of recession or inflation in an economy.   **[12 marks]**

   (b)   Suppose that as Chief Economic Adviser, the Minister of Finance calls you into his office and says the following:

           "Unemployment is too high. We need to lower it by increasing both output and income. Right now the equilibrium level of income/output is $900 billion, but perhaps an acceptable unemployment rate could be achieved if aggregate output increases to say, $1100 billion. Note however that the marginal propensity to consume is 0.75, and taxes must remain at the present levels. So, adjusting taxes (T) is out of the question."

           (i)   Under the circumstances outlined above, explain how the government can use fiscal policy – taxing and spending – to increase the equilibrium level of output from $900 billion to $1100 billion.

           (ii)   Using a 45° line diagram, graph the original situation and the solution you gave in (b) (i) above.   **[18 marks]**

   (c)   Suppose that instead of keeping taxes (T) constant, the Minister of Finance decided to finance the increase in government spending with an equal increase in taxes so as to maintain a balanced budget.

           Explain what happens to aggregate spending as a result of a rise in both taxes and government spending.   **[10 marks]**

   (d)   How much a balanced-budget increase in government spending (G) and taxes (T) will raise output depends on the balanced budget multiplier.

           (i)   What is the balanced budget multiplier?

           (ii)   Referring to the solution given in (c) above, how large is the balanced budget multiplier? Explain your answer.   **[10 marks]**

Total 50 marks

4. (a) Discuss the following:

    (i) TWO advantages of paper money

    (ii) TWO advantages of cheques as compared to commodity money

    (iii) TWO disadvantages of commodity money **[18 marks]**

(b) Currency and chequable deposits have no intrinsic value and they are not backed by gold or other precious metals, yet they are regarded as money.

Discuss the role of acceptability **and** fiat or law in determining the value of money.
[12 marks]

(c) (i) Discuss the basic determinant of the transactions demand for money and the speculative demand for money.

    (ii) Assume that the money market is initially in equilibrium and that the money supply is increased.

With the use of a diagram, explain the adjustments toward a new equilibrium interest rate. **[20 marks]**

Total 50 marks

SECTION III

Answer ONE question from this section.

5.   The table below shows the hypothetical domestic demand and supply schedules for shirts. Use the information presented to answer the questions that follow.

Price ($)	Quantity Demanded (units)	Quantity Supplied (units)
6	800	1100
5	1000	1000
4	1200	900
3	1400	800
2	1600	700

(a)   (i)   Using the graph paper supplied, plot the demand and supply curves.

   (ii)   What are the equilibrium price, P_E and equilibrium quantity, Q_E?

   Assume that the world price for shirts is $3.

   (iii) Show this as P_W on the diagram you have drawn.

   (iv)   On your diagram, indicate the levels of domestic consumption and domestic production.   **[17 marks]**

(b)   In order to preserve employment, local manufacturers of shirts argue successfully that theirs is an infant industry that should be protected. As such, a tariff is imposed that raises the price of shirts to $4.

   (i)   Show the tariff as P_t on the diagram you have drawn.

   (ii)   Following the imposition of the tariff, by how much will domestic production increase?

   (iii) What is the new level of domestic consumption?

   (iv)   Following the imposition of the tariff, how many shirts will be imported?

   (v)   In terms of tax revenues, how much will the tariff yield?   **[13 marks]**

GO ON TO THE NEXT PAGE

(c) (i) On your diagram, shade in the area representing the net welfare loss (deadweight loss) caused by the tariff.

   (ii) Calculate how much is the loss in welfare. **[10 marks]**

(d) (i) Explain who gains and who loses when a country allows trade and becomes an exporter.

   (ii) Explain who gains and who loses when a country allows trade and becomes an importer.

   (iii) Considering the circumstances in (d) (i) and (d) (ii) above, do the gains from trade exceed the losses? **[10 marks]**

Total 50 marks

6. (a) Using appropriate examples, explain EACH of the following terms:

   (i) Free-trade area

   (ii) Customs union

   (iii) Common market **[12 marks]**

(b) (i) Describe, briefly, EACH of the following:

   a) CARICOM

   b) CSME

   c) FTAA **[9 marks]**

   (ii) Outline THREE objectives of Caribbean integration. **[9 marks]**

(c) Discuss FOUR advantages to CARICOM member states arising from the free movement of factors of production – goods, services, capital and people – under the CSME.

[20 marks]

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

1½ hours

(09 JUNE 2006 (p.m.))

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

---

1. The CARICOM Single Market and Economy (CSME) has several goals that will affect the economies of member states.

    (a)   Outline THREE macro-economic goals of CSME.   **[6 marks]**

    (b)   Review the EIGHT issues below relating to some of the specific provisions of the CSME and indicate whether each one represents a macro-economic or a micro-economic issue.

          (i)   Payment of interest on loans and amortizations

          (ii)   The elimination of government subsidies to local farmers

          (iii)   The harmonization of exchange rates

          (iv)   The establishment of viable small economic enterprises

          (v)   The management of forest resources in the region

          (vi)   Providing incentives for foreign direct investment in the economies of member states

          (vii)   Financial support of a sensitive industry

          (viii) Encouraging improved efficiency in a maritime port in Guyana   **[8 marks]**

    (c)   Guyana and Trinidad and Tobago are two economies that will be affected by the provisions of the CSME relating to free movement of labour.

          Discuss TWO ways in which the GDP and the living standards of the citizens of these countries can be improved as a result of the free movement of labour between the two countries.   **[6 marks]**

                                                                           Total 20 marks

2. One of the measures to facilitate the establishment, provision of services and movement of capital under Article 44 of the CSME is the "convergence of macro-economic performance and policies through the coordination or harmonization of monetary and fiscal policies relating to interest rates, tax structures and national budgetary deficits".

    (a)   (i)   Explain the terms 'monetary policy' and 'fiscal policy'.   **[4 marks]**

          (ii)   State ONE way in which monetary policies can be harmonized.   **[2 marks]**

          (iii)   Discuss ONE advantage and ONE disadvantage of the harmonization of fiscal policies.   **[8 marks]**

(b) Most of the countries under the CSME arrangement have different currencies with different strengths.

Considering the nature of currency substitution and money hoarding, explain ONE possible outcome of the free convertibility of currencies in member states. **[4 marks]**

(c) State the official name of the monetary authority of your country. **[2 marks]**

Total 20 marks

3. Three major determinants of economic growth are capital accumulation, human capital and technical change.

(a) (i) Discuss ONE way in which the free movement of factors of production - goods, services, capital and people - can lead to improved human capital. **[4 marks]**

(ii) State TWO categories of nationals that, due to the CSME, can currently move freely within the CARICOM region. **[2 marks]**

(b) (i) State TWO trade restrictions on imports and exports that are prohibited under the CSME. **[4 marks]**

(ii) Name ONE member of the CSME that has a fixed exchange rate and ONE that has a managed float. **[4 marks]**

(c) State the effect of EACH of the following transactions on the demand and supply of Barbados dollars.

(i) A Guyanese goes to Harrison's Cave, while vacationing in Barbados.

[2 marks]

(ii) A student from Barbados decides to spend a year studying at the St Augustine Campus of the University of the West Indies. **[2 marks]**

(iii) Guyanese husbands working in the construction sector in Barbados remit $3 000 to their wives at home in Guyana. **[2 marks]**

Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

$2\frac{1}{2}$ *hours*

22 MAY 2008 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

1. (a) Define ANY THREE of the following terms:

    (i) Scarcity
    (ii) Production possibilities frontier
    (iii) Opportunity cost
    (iv) Production function
    (v) Price elasticity of demand

    [6 marks]

    (b) The mythical country Caricombia can produce the following combinations of food and capital goods given its resource endowment:

Possibilities	a	b	c	d	e	f
Food:	0	1	2	3	4	5
Capital goods:	30	28	24	18	10	0

    Draw a graph in which you plot Caricombia's production possibilities frontier (PPF) with food on the horizontal axis. **[9 marks]**

    (c) (i) Show on the diagram you plotted in (b) above, ONE point that is attainable and ONE point that is unattainable and explain why you chose those points.

    [4 marks]

    (ii) Show on the diagram ONE point that is efficient and ONE point that is inefficient and explain why you chose these points. **[4 marks]**

    (d) (i) Discuss the assumption that you have made about Caricombia's technology in drawing your diagram. **[3 marks]**

    (ii) Explain the effects of an improvement in Caricombia's food technology on its PPF. Show this on your diagram.

    [5 marks]

    (iii) Explain the effect of an increase in all of Caricombia's resources on its PPF. Show this on your diagram. **[5 marks]**

(e)   (i)   Calculate the opportunity cost of increasing food production from '3' to '4' ('d' to 'e').   [5 marks]

       (ii)   Explain how the cost of producing food changes as more food is produced. In your explanation indicate what is responsible for the changes in the cost of food.   [4 marks]

       (iiii)   Explain how Caricombia's PPF will be affected in the future if it chooses to produce at point 'e' rather than point 'c'.   [5 marks]

Total 50 marks

2.   An increase in the relative price of chicken during the Christmas season will have both a substitution effect and an income effect.

(a)   Explain how an increase in the relative price of chicken will have BOTH a substitution effect AND an income effect and say what the net effect is likely to be.   [6 marks]

(b)   List TWO major factors that can shift **the demand curve** of chicken to the right and discuss the relationship of EACH factor to the demand for chicken.   [6 marks]

(c)   List TWO major factors that can shift **the supply curve** of chicken to the left and discuss the relationship of EACH factor to the demand for chicken.   [6 marks]

(d)   A 5% rise in the price of beef decreases the quantity of beef demanded by 10% and increases the quantity of chicken demanded by 15%. A 10% increase in income increases the quantity of chicken demanded by 8%.

       (i)   Write the formula for calculating the cross-elasticity of demand and calculate the cross-elasticity of demand between beef and chicken.   [4 marks]

       (ii)   Explain how a consumer can determine whether a good is a normal good or an inferior good.   [4 marks]

(e)   (i)   Explain THREE determinants of price elasticity of demand, OTHER THAN time.   [6 marks]

       (ii)   Draw the graphs illustrating a) perfect elasticity and b) perfect inelasticity.   [4 marks]

       (iii)   Show, using a graph, how elasticity can change along a straight-line downward sloping demand curve.   [8 marks]

(f)   Discuss TWO ways that time impacts on price elasticity of demand for a product.   [6 marks]

Total 50 marks

SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

3. (a) Define the term "market structure". [2 marks]

    (b) Outline THREE similarities and TWO differences between perfect competition and monopolistic competition. [10 marks]

    (c) (i) Outline TWO similarities and THREE differences between monopolistic competition and monopoly. [10 marks]

         (ii) Name ONE monopoly and ONE firm in monopolistic competition in your country and justify your choices. [4 marks]

    (d) List FOUR barriers to entry that protect monopolies. [4 marks]

    (e) Firms in monopolistic competition are making positive economic profit.

         (i) Differentiate between "normal profit" and "economic profit". [4 marks]

         (ii) Draw a diagram showing a firm in monopolistic competition making economic profit. Label the axes, the cost curves and revenue curves and shade the area showing the profit made by the firm. Show the price and output.

         [12 marks]

         (iii) Explain the long term effect of the situation in (e) (ii) above, on

               • profit

               • the number of firms in the industry. [4 marks]

    Total 50 marks

4. (a) Define the following terms:

    (i)   Market failure
    (ii)   Private cost
    (iii) Social benefit
    (iv)   Pareto efficiency   [8 marks]

    (b) (i)   State TWO characteristics of pure public goods.   [2 marks]

         (ii)   List TWO examples of public goods.   [2 marks]

         (iii) Explain why the free rider problem leads to market failure. [3 marks]

    (c) (i)   Define the term "externality".   [2 marks]

         (ii)   Differentiate between a "positive externality" and a "negative externality".
                                                                             [4 marks]

         (iii) Explain the effects of externalities on private and social costs and benefits.
                                                                             [8 marks]

         (iv)   Explain how externalities affect the level of output of goods and services.
                                                                             [4 marks]

    (d) Identify TWO sources of market failure OTHER THAN public goods and externality.
                                                                             [2 marks]

    (e) Explain, using examples, how government can use EACH of taxation, subsidies and
         legislation to deal with market failure caused by externalities.   [15 marks]

                                                                    Total 50 marks

SECTION III

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

5. (a) (i) Define the following terms:

   a) Factors of production

   b) The labour force participation rate [4 marks]

   (ii) List the factors of production and for EACH factor listed, name the reward received by the owner. [8 marks]

(b) Consider the following table:

Units of Labour (1)	Output per Day (2)	Marginal Product (3)	Value of Marginal Product (4)
0	0		
1	2		
2	6		
3	12		
4	19		
5	25		
6	29		
7	32		

Assume perfect competition in labour and output markets. The wage rate is $20 and the price of the output is $5.

   (i) a) Complete the table in your answer booklet. [8 marks]

   b) State the number of units of labour the firm will employ. [1 mark]

   c) Justify your answer in b) above. [3 marks]

   (ii) Plot the firm's value of the marginal product curve (columns 1 and 4), and on the same diagram, draw the labour supply curve facing the firm. [6 marks]

   (iii) Draw the labour supply curve facing the firm if the wage rate falls to $15 and state the number of units of labour the firm will then employ. [2 marks]

   (iv) Explain the reason for the value of the marginal product curve being the firm's demand curve for labour. [4 marks]

GO ON TO THE NEXT PAGE

(c) Explain the term "derived demand". [2 marks]

(d) Country A has a working age population of 130. Of this number, 20 are attending school or are not interested in jobs. Of those wanting to work, 80 have jobs. On the basis of this information answer the following questions:

    (i) Define the term "labour force". [2 marks]

    (ii) What is the size of Country A's labour force? [2 marks]

    (iii) Calculate Country A's labour force participation rate. [2 marks]

(e) Explain the likely effects of migration associated with the CARICOM Single Market and Economy (CSME) on wages in

    (i) the country that is losing workers

    (ii) the country that is receiving workers. [6 marks]

Total 50 marks

6. The distribution of income may be viewed from two perspectives, (i) the size or personal distribution and (ii) the functional distribution of income.

(a) Differentiate between these two perspectives. [4 marks]

(b) (i) Describe the Lorenz Curve and say how the Gini Coefficient is calculated from it. [8 marks]

    (ii) State the maximum and minimum values of the Gini Coefficient and say what the values of coefficient reveal about inequality of the distribution of income. [4 marks]

(c) (i) Differentiate between "absolute poverty" and "relative poverty". [4 marks]

    (ii) Explain how EACH of the following factors influences poverty:

        a) Health
        b) Education
        c) Unemployment [18 marks]

(d) Explain the term "welfare programme", and give an example of such a programme. [4 marks]

(e) Explain EACH of the following terms:

    (i) Moral hazard

    (ii) Adverse selection [8 marks]

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

$1\frac{1}{2}$ *hours*

21 MAY 2008 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL questions.

1. The agricultural industry plays an important role in many CARICOM member states. It provides food, employment, inputs for industries and foreign exchange. The demand for food is not fully met by domestic production and the domestic supply is augmented by food imports, the bill for which is steadily rising. Agriculture is conducted by small-scale and large-scale producers. The former produce the bulk of the ground provisions, a staple in many diets.

    (a) Explain how small-scale and large-scale farmers differ in terms of EACH of the four major factors of production.   [8 marks]

    (b) Discuss THREE factors that influence the demand for ground provisions.   [6 marks]

    (c) Ground provision farmers are often poor and in an attempt to increase their income the government enforces an effective price floor. With the use of a diagram, discuss the likely effects of this policy on the quantity of ground provisions demanded and supplied.
                                                                                    [6 marks]

                                                                          Total 20 marks

2. The market for agricultural produce is sometimes said to be a good approximation of perfect competition.

    Using your knowledge of perfect competition and monopolistic competition, give a critical analysis of this viewpoint.

                                                                          Total 20 marks

3. The derived demand for agricultural workers is low relative to the supply. Hence, the wage rates and incomes are low, resulting in poverty among farmers and farm workers.

    (a) Explain why the demand for farm workers is considered to be a derived demand.
                                                                                    [4 marks]

    (b) Discuss FOUR areas in which government can implement policy to improve agricultural production and marketing practices in your country.   [8 marks]

    (c) Small farmers experience difficulties accessing loans to improve farming practices and income because of the problems of adverse selection and moral hazard.

        Explain how adverse selection and moral hazard restrict small farmers from access to credit.   [8 marks]

                                                                          Total 20 marks

END OF TEST

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) (i) With the aid of a diagram showing education and medical services, explain what is meant by 'production possibilities frontier (PPF)'. [12 marks]

   (ii) State TWO assumptions on which the PPF is based. [4 marks]

   (b) Using the production possibilities frontier, discuss the following:

   (i) Scarcity

   (ii) Choice

   (iii) Increasing Opportunity Cost [18 marks]

   (c) (i) Define the following terms:

   a) Allocative Efficiency
   b) Production Efficiency [6 marks]

   (ii) Using the production possibilities frontier, illustrate the concepts of 'efficiency' and 'allocative efficiency'. [4 marks]

   (d) State how the following will affect the production possibilities frontier:

   (i) Decrease in resources

   (ii) Improvement in technology [6 marks]

   Total 50 marks

2. (a) Using a demand and supply diagram, explain how a rapid economic expansion in China and India may affect EACH of the following dimensions of the market for oil, everything else remaining the same.

   (i) Demand

   (ii) Supply

   (iii) Quantity bought and sold

   (iv) Price [38 marks]

   (b) Analyze the likely effects of an increase in oil prices on the market for food. [12 marks]

   Total 50 marks

GO ON TO THE NEXT PAGE

SECTION II

Answer ONE question from this section.

3. (a) Compare and contrast THREE MAIN characteristics of perfect competition and monopolistic competition. **[12 marks]**

    (b) Compare and contrast the conduct of perfect competition and monopolistic competition with respect to:

    (i) Competitive behaviour **[6 marks]**

    (ii) Output determination **[6 marks]**

    (iii) Pricing behaviour **[6 marks]**

    (c) Evaluate the performance of a perfect market and a monopolistic market in terms of profit and efficiency. **[20 marks]**

    Total 50 marks

4. (a) Using suitable examples, explain how EACH of the following causes the market allocation of resources to be inefficient:

    (i) Public good **[12 marks]**

    (ii) Externalities **[12 marks]**

    (iii) Asymmetric information (moral hazard and adverse selection) **[15 marks]**

    (b) (i) Explain what is meant by a 'natural monopoly'. **[5 marks]**

    (ii) State why a natural monopoly uses resources inefficiently if unregulated.

    [3 marks]

    (c) Identify ONE pricing rule that a regulator may apply, and state how it may be used to achieve efficiency. **[3 marks]**

    Total 50 marks

SECTION III

Answer ONE question from this section.

5.   (a)   Using a labour demand and a labour supply diagram explain how the share of income going to labour is determined.   **[14 marks]**

   (b)   Discuss the division of the reward of labour into transfer earnings and rent.
   [10 marks]

   (c)   (i)   Explain what is meant by the term 'derived demand'.   **[5 marks]**

   (ii)   Explain why the price of land in the busy commercial district of a major city is likely to be higher than the price of land in other areas.   **[5 marks]**

   (d)   Discuss the relationship between factor rewards and cost of production of poultry on a medium to large size farm.   **[16 marks]**

Total 50 marks

6.   (a)   Compare and contrast the concepts of 'relative poverty' and 'absolute poverty'.
   [10 marks]

   (b)   Explain how the basic needs approach to poverty differs from the poverty line approach.
   [16 marks]

   (c)   Explain how the government may use the following to reduce absolute poverty and inequality:

   (i)   Taxes and subsidies

   (ii)   Public housing

   (iii)   Education and training   **[19 marks]**

   (d)   Determine which of the methods (i), (ii) or (iii) in (c) above, is more sustainable. Justify your answer.   **[5 marks]**

Total 50 marks

END OF TEST

CARIBBEAN   EXAMINATIONS   COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

1½ hours

04 JULY 2008 (p.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

1. In several CARICOM member states agriculture is becoming less important as a productive sector as resources are switched to the production of manufactured goods. Consider the following table showing the demand for a manufactured good.

Demand for Manufactured Good

Price $/unit of good A	Quantity demanded of good A units/week	Quantity supplied of good A units/week	Price of good B $/unit	Income per head $
1.00	50	10	40	500
1.50	40	20	32	400
2.00	30	30	24	300
2.50	20	40	16	200
3.00	10	50	08	100

(a) Plot the demand and supply curves for good A.   [6 marks]

(b)   (i)   Explain what is meant by equilibrium price and equilibrium quantity of good A.
                [3 marks]

       (ii) Identify the equilibrium price and quantity.   [3 marks]

(c) Explain the relationship between good A and good B.   [4 marks]

(d) State the formula for any TWO of the following:

       (i)   Price elasticity of demand for A

       (ii) Cross price elasticity of demand

       (iii) Income elasticity of demand for A   [4 marks]

Total 20 marks

2.   There are more 'barriers to entry' into manufacturing than to agriculture, resulting in differences in the structure, conduct and performance between the two sectors. Consider that a manufacturing industry consists of a number of firms with the following market shares: 50%, 40%, with the rest divided equally among 5 other firms.

   (a)   Calculate

      (i)   the Four Firm Concentration Ratio

      (ii)   the Herfindahl-Hirschman Index.   **[13 marks]**

   (b)   Explain why a merger of the two largest firms should NOT be allowed.   **[3 marks]**

   (c)   Identify the market structure under which this type of manufacturing falls, justify your answer.   **[4 marks]**

                                                                     Total 20 marks

3.   Manufacturing, more so than agriculture, is likely to result in a change in the functional distribution of income and greater inequality in the society, thus requiring government to intervene to bring about social equity and fairness.

   (a)   Explain the difference between size distribution and functional distribution of income.
                                                                           [4 marks]

   (b)   State the factor prices for any TWO factors of production.   **[4 marks]**

   (c)   Using the loanable funds theory, explain how the interest rate is determined.
                                                                           [4 marks]

   (d)   (i)   State how the Gini Coefficient is related to the Lorenz Curve.   **[4 marks]**

      (ii)   Explain how the Gini Coefficient is used to measure inequality.   **[4 marks]**

                                                                     Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

$2\frac{1}{2}$ *hours*

12 JUNE 2008 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) (i) Define the term "inflation". [2 marks]

(ii) State TWO causes of inflation. [4 marks]

(iii) Describe TWO ways by which inflation is measured. [4 marks]

(b) (i) Define the term "rate of unemployment". [2 marks]

(ii) Explain THREE types of unemployment. [12 marks]

(iii) Outline the classical view of unemployment. [6 marks]

(iv) Explain the Keynesian view as to why unemployment exists in a market economy. [6 marks]

(c) Explain the difference between nominal interest rates and real interest rates. [4 marks]

(d) Describe the accelerator hypothesis regarding investment. [5 marks]

(e) Explain what is meant by marginal efficiency of capital (MEC) and state how is it different from the marginal efficiency of investment (MEI). [5 marks]

Total 50 marks

2. (a) (i) What is a consumption function? [2 marks]

(ii) Draw a graph showing the consumption function. [3 marks]

(iii) Define EACH of the following terms:

a) Marginal propensity to consume (MPC)

b) Average propensity to consume (APC)

c) Autonomous consumption

d) Marginal propensity to save (MPS) [8 marks]

(iv) State the basic Keynesian assumptions about the MPC and the APC. [6 marks]

GO ON TO THE NEXT PAGE

(b)   Explain FIVE incentives which influence how households on aggregate divide their
       income between consumption and saving.   [20 marks]

(c)   Explain the difference between permanent income and transitory income.

                                                                                 [6 marks]

(d)   Briefly explain the Life Cycle Hypothesis.   [5 marks]

                                                                    Total 50 marks

SECTION II

Answer ONE question from this section.

3.   (a)   (i)   Differentiate between the monetary aggregates "M1" and "M2".

                                                                                 [4 marks]

             (ii)   Define the term "velocity of money".   [2 marks]

             (iii) Explain the equation of exchange.   [10 marks]

      (b)   Explain how inflation affects any THREE functions of money.   [6 marks]

      (c)   Using the quantity theory of money, explain how expansionary monetary policy can result
             in inflation.   [15 marks]

      (d)   What is "currency substitution"?   [3 marks]

      (e)   (i)   Explain the relationship between the speculative demand for money and the interest
                    rate.   [5 marks]

             (ii)   Explain the relationship between money demand and income.   [5 marks]

                                                                    Total 50 marks

4.   (a)   Draw a graph that explains how interest rates are determined in the Keynesian macro-
             economic model.   [10 marks]

      (b)   Using a graph, explain the relationship between investment and interest rates.

                                                                                 [10 marks]
      (c)   (i)   Explain what is meant by lags in monetary policy.

             (ii)   Explain how these lags affect the potency of monetary policy.   [10 marks]

                                                              GO ON TO THE NEXT PAGE

(d) Explain ANY THREE of the following concepts:

    (i)   Fiscal policy

    (ii)   The balanced budget multiplier

    (iii)   Automatic stabilizers

    (iv)   National debt and debt service ratio   **[12 marks]**

(e) State FOUR ways by which a government can finance a budget deficit without raising taxes.   **[8 marks]**

Total 50 marks

SECTION III

Answer ONE question from this section.

5.   (a)   Discuss FOUR advantages AND FOUR disadvantages of foreign direct investment (FDI).   **[24 marks]**

    (b)   (i)   What is a balance of payment statement?   **[4 marks]**

        (ii)   Differentiate between a current account and a capital account transaction.   **[4 marks]**

    (c)   Discuss TWO potential causes of balance of payment crises in Caribbean countries and suggest how policy makers can respond to these crises.   **[18 marks]**

Total 50 marks

6   (a)   (i)   Define the term "economic growth".   **[2 marks]**

        (ii)   Explain THREE factors that determine the level of economic growth of an economy.   **[9 marks]**

        (iii)   Briefly explain TWO benefits of economic growth.   **[8 marks]**

    (b)   Outline FOUR basic indicators of development and describe briefly how EACH is measured.   **[16 marks]**

    (c)   Discuss the difference between growth and development, using examples to support your views.   **[15 marks]**

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

2½ hours

16 JULY 2008 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) Explain the difference between real Gross Domestic Product (GDP) and nominal GDP.

    [6 marks]

    (b) Discuss TWO methods of measuring national product. **[20 marks]**

    (c) Given the following diagram:
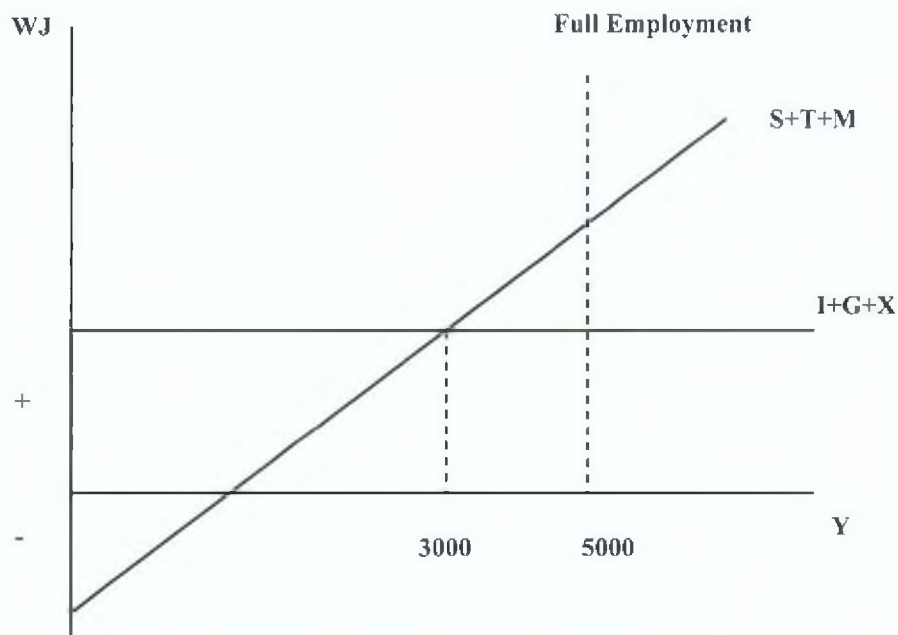
    (i) Identify the type of approach used in the above diagram. **[3 marks]**

    (ii) What type of gap exists in the economy above? **[3 marks]**

    (iii) How wide is the gap? **[2 marks]**

    (iv) How can the gap be closed? **[6 marks]**

(d) Calculate equilibrium aggregate income (Y) from the following information.

Consumption = .8Y
Investment = 100
Government spending = 80
Exports = 500
Imports = 180   **[10 marks]**

Total 50 marks

2. (a) According to the classical model, when the economy is in equilibrium some amount of unemployment still exists.

(i) State the level of unemployment referred to in the statement above.
                                                                [3 marks]

(ii) Draw a graph showing equilibrium employment.   **[9 marks]**

(iii) On the same graph show disequilibrium unemployment.   **[3 marks]**

(b) Explain why disequilibrium employment exists according to the classical model.
                                                                [5 marks]

(c) Explain how, according to the classical view, the economy goes back to equilibrium employment from a position of disequilibrium.   **[10 marks]**

(d) Describe FOUR types of unemployment.   **[20 marks]**

Total 50 marks

SECTION II

Answer ONE question from this section.

3. (a) (i)   Define 'money' in economic terms.   [2 marks]

        (ii) State THREE functions of money.   [6 marks]

    (b) Describe FOUR tools used by the Central Bank to influence the supply of money.
                                                                                           [16 marks]

    (c) (i)   Explain what is meant by the 'money multiplier'.   [4 marks]

        (ii) Outline the first FOUR rounds in the process by which banks create money,
              assuming an initial deposit of $100 and a required reserve ratio of 10%.
                                                                                           [12 marks]

    (d) (i)   State the equation for the quantity theory of money.   [2 marks]

        (ii) State what EACH symbol in (d) (i) above represents.   [8 marks]

                                                                                    Total 50 marks

4. (a) Explain how monetary policy can have a positive impact on:

        (i)   Inflation   [5 marks]

        (ii) Aggregate demand   [5 marks]

        (iii) Unemployment   [5 marks]

    (b) Explain how fiscal policy can have a negative impact on:

        (i)   Budget deficit   [5 marks]

        (ii) Aggregate demand   [5 marks]

        (iii) Employment   [5 marks]

        (iv) Inflation   [5 marks]

    (c) (i)   Explain what is meant by 'automatic stabilizers'.   [5 marks]

        (ii) Identify TWO examples of automatic stabilizers.   [4 marks]

    (d) (i)   Explain what is meant by 'national debt of a country'.

        (ii) Explain why 'national debt' is a burden for the country.   [6 marks]

SECTION III

Total 50 marks

Answer ONE question from this section.

5. (a) (i) Outline TWO benefits of exporting goods and services. **[6 marks]**

   (ii) Outline TWO problems resulting from the importation of goods and services. **[6 marks]**

   (iii) Explain what is meant by the 'commodity terms of trade'. **[3 marks]**

   (iv) Identify TWO factors that determine export revenue. **[4 marks]**

(b) Outline THREE factors that influence economic growth. **[9 marks]**

(c) Discuss, using TWO determinants of economic growth in (b) above, why some Caribbean countries may NOT always have high rates of growth. **[10 marks]**

(d) Describe FOUR structural characteristics of Caribbean economies. **[12 marks]**

Total 50 marks

6. (a) Define the following terms:

   - Balance of trade
   - Trade deficit
   - Trade surplus **[6 marks]**

(b) Explain what is meant by EACH of the following:

   (i) Absolute advantage **[3 marks]**

   (ii) Comparative advantage **[3 marks]**

   (iii) The exchange rate **[3 marks]**

(c) Discuss TWO types of exchange rates and give examples in EACH case of Caribbean countries that use them. **[10 marks]**

(d) Discuss TWO policy options that a country can use in order to correct a trade deficit. **[10 marks]**

(e) Discuss the THREE lower levels of economic integration preceeding the level to be attained by the CARICOM Single Market and Economy. **[15 marks]**

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

$1\frac{1}{2}$ *hours*

09 JUNE 2008 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL questions.

1.   (a)   Define globalization.   [4 marks]

     (b)   Discuss FOUR of the main forces driving globalization.   [16 marks]

               Total 20 marks

2.   (a)   Outline THREE consequences of globalization for your country.   [15 marks]

     (b)   Explain how your country can respond to any ONE of the consequences you explained in (a) above.   [5 marks]

               Total 20 marks

3.   (a)   Discuss how globalization may impact on the monetary policy options of your country.   [10 marks]

     (b)   Discuss how globalization may impact on the fiscal policy options of your country.   [10 marks]

               Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

1½ hours

11 JULY 2008 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

---

1. (a) (i) Explain what is meant by 'recessionary gap'. **[2 marks]**

    (ii) Using the Keynesian 45° diagram, illustrate a deflationary gap. **[6 marks]**

   (b) Explain what is meant by 'inflationary gap'. Show it on the same diagram. **[4 marks]**

   (c) Discuss TWO ways by which fiscal policy can be used to close a recessionary gap.
   [8 marks]

   Total 20 marks

2. (a) Many economists believe that excessive government spending is an example of bad fiscal policy. Discuss TWO negative consequences of such a policy. **[10 marks]**

   (b) Explain how monetary policy can be used to address the problem of inflation in the economy. **[10 marks]**

   Total 20 marks

3. (a) (i) Explain what is meant by 'economic integration'. **[3 marks]**

    (ii) Explain the difference between a common market and a monetary union.
    [6 marks]

   (b) Explain how the formation of a Caribbean monetary union may affect the monetary policy of your country. **[6 marks]**

   (c) Discuss how fiscal policy can impact on Foreign Direct Investment (FDI) in your country.
   [5 marks]

   Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

$2\frac{1}{2}$ *hours*

21 MAY 2009 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

1. (a) (i) Define the term 'market'.   [2 marks]

        (ii) Use a demand and supply diagram to explain how the market allocates scarce resources. Your explanation must include the following:

            a) Equilibrium   [8 marks]

            b) Disequilibrium   [8 marks]

            c) The effect on equilibrium of a fall in the demand for the commodity.
                                                                                     [8 marks]

    (b) (i) With reference to the market for milk, explain the economic effect of an effective price floor.   [6 marks]

        (ii) Explain how an effective price floor leads to inefficient resource allocation.
                                                                                     [12 marks]

    (c) Governments impose price floors despite their negative effects. Justify governments' use of price floors.   [6 marks]

                                                                            Total 50 marks

2. (a) (i) Define the term 'supply'.   [2 marks]

        (ii) Explain the law of supply.   [6 marks]

        (iii) Explain how a change in supply differs from a change in the quantity supplied.
                                                                                     [6 marks]

    (b) (i) Identify FOUR **major** factors, other than the price of eggs, that influence the supply of eggs.   [4 marks]

        (ii) State how EACH of the factors identified in (b) (i) above influences supply.
                                                                                     [12 marks]

    (c) Explain why EACH factor in (b) (i) influences supply the way it does.
                                                                                     [20 marks]

                                                                            Total 50 marks

GO ON TO THE NEXT PAGE

SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

3. (a) (i)   Define the term 'market structure'.   [2 marks]

        (ii) Identify FOUR types of market structures.   [4 marks]

        (iii) Outline FOUR characteristics of the **most** efficient type of market structure.
                                                                                  [16 marks]

    (b) (i)   Compare the characteristics of the monopolistic market structure with those of
              the perfectly competitive market structure.   [16 marks]

        (ii) Compare the conduct and performance of the monopolistic and the perfectly
              competitive market structure in terms of output, price and profit in the short and
              long run.   [12 marks]

                                                                          Total 50 marks

4. (a) Select any THREE of the following pairs of concepts and distinguish between the
         concepts in EACH pair.

        (i)   Private cost and social cost

        (ii) Merit good and public good

        (iii) Positive externality and negative externality

        (iv) Adverse selection and moral hazard   [21 marks]

    (b) Using suitable examples, explain how EACH of the following cause market failure:

        (i)   Public goods   [6 marks]

        (ii) Externalities   [6 marks]

        (iii) Moral hazards   [6 marks]

    (c) Explain how governments can solve the problem caused by public goods.
                                                                                  [11 marks]

                                                                          Total 50 marks

SECTION III

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

5.   (a)   (i)   State the formula for computing EACH of the following:

           a)   Marginal Physical Product of Labour (MPP)   [2 marks]

           b)   Average Physical Product of Labour (APP)   [2 marks]

           c)   Value of Marginal Product (VMP).   [2 marks]

       (ii)   **An insert is provided for this question.**

           The table below shows the output and wage rate for six units of labour (input).

LABOUR PRODUCTIVITY AND WAGES

Labour Input (L)	Units of Output (Q)	Marginal Physical Product of Labour (MPP)	Average Physical Product of Labour (APP)	Value of MPP (VMP)	Wage Rate (W)
0	0	0	0	0	$200
1	8				$200
2	21				$200
3	27				$200
4	31				$200
5	33				$200
6	34				$200

       (ii)   **On the answer sheet provided,** complete the table assuming that the price of the product is $100 per unit and the wage rate is $200.   [18 marks]

   (b)   (i)   Plot the labour demand curve and the wage rate on the same diagram.

                                                         [15 marks]

       (ii)   Determine the number of units of labour that the firm will employ and explain why.   [7 marks]

       (iii)   If the workers become unionized, and their trade union successfully bargains for a wage rate of $400 (a 100% increase), how many workers will now be unemployed?   [4 marks]

Total 50 marks

GO ON TO THE NEXT PAGE

6. (a) (i) Using a suitable example, explain the term 'poverty'. [6 marks]

    (ii) Distinguish between 'absolute poverty' and 'relative poverty'. [8 marks]

  (b) Three popular approaches to measuring poverty are

    (i) basic needs [12 marks]

    (ii) poverty line [12 marks]

    (iii) UNDP's Human Development Index. [12 marks]

  Explain and critique EACH of the above approaches.

Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

Answer sheet for Question 5 (a) (ii)   Candidate No. ....

The table below shows the output and wage rate for six units of labour (input).

LABOUR PRODUCTIVITY AND WAGES

Labour Input (L)	Units of Output (Q)	Marginal Physical Product of Labour (MPP)	Average Physical Product of Labour (APP)	Value of MPP (VMP)	Wage Rate (W)
0	0	0	0	0	$200
1	8				$200
2	21				$200
3	27				$200
4	31				$200
5	33				$200
6	34				$200

Complete the table assuming that the price of the product is $100 per unit and the wage rate is $200.

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

$1\frac{1}{2}$ *hours*

09 JUNE 2009 (a.m.)

INSTRUCTIONS TO CANDIDATES

1.   This paper consists of **THREE** questions.

2.   Answer **ALL** the questions.

3.   **ALL** working **MUST** be **CLEARLY** shown.

4.   Candidates may use silent non-programmable calculators.

Answer ALL the questions.

1. Good X, for example chicken, is an important source of protein produced and marketed in your country. There are three firms, A, B and C, supplying the market.

An insert is provided for this question.

The table below shows the demand for and supply of Good X.

DEMAND AND SUPPLY OF GOOD X

Price of Good X ($)	Market Demand (000 lb.)	Quantity Supplied (000 lb.)			Market Supply (000 lb.)
		Firm A	Firm B	Firm C	
3	500	50	25	25	
4	400	100	60	40	
5	300	130	100	70	
6	200	185	125	90	
7	100	220	180	100	

(a) (i) **On the answer sheet provided**, complete the table to show the market supply of Good X. [5 marks]

(ii) Using supply and demand curves, show the equilibrium price and quantity. [6 marks]

(b) (i) Using the mid-point formula, calculate the elasticity of demand when price changes from $5 and $6. [6 marks]

(ii) Indicate whether demand is elastic or inelastic, giving a reason for your answer. [3 marks]

Total 20 marks

2. Explain how the market structure of this industry differs from perfect competition in terms of

    (a)   characteristics   **[10 marks]**

    (b)   behaviour and   **[5 marks]**

    (c)   performance.   **[5 marks]**

                                      Total 20 marks

3. (a)   Differentiate between poverty and a high Gini coefficient and show the relationship between them.   **[15 marks]**

    (b)   Explain how the market structure of the industry is likely to affect inequality and poverty in your country.   **[5 marks]**

                                        Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

Answer sheet for Question 1 (a) (i)   Candidate No. ....

The table below shows the demand for and supply of Good X.

DEMAND AND SUPPLY OF GOOD X

Price of Good X ($)	Market Demand (000 lb.)	Quantity Supplied (000 lb.)			Market Supply (000 lb.)
		Firm A	Firm B	Firm C	
3	500	50	25	25	
4	400	100	60	40	
5	300	130	100	70	
6	200	185	125	90	
7	100	220	180	100	

Complete the table above to show the market supply of Good X.

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

$2\frac{1}{2}$ *hours*

28 MAY 2009 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) Define EACH of the following macroeconomic variables and state how it is measured.

    (i)   Inflation

    (ii)   Economic growth

    (iii) Unemployment rate

    (iv)   Balance of payments   [16 marks]

    (b) The following information relates to the economy of Country Y.

ITEMS	AMOUNT ($Millions)
Wages and salaries paid to labour	800
Consumption expenditure	600
Taxes	250
Transfer payments	50
Profits	200
Investment	150
Government spending	200
Exports	300
Imports	275
Rents	75

    (i)   a)   Explain how Gross Domestic Product (GDP) is calculated using the
               expenditure approach.   [4 marks]

          b)   Use the expenditure approach to calculate the GDP for Country Y.
                                                                    [6 marks]

    (ii) a)   Explain how GDP is calculated using the income approach.
                                                                    [4 marks]

          b)   Use the income approach to calculate the GDP for Country Y.
                                                                    [6 marks]

(c)   State ONE reason why EACH of the following transactions will OR will NOT be included in the calculation of a country's GDP.

    (i)   An individual buys a used textbook.

    (ii)   A merchant sells United Statess currency on the black market

    (iii)   A meat processing plant builds a new factory.   [9 marks]

(d)   Explain why GDP per capita is NOT an adequate measure of the standard of living of a country.   [5 marks]

Total 50 marks

2.   (a)   (i)   Distinguish between the Marginal Propensity to Consume (MPC) and the Average Propensity to Consume (APC).   [4 marks]

    (ii)   State how the APC and the MPC are calculated.   [4 marks]

(b)   Using the simple Keynesian consumption theory, explain the effect of a rise in income on the MPC and the APC.   [8 marks]

(c)   (i)   Define the term 'autonomous consumption'.   [2 marks]

    (ii)   Draw a graph illustrating the concept of autonomous consumption and explain the Keynesian consumption function.   [8 marks]

(d)   (i)   State FOUR determinants of consumption, other than income.   [8 marks]

    (ii)   Explain how EACH of the **four** determinants impacts on consumption.
          [16 marks]

Total 50 marks

SECTION II

Answer ONE question from this section.

3.   (a)   Define EACH of the following concepts:

(i) M_1

(ii) M_2

(iii)   Monetary transmission mechanism

(iv)   Velocity of money

(v)   Currency substitution   **[10 marks]**

(b)   State THREE reasons for holding money.   **[6 marks]**

(c)   Inflation has recently been a major problem for several Caribbean economies. Identify FOUR tools of monetary policy and explain how the Central Banks in the region can use these tools to help control inflation.   **[16 marks]**

(d)   Use the Keynesian liquidity preference framework to illustrate how monetary policies can impact on interest rates and the demand for money.   **[8 marks]**

(e)   With the use of examples, outline TWO reasons why the Central Bank monetary policies to combat inflation may only achieve limited success.   **[10 marks]**

Total 50 marks

4. (a) Define EACH of the following terms:

    (i)   Balanced budget multiplier   [3 marks]

    (ii)   Fiscal policy   [2 marks]

    (iii) Balanced budget   [2 marks]

    (iv)   Unbalanced budget   [2 marks]

    (b) Explain how an 'equal' or 'balanced' change in government spending and tax revenues
         may cause income to rise.   [5 marks]

    (c) Discuss how government's borrowing to finance fiscal deficits can have a negative
         impact on EACH of the following:

    (i)   Domestic interest rates   [5 marks]

    (ii)   Domestic investment   [5 marks]

    (iii) Inflation   [5 marks]

    (iv)   The value of the country's currency in relation to the United States dollar
                                                          [5 marks]

    (d) Explain, using a graph, the relationship between investment and the rate of interest.
         Show on the graph how expansionary fiscal policy can have a negative impact on the
         level of investment.   [10 marks]

    (e) Explain what is meant by the 'national debt' of a country and state ONE reason why the
         national debt is a burden to a country.   [6 marks]

                                                Total 50 marks

Answer ONE question from this section.

5. (a) (i) Describe THREE determinants of economic growth. [9 marks]

    (ii) Explain what is meant by 'economic development'. [3 marks]

    (iii) Explain what is meant by 'human development index'. [3 marks]

    (iv) Describe THREE **main** indicators of 'human development index'.
    [9 marks]

    (b) Using suitable examples, discuss THREE potential costs of economic growth.
    [15 marks]

    (c) Discuss TWO impediments to economic growth faced by Caribbean economies.
    [10 marks]

    Total 50 marks

6. (a) Define EACh of the following terms:

    (i) Tariffs

    (ii) Quotas

    (iii) Non-tariff barriers [6 marks]

    (b) State FOUR factors that determine a country's export revenue. [8 marks]

    (c) Discuss TWO types of exchange rates and for EACH type, name ONE Caribbean country that uses it. [10 marks]

    (d) Discuss TWO **major** benefits of EACH type of exchange rate discussed in (c) above.
    [16 marks]

    (e) Analyse ONE positive and ONE negative consequence of a devaluation of your country's currency. [10 marks]

    Total 50 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

$1\frac{1}{2}$ *hours*

08 JUNE 2009 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** the questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL the questions.

1. (a) (i) Define the term 'aggregate demand'. [2 marks]

    (ii) State the equation for calculating the aggregate demand when the economy is open (has a trade sector). [2 marks]

    (b) Explain, using demand and supply curves, how a global recession can impact on the aggregate demand and output of your country's economy. [10 marks]

    (c) Discuss how EACH of the following groups might respond to current global recession:

    (i) The Classical economists

    (ii) Keynesian economists [6 marks]

    Total 20 marks

2. (a) Define EACH of the following terms:

    (i) Budget deficit

    (ii) National debt

    (iii) Transfer payments [6 marks]

    (b) Discuss how a global recession can impact on any TWO of the above. [8 marks]

    (c) Outline TWO ways by which the government of your country can use fiscal policy to help soften the impact of a recession. [6 marks]

    Total 20 marks

3. (a) (i) Define the term 'balance of payments'. [3 marks]

    (ii) List the THREE **main** accounts in the balance of payments. [3 marks]

    (b) Outline FOUR ways by which a global recession can impact on the main accounts in the balance of payments. [8 marks]

    (c) Outline TWO ways in which your country can address temporary balance of payments crises. [6 marks]

    Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

2 ½ hours

(**19 MAY 2010 (a.m.)**)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

1. (a) Using suitable examples, explain EACH of the following concepts:

(i) Total utility **[3 marks]**

(ii) Marginal utility **[3 marks]**

(iii) The law of diminishing marginal utility **[3 marks]**

(b) Table 1 below is an incomplete table showing utility maximization for bread and buns. The price of bread is $1 per loaf and the price of buns is $1 per bag.

Table 1: UTILITY MAXIMIZATION

Unit of Goods (loaves of bread/bag of buns)	Total Utility		Marginal Utility		Marginal Utility Per Dollar (MU/Price)	
	Bread	Bun	Bread	Bun	Bread	Bun
0	0	0	0	0	0	0
1	6	5				
2	11	9				
3	15	12				
4	18	14				
5	20	15				

(i) Copy and complete the table in your answer booklet. **[5 marks]**

(ii) Using the information from the Table 1, draw the consumer's demand curve for bread. **[5 marks]**

(iii) If the consumer has a budget of $5 to spend, determine how many loaves of bread and how many bags of buns she can buy to maximize her satisfaction. Explain your answer. **[4 marks]**

(iv) If the price of a loaf of bread rises to $2, what combination of bread and buns will maximize the consumer's utility? **[2 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

2. (a) (i) Define the term 'demand'. **[2 marks]**

(ii) Explain the 'law of demand'. **[4 marks]**

(iii) Explain how a 'change in demand' differs from a 'change in the quantity demanded'. **[4 marks]**

(b) (i) Identify THREE factors, other than the price of beef, that influence the demand for beef. **[3 marks]**

(ii) Discuss why EACH factor identified in (b) (i) above influences the demand for beef. **[12 marks]**

Total 25 marks

SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

3. (a) (i) Compare the characteristics of monopolistic competition with those of oligopoly, focusing on the following: the number of firms, entry and exit barriers, and the nature of the product. **[9 marks]**

(ii) Assess the role of advertising in monopolistic competition. **[4 marks]**

(b) With the aid of a short-run diagram and a long-run diagram, explain output level, pricing (in relation to average revenue, average total cost and marginal cost) and the profits of the firm in monopolistic competition in both the short run and the long run.

[12 marks]

Total 25 marks

4. (a) (i) Explain the term 'market failure' with special emphasis on the efficiency criterion. **[4 marks]**

(b) Using suitable examples, explain how market failure is caused by

(i) public goods **[8 marks]**

(ii) monopolies. **[8 marks]**

(c) Assess government's response to market failure caused by public goods and monopolies. **[5 marks]**

Total 25 marks

SECTION III

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

5. The table below shows the units of labour and total product.

Units of Labour	Total Product	Marginal Product	Value of Marginal Product ($)
0	1		
1	10		
2	30		
3	60		
4	100		
5	136		
6	146		
7	150		

(a) Calculate for EACH unit of labour

   (i) the marginal product **[4 marks]**

   (ii) the value of the marginal product if the price of the product is $1.50.

   [4 marks]

(b) Assuming that the wage rate is $15.00:

   (i) Draw a diagram showing the value of the marginal product curve and the wage rate.

   [12 marks]

   (ii) State how much labour will be employed and why. **[5 marks]**

   Total 25 marks

6.   (a)   With the aid of a competitive labour market diagram, discuss how wage rate and employment level are determined in a labour market. (Ensure that you discuss the details of your diagram: the demand and supply curves, equilibrium, disequilibrium and shifts of the demand and supply curves.)   **[19 marks]**

    (b)   Explain the role of EACH of the following in the determination of wage rates:

         (i)   Governments   **[2 marks]**

         (ii)   Trade unions   **[2 marks]**

         (iii)   Employers' associations   **[2 marks]**

                                              Total 25 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

1 ½ hours

08 JUNE 2010 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL the questions.

1.   (a)   List FOUR types (levels) of education and training that are demanded in your country.

[4 marks]

   (b)   Explain why consumers demand these types of education and training.   **[6 marks]**

   (c)   In order to achieve a good education, a number of sacrifices must be made. This is referred to as the cost of education.

Discuss TWO costs, to consumers, of a good education.   **[10 marks]**

Total 20 marks

2.   (a)   Explain the concept of 'market failure' with special emphasis on the efficiency criterion.

[5 marks]

   (b)   Discuss 'market failure' in the context of the provision of education.   **[10 marks]**

   (c)   The inability to provide adequate education privately has been a source of 'market failure'. Explain how governments can address this market failure.   **[5 marks]**

Total 20 marks

3.   (a)   Distinguish between 'absolute poverty' and 'relative poverty'.   **[5 marks]**

   (b)   Explain the impact of education on income distribution.   **[5 marks]**

   (c)   Assess the role of education in poverty alleviation in your country.   **[10 marks]**

Total 20 marks

END OF TEST

TEST CODE **02216020**

FORM TP 2010166

MAY/JUNE 2010

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

2 ½ hours

27 MAY 2010 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

1. (a) (i) Explain the difference between 'Real GDP' and 'Nominal GDP'. **[4 marks]**

   (ii) Discuss TWO reasons why GDP, by itself, is NOT a complete measure of net economic welfare. **[6 marks]**

(b) Given the following information for an economy:

   $C = 40 + 0.80Y$
   $G = 400$
   $I = 50$
   $NX = 10 - 0.30Y$

   Determine the following:

   (i) The value of autonomous consumption **[1 mark]**

   (ii) The value of the marginal propensity to consume **[1 mark]**

   (iii) The equilibrium level of real GDP **[4 marks]**

   (iv) The multiplier **[3 marks]**

(c) Briefly describe EACH of the following National Income Accounts and state how EACH is measured.

   (i) Net National Product (NNP) **[3 marks]**

   (ii) Personal Disposable Income (PDI) **[3 marks]**

   Total 25 marks

2.   (a)   (i)   Using the Keynesian 45° graphs, explain the difference between the 'recessionary gap' and the 'inflationary gap'.   **[10 marks]**

(ii)   Using the Classical Model, explain why disequilibrium employment exists.

[5 marks]

(b)   (i)   Define the term "investment".   **[2 marks]**

(ii)   Describe FOUR factors that influence investment.   **[8 marks]**

Total 25 marks

SECTION II

Answer ONE question from this section.

3.   (a)   (i)   Define 'money'.   **[1 mark]**

(ii)   Outline THREE functions of money.   **[6 marks]**

(b)   (i)   Explain what is meant by a 'fractional reserve banking system'.   **[3 marks]**

(ii)   Starting with an initial deposit of $100 and given a required reserve ratio of 10 per cent, explain how commercial banks use this system to create money.

[6 marks]

(c)   Explain how EACH of the following transactions affects the transactions demand for money and the equilibrium interest rate:

(i)   A shortening of the pay period for workers

(ii)   An increase in the nominal gross domestic product

(iii)   An increase in the number of automated teller machines throughout the country

[9 marks]

Total 25 marks

4. (a) Explain what is meant by 'automatic stabilizers' giving TWO examples of automatic stabilizers. **[5 marks]**

(b) (i) Explain what is meant by the term 'fiscal policy'. **[3 marks]**

(ii) Outline THREE ways by which fiscal policy can be used by Caribbean governments to increase the level of employment and output in their economies.
[9 marks]

(c) Discuss TWO reasons why fiscal policy may **not** work in practice in the small open economies of the Caribbean. **[8 marks]**

Total 25 marks

SECTION III

Answer ONE question from this section.

5. (a) Identify the THREE **main** stages of economic integration that CARICOM countries have attempted to achieve over the past 30 years. **[3 marks]**

(b) State THREE benefits and THREE costs associated with economic integration.
[12 marks]

(c) Assess the pros and the cons of foreign direct investment (FDI) by multinational companies (MNCs) in the Caribbean regarding

(i) access to technology

(ii) job creation.
[10 marks]

Total 25 marks

6.   (a)   Distinguish between 'absolute advantage' and 'comparative advantage'.

[4 marks]

       (b)   In 2008, the Caribbean region signed an Economic Partnership Agreement with the European Union. Some economists objected to this on the grounds that free trade would not be good for the region.

           Outline THREE arguments in favour of protection that these economists could have used to support their position.   **[9 marks]**

       (c)   Those countries in favour of the agreement with the European Union argued that the region could receive benefits from free trade with Europe. Outline TWO of these potential benefits.

[6 marks]

       (d)   Discuss TWO policy options that a country can use in order to correct a trade deficit.

[6 marks]

Total 25 marks

END OF TEST

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

1 ½ hours

07 JUNE 2010 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL questions.

1. (a) Explain what is meant by

        (i)   'fiscal policy'   **[3 marks]**

        (ii) 'monetary policy'.   **[3 marks]**

    (b) Analyse TWO types of fiscal policies that have been used in your country over the past
         five years.   **[4 marks]**

    (c) Analyse the MAIN type of monetary policy that has been used in your country over the
         past five years.   **[4 marks]**

    (d) Evaluate TWO possible objectives of fiscal policies in your country.   **[6 marks]**

                                                                        Total 20 marks

2. (a) Unemployment is one of the major problems faced by Caribbean territories. This contributes
         to a number of social and economic ills referred to as costs.

         Outline THREE costs of unemployment.   **[6 marks]**

    (b) The already high unemployment rate in a Caribbean territory has risen by a further
         25 per cent.

        (i)   Explain how fiscal policy can be used to solve this problem.   **[8 marks]**

        (ii) Explain how monetary policy can be used to solve the problem.   **[6 marks]**

                                                                        Total 20 marks

3. (a) (i)   Define the term 'exchange rate'.   **[2 marks]**

        (ii) State TWO ways by which the exchange rate is determined.   **[4 marks]**

    (b) Many economists believe that excessive government spending is an example of bad fiscal
         policy. Examine TWO negative consequences of excessive government spending on a
         country's exchange rate.   **[8 marks]**

    (c) Assess TWO ways by which the Central Bank can use monetary policy to help stabilize
         the exchange rate.   **[6 marks]**

                                                                        Total 20 marks

END OF TEST

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

2 ½ hours

19 MAY 2011 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

1. (a) (i) Carefully draw and label a production possibility frontier (PPF) diagram.
   [4 marks]

   (ii) Use your diagram to explain the following concepts:

   a) Scarcity **[3 marks]**

   b) Choice **[3 marks]**

   c) Opportunity cost **[3 marks]**

   (b) (i) State THREE assumptions on which the PPF is based. **[3 marks]**

   (ii) Use the PPF diagram to distinguish among the following levels of production.

   a) Efficient **[3 marks]**

   b) Inefficient **[3 marks]**

   c) Unattainable **[3 marks]**

   Total 25 marks

2. (a) (i) With the aid of indifference curves, explain consumer equilibrium. **[10 marks]**

   (ii) Using the indifference curves drawn in (a) (i), explain how consumer equilibrium changes when consumer income increases. **[3 marks]**

   (b) (i) Draw a demand and supply diagram for a good. **[4 marks]**

   (ii) Use the diagram, in (b) (i) above, to explain the effect on equilibrium price and quantity of an

   a) increase in consumer income **[4 marks]**

   b) improvement in the technology used in producing a good. **[4 marks]**

   Total 25 marks

GO ON TO THE NEXT PAGE

SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

3. (a) (i) Explain the concept 'market structure'. **[2 marks]**

   (ii) Identify FOUR types of market structures. **[4 marks]**

   (iii) List FOUR characteristics used to distinguish among the types of market struc-
   tures. **[4 marks]**

   (b) Compare monopoly and monopolistic competition in the short-run and long-run in terms
   of

   (i) the major characteristics **[6 marks]**

   (ii) conduct **[3 marks]**

   (iii) profitability **[3 marks]**

   (iv) the efficiency with which they use resources. **[3 marks]**

   Total 25 marks

4. (a) With the use of examples, distinguish between the following pairs of concepts:

   (i) Private costs and social costs **[8 marks]**

   (ii) Public goods and private goods **[8 marks]**

   (b) Identify THREE pricing options that government can employ to deal with a natural
   monopoly and state the effect of EACH pricing option. **[9 marks]**

   Total 25 marks

SECTION III

Answer ONE question from this section.

5. (a) Identify the rewards accruing to the owners of EACH of the following factors of production:

(i) Land

(ii) Labour

(iii) Capital

(iv) Enterprise **[4 marks]**

(b) (i) Define EACH of the following and explain its importance to a firm:

a) Wage rate

b) Marginal product **[6 marks]**

(ii) With the aid of a diagram, explain how the wage rate and the value of the marginal product of labour are combined to determine the quantity of labour hired by a firm. **[10 marks]**

(c) Explain the relationship between the value of the marginal product of labour and the firm's labour demand curve. **[5 marks]**

Total 25 marks

6. (a) (i) Distinguish between 'wage differentials' and 'compensating wage differentials.' **[4 marks]**

(ii) State FOUR causes of wage differentials. **[4 marks]**

(iii) Using TWO of the causes identified in (a) (ii) above, explain why wages differ. **[4 marks]**

(b) (i) Define the concept 'poverty'. **[2 marks]**

(ii) Distinguish between 'absolute poverty' and 'relative poverty'. **[4 marks]**

(c) Explain why a legal minimum wage will alleviate poverty in a monopsonic labour market but NOT in a perfect market. **[7 marks]**

Total 25 marks

END OF TEST

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 03/2

1 ½ hours

07 JUNE 2011 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL questions.

1. Cellular (mobile) phone service providers have become widespread in many CARICOM member states making invaluable contributions to production, employment, income and overall well-being.

    (a) Identify FOUR **major** factors that affect the demand for cellular (mobile) services and explain how EACH factor affects the demand for cellular (mobile) services.

    [12 marks]

    (b) When the price of mobile services falls from $2 500 to $2 000, the quantity demanded rises from 12 000 to 15 000. Use the mid-point formula, for calculating elasticity, to calculate the elasticity of demand for mobile services and interpret your results. **[8 marks]**

    Total 20 marks

2. (a) (i) Identify THREE possible goals of firms in the cellular (mobile) services industry and explain how EACH goal can be achieved. **[9 marks]**

        (ii) Explain the role of corporate responsibility. **[3 marks]**

    (b) The mobile services operations can be classified as oligopolistic competition. Justify this statement using FOUR characteristics of the market structure. **[8 marks]**

    Total 20 marks

3. (a) With the aid of a demand and supply diagram, explain how the wages of a highly skilled cellular (mobile) services worker can be divided into transfer earnings and economic rent.

    [12 marks]

    (b) Explain the effect of labour mobility on wages. **[8 marks]**

    Total 20 marks

END OF TEST

TEST CODE **02216020**

FORM TP 2011170

MAY/JUNE 2011

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 02

2 ½ hours

30 MAY 2011 (a.m.)

INSTRUCTIONS TO CANDIDATES

1.   This paper consists of **THREE** sections.

2.   There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3.   Answers for **ALL** questions must be written in the answer booklet provided.

4.   Candidates may use silent non-programmable calculators.

SECTION I

Answer ONE question from this section.

Draw all diagrams neatly and clearly label them.

1. (a)   (i)   Define the term 'intermediate good'.   **[2 marks]**

        (ii)   Explain why intermediate goods are not counted in the calculation of the Gross Domestic Product (GDP).   **[1 mark]**

        (iii)   Explain what is meant by 'value added'.   **[2 marks]**

    (b)   The table below shows the quantity and unit price of three goods produced in an economy over a three-year period.

	2008		2009		2010	
Good	Quantity	Price ($)	Quantity	Price ($)	Quantity	Price ($)
Mangoes	100	0.50	110	0.50	100	0.55
Coconut	300	1.00	330	1.00	300	1.10
Cakes	2 000	8.00	2 200	8.00	2 000	8.80

        (i)   Explain the difference between nominal GDP and real GDP.   **[2 marks]**

        (ii)   Calculate the GDP for the economy for 2008 and 2009.   **[4 marks]**

        (iii)   State, in terms of economic growth, the difference in the economy between 2008 and 2009.   **[2 marks]**

        (iv)   State, in terms of economic growth, the difference in the economy between 2008 and 2010.   **[2 marks]**

    (c)   Using a standard 45° Keynesian cross diagram, explain how equilibrium is reached between actual expenditure (AE) and Income (Y).

                                                                                      [10 marks]

                                                                                Total 25 marks

2. (a) Define the following terms:

(i) Marginal propensity to consume (MPC) **[2 marks]**

(ii) Average propensity to consume (APC) **[2 marks]**

(iii) Autonomous consumption **[2 marks]**

(b) Using a graph, explain the Keynesian consumption function showing how the MPC and the APC in the function are affected by an increase in income.

[6 marks]

(c) The following information represents the aggregate expenditure (AE) for an economy:

Consumption (C) = 100 + 0.9 Y
Investment (I) = 200
Government Spending (G) = 50

(i) Calculate the equilibrium level of income. **[3 marks]**

(ii) Calculate the multiplier in the economy. **[2 marks]**

(d) Identify FOUR **major** determinants of aggregate consumption and explain how EACH determinant functions. **[8 marks]**

Total 25 marks

SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and clearly label them.

3. (a) Describe THREE types of demand for money. **[6 marks]**

(b) Define EACH of the following tools of monetary policy:

(i) Reserve requirement (RR) **[2 marks]**

(ii) Open market operations (OMO) **[2 marks]**

(iii) Moral Suasion (MS) **[2 marks]**

(c) Explain how the Central Bank can use monetary policy to have a positive impact on aggregate demand. **[4 marks]**

(d) (i) State the 'quantity theory of money'. **[3 marks]**

(ii) Identify the school of economics that advocates the use of the quantity theory.
[1 mark]

(e) Analyse how the changes in the money supply by the Central Bank can lead to inflation.
[5 marks]

Total 25 marks

4. (a) Outline THREE methods that a government can use to finance its fiscal deficit.

[6 marks]

(b) Explain how government's borrowing on the domestic market to finance large fiscal deficits can affect EACH of the following:

(i) Domestic interest rates **[2 marks]**

(ii) Domestic investment **[2 marks]**

(iii) The country's exchange rate **[2 marks]**

(c) State TWO reasons why Caribbean residents often have a very high demand for the United States (US) dollar rather than their own domestic currency. **[4 marks]**

(d) Identify THREE fiscal measures available to Caribbean countries to boost output in times of recession and evaluate the effectiveness of EACH fiscal measure. **[9 marks]**

Total 25 marks

SECTION III

Answer ONE question from this section.

Draw all diagrams neatly and clearly label them.

5. (a) Outline THREE **major** features of globalization. **[6 marks]**

(b) Identify THREE **major** factors that have driven the process of globalization and evaluate the effectiveness of EACH factor. **[12 marks]**

(c) (i) Define the term 'balance of payments'. **[1 mark]**

(ii) Describe THREE ways in which the recent global financial crisis has negatively impacted on the balance of payments of Caribbean countries. **[6 marks]**

Total 25 marks

6. (a) (i) Explain what is meant by 'exchange rate'. **[2 marks]**

(ii) Give THREE examples of actual exchange rates that currently exist between Caribbean currencies and the US dollar. **[3 marks]**

(iii) Distinguish between 'fixed exchange rates' and 'floating exchange rates'. **[4 marks]**

(iv) State TWO advantages of a fixed exchange rate and TWO advantages of a floating exchange rate. **[4 marks]**

(b) In recent years, CARICOM countries have signed a number of Free Trade or Economic Partnership Agreements with other countries. Discuss TWO advantages and TWO disadvantages of these free trade agreements for the region. **[12 marks]**

Total 25 marks

END OF TEST

G⚡C®

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – PAPER 03/2

1 ½ hours

06 JUNE 2011 (a.m.)

INSTRUCTIONS TO CANDIDATES

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. **ALL** working **MUST** be **CLEARLY** shown.

4. Candidates may use silent non-programmable calculators.

Answer ALL questions.

1. (a) (i) Define the term 'aggregate supply'. **[2 marks]**

   (ii) Describe the shape of the classical aggregate supply curve. **[2 marks]**

   (iii) Describe the Keynesian short run aggregate supply curve. **[2 marks]**

   (b) Explain, using demand and supply curves, how during a recession, government's spending to build transportation infrastructure can contribute to the economic recovery of an economy. **[10 marks]**

   (c) Explain how the Classical School of Economics would respond to a recession.
   [4 marks]

   Total 20 marks

2. (a) Define the following terms:

   (i) Fiscal policy **[2 marks]**

   (ii) Budget surplus **[2 marks]**

   (iii) Transfer payments **[2 marks]**

   (b) Identify FOUR sources from which government may borrow large sums of money to finance infrastructural development. **[8 marks]**

   (c) Evaluate TWO negative consequences, of government borrowing, to the economy.
   [6 marks]

   Total 20 marks

3. (a) (i) Define the term 'balance of payments'. **[2 marks]**

   (ii) Identify the THREE **main** accounts that are included in the balance of payments. **[3 marks]**

   (b) (i) Define the term 'economic growth'. **[2 marks]**

   (ii) Outline TWO ways in which an inefficient transport system can hinder a country's economic growth. **[4 marks]**

   (c) Discuss THREE ways in which an efficient transportation infrastructure can have a positive impact on a country's balance of payments. **[9 marks]**

   Total 20 marks

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

21 MAY 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of **THREE** sections.

2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Begin **EACH** question on a separate page.

5. Candidates may use silent, non-programmable calculators.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

Answer ONE question from this section.

Draw ALL diagrams neatly and carefully and clearly label ALL axes and curves.

1. A consumer is consuming a combination of *Good X* and *Good Y* at equilibrium *A*. The price of *Good X* falls. The consumer therefore moves to another equilibrium, *B*.

   (a) (i) a) Define the terms 'indifference curve' and 'budget line'. **[2 marks]**

      b) Draw a diagram showing an indifference curve and a budget line, and use the diagram to explain consumer equilibrium. **[8 marks]**

      (ii) Using the diagram in (a) (i) b) above, explain how a decrease in the price of *Good X* moves the consumer to equilibrium *B*. **[5 marks]**

   (b) (i) The change from equilibrium *A* to equilibrium *B* is the total change.

      Explain what is meant by EACH of the following terms:

      a) 'Substitution effect' **[2 marks]**

      b) 'Income effect' **[2 marks]**

      (ii) With the aid of a diagram, explain the income and substitution effects using EITHER the Hicksian approach OR the Slutskian approach. **[6 marks]**

   Total 25 marks

2. A perfectly competitive firm producing microchips has recorded its fixed cost as $128. Its output levels and variable costs are shown in the table below.

Output Level	Variable Cost $	Total Cost $	Marginal Cost $	Average Fixed Cost $	Average Total Cost $
0	0	128	–	–	–
1	56				
2	90				
3	108				
4	116				

(a)   (i)   Write the formula for EACH of the following costs:

         a)   Total cost

         b)   Marginal cost

         c)   Average fixed cost

         d)   Average total cost

         e)   Variable cost

                                                            [5 marks]

       (ii)   Copy and complete the table to show the FOUR costs for EACH level of output.   **[8 marks]**

(b)   With the aid of a diagram, explain the relationship between the 'marginal cost' and the 'average total cost'.   **[6 marks]**

(c)   With the aid of a diagram, explain the relationship among the 'marginal cost curve', the 'supply curve' and the 'average variable cost curve'.   **[6 marks]**

                                                              Total 25 marks

SECTION II

Answer ONE question from this section.

3. (a) (i) State the difference between 'normal profit' and 'positive economic profit' (abnormal profit). **[3 marks]**

(ii) Explain the concept of 'market structure'. **[2 marks]**

(b) Use the following characteristics to distinguish among the FOUR MAJOR market structures: (A table may be a helpful device in organizing your response.)

(i) The number of firms in the industry

(ii) The product

(iii) Barriers to entry

(iv) Control over price **[8 marks]**

(c) An industry comprises 10 firms which recorded the following sales:

ABC Corporation $1 650
FBN Corporation $1 400
ATT Corporation $1 350
GNC Corporation $1 200

The other six firms recorded sales of $500 EACH.

(i) Calculate, for the industry

a) the Four-Firm Concentration Ratio **[4 marks]**

b) the Herfindahl-Hirschman Index. **[4 marks]**

(ii) Interpret the TWO measures of industrial concentration in relation to market structures. **[4 marks]**

Total 25 marks

4. (a) Define EACH of the following concepts:

        (i) 'Economic efficiency' **[2 marks]**

        (ii) 'Market failure' **[2 marks]**

    (b) (i) Distinguish between 'private benefits' and 'social benefits'. **[4 marks]**

        (ii) Explain how divergence between private benefits and social benefits causes market failure. **[1 mark]**

    (c) (i) Compare the characteristics of a 'public good' with those of a 'private good'. **[4 marks]**

        (ii) Explain how a public good may cause market failure. **[2 marks]**

        (iii) Explain how government may respond to the problem caused by public goods and externalities. **[2 marks]**

    (d) Draw a diagram to illustrate 'deadweight loss' and use the diagram to explain how a monopoly may cause market failure. **[8 marks]**

Total 25 marks

SECTION III

Answer ONE question from this section.

5. (a) (i) Identify TWO factors of production and their rewards. **[2 marks]**

        (ii) Explain why the demand for a factor of production is a derived demand. **[2 marks]**

    (b) (i) Outline the 'marginal productivity theory'. **[2 marks]**

        (ii) Explain how the marginal productivity theory is related to the demand for labour. **[3 marks]**

    (c) (i) With the aid of a diagram, distinguish between 'transfer earnings' and 'rent'. **[6 marks]**

        (ii) Assuming that the supply curve of the factor is vertical, state the values of rent and transfer earnings. **[2 marks]**

    (d) Discuss the effect of a monopsony on the labour market. **[4 marks]**

    (e) A computer has a two-year life span and generates marginal revenue product (MRP) of $3 000 at the end of the first and second years of its life. The interest rate is 5%.

        Apply the marginal productivity theory of the demand for capital to determine the highest price that should be paid for the computer. **[4 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

6.   (a)   (i)   Define the term 'wage differentials'. **[2 marks]**

   (ii)   Outline TWO factors that give rise to wage differentials. **[4 marks]**

   (b)   With the aid of a diagram, compare the level of wages in EACH of the following situations:

   (i)   When the buyer has monopoly power in the production market **[5 marks]**

   (ii)   When there is perfect competition in the labour market **[4 marks]**

   (c)   (i)   Explain TWO types of labour mobility. **[6 marks]**

   (ii)   The CARICOM Single Market and Economy (CSME) permits labour mobility among CARICOM member states. Discuss the expected effect of this mobility on the labour market of CARICOM member states. **[4 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

TEST CODE **02116032**

FORM TP 2012168

MAY/JUNE 2012

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

07 JUNE 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of **THREE** questions.

2. Answer **ALL** questions.

3. Answers for **ALL** questions must be written in the answer booklet provided.

4. Begin **EACH** question on a separate page.

5. Candidates may use silent, non-programmable calculators.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1. During an investigation of a monopoly in a certain country it was found that the demand curve of the industry was the demand curve of the firm.

    (a) Draw a diagram to show the demand curve and explain its shape.   **[5 marks]**

    (b) Outline THREE factors that may cause the demand curve to shift.   **[6 marks]**

    (c) At a price of $25, the quantity of the monopolist's product sold is 1750 and when the price rises to $30 the quantity sold is 1525. Calculate the price elasticity of demand for the product using the mid-point formula and interpret the result.   **[6 marks]**

    (d) Identify THREE factors that may determine the price elasticity of demand for the product.   **[3 marks]**

                                                                           Total 20 marks

2. (a) Explain the relationship between the 'monopolist's demand curve' and the 'marginal revenue curve'.   **[4 marks]**

    (b) Compare and contrast FOUR characteristics of perfect competition and monopoly.   **[8 marks]**

    (c) With the use of a diagram, compare the output and pricing decisions of monopoly and perfect competition.   **[8 marks]**

                                                                           Total 20 marks

3. (a) Differentiate between 'size distribution' and 'functional distribution of income'.   **[4 marks]**

    (b) Use a diagram to illustrate the case of a monopoly that is making positive economic profit or monopoly rent and explain how this may affect the functional distribution of income.   **[10 marks]**

    (c) Discuss ONE method by which governments attempt to redistribute income and evaluate the effectiveness of this method.   **[6 marks]**

                                                                           Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2012170

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – Paper 02

2 hours 30 minutes

30 MAY 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of **THREE** sections.

2.   There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.

3.   Answers for **ALL** questions must be written in the answer booklet provided.

4.   Begin **EACH** question on a separate page.

5.   Candidates may use silent, non-programmable calculators.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

Answer ONE question from this section.

1.   (a)   Explain the difference between 'Gross Domestic Product (GDP)' and 'Gross National Product (GNP)'. **[4 marks]**

(b)   Define EACH of the following approaches for measuring GDP, and outline how EACH approach is used.

(i)   Income approach

(ii)   Expenditure approach **[6 marks]**

(c)   Discuss TWO ways in which growth in a country's GDP may **negatively** impact the country's standard of living. **[6 marks]**

(d)   (i)   Distinguish between 'marginal propensity to consume' (MPC) and the 'average propensity to consume' (APC) and state how EACH is calculated. **[4 marks]**

(ii)   Using the simple Keynesian consumption theory, explain the effect of a rise in income on the MPC and APC. **[5 marks]**

Total 25 marks

2.   (a)   Using the classical economic model, explain why disequilibrium employment exists. **[6 marks]**

(b)   Analyse, using aggregate demand and supply curves, how a global recession may impact the aggregate demand and output of the economy of your country. **[10 marks]**

(c)   Identify THREE non-price determinants of aggregate supply and explain how EACH determinant influences the level of aggregate supply. **[9 marks]**

Total 25 marks

SECTION II

Answer ONE question from this section.

3.   (a)   (i)   Distinguish between 'unemployment' and 'underemployment'.   **[4 marks]**

           (ii)   Outline FOUR types of unemployment.   **[8 marks]**

      (b)   (i)   With the use of examples, describe TWO types of inflation.   **[6 marks]**

           (ii)   Differentiate between 'nominal interest rate' and 'real interest rate'.   **[4 marks]**

      (c)   Explain how expansionary monetary policy may be used, instead of fiscal policy, to increase employment in the economy.   **[3 marks]**

                                                                      Total 25 marks

4.   (a)   Define EACH of the following terms:

           (i)   'Fiscal policy'   **[2 marks]**

           (ii)   'Budget surplus'   **[2 marks]**

           (iii)   'Transfer payments'   **[2 marks]**

      (b)   Outline THREE limitations of EACH of the following policies:

           (i)   Monetary   **[3 marks]**

           (ii)   Fiscal   **[3 marks]**

      (c)   Identify FOUR sources from which governments can borrow large sums of money to finance their expenditure.   **[4 marks]**

      (d)   Evaluate THREE possible **negative** consequences of government borrowing.

                                                                              [9 marks]

                                                                        Total 25 marks

SECTION III

Answer ONE question from this section.

5. (a) Explain what is meant by the term 'economic integration'. **[3 marks]**

(b) Outline THREE benefits and THREE costs associated with economic integration. **[12 marks]**

(c) Outline the THREE **major** stages of economic integration that CARICOM countries have attempted to achieve over the past 30 years. **[6 marks]**

(d) Evaluate the extent to which CARICOM countries have achieved economic integration. **[4 marks]**

Total 25 marks

6. (a) (i) Explain the difference between a 'current account transaction' and a 'capital account transaction' in the balance of payments statement. **[2 marks]**

The following data relate to the balance of payments of a country.

Item	Amount ($)
Merchandise exports	+40
Merchandise imports	–30
Services exports	+15
Services imports	–10
Investment income	–5
Net transfers	+10
Capital inflows	+10
Capital outflows	– 40
Official reserves	+10

(ii) Using the data in the table, calculate

a) the current account balance **[3 marks]**

b) the overall balance of payments. **[2 marks]**

(b) Outline FOUR ways in which a global recession may impact the main accounts of the balance of payments. **[8 marks]**

(c) Distinguish between 'absolute advantage' and 'comparative advantage'. **[4 marks]**

(d) Discuss TWO policy options that a country may use to correct a trade deficit. **[6 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 2 – Paper 032

1 hour 30 minutes

06 JUNE 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of **THREE** questions.

2.   Answer **ALL** questions.

3.   Answers for **ALL** questions must be written in the answer booklet provided.

4.   Begin **EACH** question on a separate page.

5.   Candidates may use silent, non-programmable calculators.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1.   (a)   Distinguish between 'leakages' and 'injections' as they relate to an economy.

              [4 marks]

     (b)   Briefly explain the THREE **main** leakages from the circular flow of an economy.

              [6 marks]

     (c)   (i)   Analyse the impact of rising oil prices on the aggregate expenditure and output of the economy of your country.   **[7 marks]**

           (ii)   Identify THREE injections that may be increased to offset the negative impact of the leakage.   **[3 marks]**

                                       Total 20 marks

2.   (a)   Define EACH of the following terms:

           (i)   'Inflation'   **[2 marks]**

           (ii)   'Labour force'   **[2 marks]**

           (iii)   'Unemployment rate'   **[2 marks]**

     (b)   Evaluate ONE way in which high or rising oil prices may impact EACH of the following in a country:

           (i)   Inflation rate

           (ii)   Unemployment rate   **[8 marks]**

     (c)   Discuss TWO ways by which the government may use fiscal policy to help soften the negative impact of rising oil prices on the country.   **[6 marks]**

                                         Total 20 marks

3.   (a)   (i)   Define the term 'balance of payments'.   **[2 marks]**

           (ii)   List the THREE **main** accounts in the balance of payments.   **[3 marks]**

     (b)   Assess THREE ways in which rising oil prices may impact your country's balance of payments accounts. **Assume that your country imports all of its oil**.   **[9 marks]**

     (c)   Discuss TWO ways by which your country may address the temporary balance of payments crisis due to the higher import bill.   **[6 marks]**

                                         Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

23 MAY 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE sections.

2.   There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

Answer ONE question.

Draw ALL diagrams neatly and carefully and clearly label ALL axes and curves.

1.   (a)   Define EACH of the following terms:

        (i)   Demand   **[2 marks]**

        (ii)   Supply   **[2 marks]**

        (iii) Equilibrium   **[2 marks]**

     (b)   The following table shows the individual demand schedules (pints per week) of three
            buyers of ice cream and the market supply of ice cream for a week.

Buyers	Price of Ice Cream				
	$1	**$2**	**$3**	**$4**	**$5**
John	12	9	6	1	0
Anita	10	7	5	1	0
Kwesi	8	5	3	0	0
Market demand					0
Market supply	3	8	14	21	30

            Copy the table above into your answer booklet and complete it to show the market demand
            for ice cream.   **[2 marks]**

     (c)   Carefully draw and label a graph showing

        (i)   equilibrium   **[2 marks]**

        (ii)   equilibrium price   **[2 marks]**

        (iii) equilibrium quantity.   **[2 marks]**

(d) To reduce obesity and raise revenue, the government imposes a specific tax on each pint of ice cream sold.

  (i) Referring to your graph in (c), explain how the increase in taxes will affect the market supply for ice cream. **[7 marks]**

  (ii) State whether the government's objectives of reducing obesity and raising revenue have been achieved. **Justify your answer**. **[4 marks]**

Total 25 marks

2. (a) Define EACH of the following terms:

  (i) Marginal cost **[2 marks]**

  (ii) Average variable cost **[2 marks]**

  (b) (i) Identify ONE factor that causes the supply curve to change by creating movement along the curve, and explain how the change is caused. **[4 marks]**

  (ii) Identify TWO factors that cause the supply curve to change by shifting to the left or to the right, and explain how the change is caused. **[8 marks]**

  (c) With the use of a correctly labelled graph, explain the relationship between the marginal cost curve and the supply curve in a competitive market. **[9 marks]**

Total 25 marks

SECTION II

Answer ONE question.

3. (a) Outline FOUR major characteristics of the market structure called perfect competition.
                                                                                    [8 marks]

   (b) Compare the characteristics outlined in (a) above with those of the market structure called monopolistic competition.   **[8 marks]**

   (c) Compare 'monopolistic competition' and 'perfect competition' in terms of

        (i) the way they compete with other businesses   **[3 marks]**

        (ii) their profit in the short run and long run   **[3 marks]**

        (iii) the efficiency with which they use resources.   **[3 marks]**

                                                                    Total 25 marks

4. (a) Explain EACH of the following terms:

        (i) Economic efficiency   **[4 marks]**

        (ii) Market failure   **[4 marks]**

   (b) Explain how EACH of the following factors could lead to market failure:

        (i) Monopolies   **[4 marks]**

        (ii) Public goods   **[6 marks]**

        (iii) Negative externalities   **[4 marks]**

   (c) Evaluate ONE measure used by the government of your country to deal with market failure caused by public goods.   **[3 marks]**

                                                                    Total 25 marks

SECTION III

Answer ONE question.

5. (a) Outline the marginal productivity theory of factor demand. **[3 marks]**

   (b) The table below shows the units of labour and total product for a perfectly competitive market in which the price of the product is $10 and the daily wage rate is $14.

Number of Workers	Total Product	Marginal Product	Marginal Revenue Product
0	0		
1	5		
2	9		
3	12		
4	14		
5	15		

   Copy the table in your answer booklet.

   (i) Calculate for EACH additional worker the

      a) marginal product **[3 marks]**

      b) marginal revenue product. **[3 marks]**

   (ii) Determine the quantity of labour that will be employed per day. **[1 mark]**

   (iii) Explain why more (or less) labour is NOT employed. **[5 marks]**

   (c) Evaluate the effects of a government minimum wage on the labour market. **[6 marks]**

   (d) Draw a demand and supply diagram of the labour market showing the decomposition of earnings into transfer earnings and rent. **[4 marks]**

   Total 25 marks

6. (a) Differentiate between 'functional distribution of income' and 'size distribution of income'.

[3 marks]

(b) Explain what is meant by the term 'income inequality'. **[3 marks]**

(c) Outline how EACH of the following methods is used to measure poverty:

(i) The basic needs approach **[5 marks]**

(ii) The poverty line approach **[5 marks]**

(d) (i) Draw a diagram of the Lorenz curve and use it to explain how income inequality is measured. **[6 marks]**

(ii) Explain how the gini coefficient is calculated from the Lorenz curve.

[3 marks]

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

11 JUNE 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE questions.

2.   Answers ALL questions.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1.   (a)   Explain EACH of the following terms:

        (i)   Effective demand   **[3 marks]**

        (ii)   Price ceiling   **[3 marks]**

    (b)   Identify TWO goods on which governments are likely to impose a price ceiling and explain why a price ceiling will be preferred.   **[4 marks]**

    (c)   With the use of a demand and supply diagram, analyse the impact of a price ceiling on the market for milk.   **[10 marks]**

                Total 20 marks

2.   (a)   Define EACH of the following terms:

        (i)   Monopoly   **[1 mark]**

        (ii)   Average revenue   **[1 mark]**

    (b)   Compare perfect competition and monopoly in terms of

        (i)   output levels   **[5 marks]**

        (ii)   pricing decisions   **[5 marks]**

        (iii)   consumer surplus.   **[5 marks]**

    (c)   State THREE reasons why a monopoly is MORE **likely** to cause a less equitable income distribution than a competitive industry.   **[3 marks]**

                Total 20 marks

3.   (a)   (i)   Define the term 'income inequality.'   **[1 mark]**

              (ii)   Distinguish between 'absolute poverty' and 'relative poverty'.   **[3 marks]**

              (iii)   Identify FOUR factors that contribute to poverty in your country.   **[4 marks]**

    (b)   Assess the distribution of income in a country by examining the percentage of income received by households and where households fall in the distribution in relation to the mean income of the distribution.   **[6 marks]**

    (c)   Assess the effectiveness of **any** TWO of the following strategies used by government to alleviate poverty:

              (i)   Health

              (ii)   Education

              (iii)   Housing   **[6 marks]**

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 02

2 hours 30 minutes

03 JUNE 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

Answer ONE question.

1. (a) (i) Explain the term 'Gross Domestic Product (GDP) deflator'. **[2 marks]**

(ii) State the purpose of the GDP deflator. **[1 mark]**

(b) State ONE reason why EACH of the following transactions will **or** will NOT be included in the calculation of a country's GDP.

(i) An individual buys a used textbook. **[2 marks]**

(ii) A dealer sells $400 worth of illegal drugs. **[2 marks]**

(iii) A meat processing plant builds a new factory. **[2 marks]**

(c) The following information is given for an economy:

$C = 40 + 0.90Y$
$G = 500$
$I = 50$
$NX = 10 - 0.20Y$

(i) Determine

a) the autonomous consumption **[1 mark]**

b) the marginal propensity to consume. **[1 mark]**

(ii) Calculate the equilibrium level of real GDP. **[4 marks]**

(iii) a) Calculate the multiplier. **[2 marks]**

b) State whether the multiplier will be smaller or larger than the government spending multiplier. **Justify your response.** **[2 marks]**

(d) Briefly describe EACH of the following National Income accounts and state how EACH is measured.

(i) Net National Product (NNP) **[3 marks]**

(ii) Personal Disposable Income (PDI) **[3 marks]**

Total 25 marks

2. (a) Identify the FOUR **major** determinants of investment. **[4 marks]**

(b) Using the Keynesian 45° graph, explain the difference between a 'recessionary gap' and an 'inflationary gap'. **[15 marks]**

(c) Explain how EACH of the following will respond to a recessionary gap:

(i) The Classical school **[3 marks]**

(ii) Keynesian economists **[3 marks]**

Total 25 marks

SECTION II

Answer ONE question.

3. (a) (i) Define the term 'money'. **[1 mark]**

(ii) Briefly describe TWO types of money. **[2 marks]**

(iii) Distinguish between M1 and M2. **[2 marks]**

(b) Inflation has recently been a major problem for several Caribbean economies. Discuss THREE tools of monetary policy that any Central Bank in the region can use to help control inflation. **[12 marks]**

(c) Use the Keynesian liquidity preference framework to illustrate how the contractionary policies discussed in 3 (b) will impact interest rates and the demand for money.
[8 marks]

Total 25 marks

4. (a) (i) Define the term 'fiscal policy'. **[1 mark]**

(ii) Discuss THREE ways in which fiscal policy can be used by Caribbean governments to increase the level of employment and output in their economies. **[12 marks]**

(b) Outline THREE reasons why some fiscal measures may NOT work in the small open economies of the Caribbean. **[6 marks]**

(c) Explain the 'crowding out effect' and state how this effect can be avoided. **[6 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

SECTION III

Answer ONE question.

5. (a) (i) Distinguish between 'economic growth' and 'economic development'.

[3 marks]

(ii) Describe THREE determinants of economic growth. **[6 marks]**

(b) (i) Explain the concept of 'human development index'. **[2 marks]**

(ii) Outline THREE **main** indicators of the human development index. **[6 marks]**

(c) Discuss TWO impediments to economic growth faced by Caribbean economies.

[8 marks]

Total 25 marks

6. (a) Define EACH of the following terms:

(i) Tariffs **[1 mark]**

(ii) Quotas **[1 mark]**

(iii) Non-tariff barriers **[1 mark]**

(b) Identify FOUR factors that determine a country's export revenue. **[4 marks]**

(c) Describe EACH of the following types of exchange rates and identify ONE Caribbean country which uses them:

(i) Fixed **[3 marks]**

(ii) Floating **[3 marks]**

(d) Discuss TWO advantages and TWO disadvantages of foreign direct investment (FDI) in the Caribbean. **[12 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 032

1 hour 30 minutes

10 JUNE 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE questions.

2.   Answers ALL questions.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1.   (a)   (i)   Define the term 'aggregate demand'.   **[2 marks]**

                (ii)   State the equation for the aggregate demand when the economy is open, or has a trade sector.   **[2 marks]**

      (b)   Analyse, using demand and supply curves, how a decrease in aggregate demand can impact the aggregate employment and output of an economy.   **[10 marks]**

      (c)   Explain, according to the classical view, how the economy goes back to equilibrium employment from a position of disequilibrium.   **[6 marks]**

                                                      Total 20 marks

2.   (a)   Distinguish between 'unemployment' and 'underemployment'.   **[2 marks]**

      (b)   Outline THREE costs of unemployment.   **[6 marks]**

      (c)   In a certain economy, the unemployment rate has risen to 25 per cent and continues to rise. Explain how the government may use EACH of the following to solve the problem:

                (i)   TWO types of fiscal policy measures   **[6 marks]**

                (ii)   Monetary policy   **[6 marks]**

                                                      Total 20 marks

3.   (a)   Define EACH of the following:

                (i)   Balance of trade   **[1 mark]**

                (ii)   Trade deficit   **[1 mark]**

                (iii)   Trade surplus   **[1 mark]**

                (iv)   Commodity terms of trade   **[1 mark]**

      (b)   (i)   Outline TWO ways in which Caribbean countries benefit from increased exports.   **[4 marks]**

                (ii)   Explain why high levels of imports can be a challenge for Caribbean countries.   **[4 marks]**

      (c)   Discuss TWO policy options that a country may adopt in order to correct a trade deficit and boost employment in the local economy.   **[8 marks]**

                                                       Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

G
X
C
®

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

22 MAY 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

MODULE 1: METHODOLOGY – DEMAND AND SUPPLY

Answer ONE question.

Draw ALL diagrams neatly and carefully, and clearly label ALL axes and curves.

1. The ideological nation of Utopia devotes all its resources: land, labour, capital and entrepreneurship to producing food and clothing.

    (a)   (i)   Define the term 'scarcity'.   **[2 marks]**

           (ii)   Draw and label a graph of the production possibilities frontier (PPF) for Utopia.
                                                                                          [3 marks]

           (iii)   Using the PPF from (a) (ii) above, explain how

                   a)   the concept of opportunity cost is related to the problem of scarcity
                                                                                          [5 marks]

                   b)   economic growth can be achieved in Utopia.   **[3 marks]**

    (b)   (i)   State TWO differences between a 'command economy' and a 'free market economy'.   **[4 marks]**

           (ii)   Given the disadvantages of a centrally planned economy, discuss TWO possible economic reasons for the downfall of this type of economic system over the last **three** decades.   **[8 marks]**

                                                                                Total 25 marks

2. ABC Company Ltd which produces genuine cow leather, is increasing the unit price of leather so as to remain a viable entity. The following information applies to ABC.

When the price of leather increased from $9 to $10 the quantity demanded decreased from 150 units to 110 units.

    (a)   (i)   List THREE determinants of price elasticity of demand. **[3 marks]**

              (ii)   Calculate the price elasticity of demand (using the arc method) and interpret the results. **[8 marks]**

    (b)   (i)   Sketch and label the demand curve with which ABC Company Ltd is faced, showing revenue before and after the price change. **[4 marks]**

              (ii)   Advise ABC Company Ltd on a decision that is in the best interest of the company. (Justify your answer.) **[3 marks]**

    (c)   (i)   Define the term 'consumer surplus'. **[2 marks]**

              (ii)   The government has decided to support the genuine cow leather industry by imposing an effective price floor in the market.

                      Using a well-labelled diagram, illustrate consumer surplus after the imposition of the price floor. **[5 marks]**

Total 25 marks

SECTION II

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

Answer ONE question.

3.   The table below shows the quantity of shoes, total cost, total revenue and marginal revenue for a shoe manufacturer.

Quantity of Shoes	Total Cost	Total Revenue	Marginal Cost	Marginal Revenue	Average Cost
0	8	0			0
1	9	8		8	
2	10	16		8	
3	11	24		8	
4	13	32		8	
5	19	40		8	
6	27	48		8	
7	37	56		8	

(a)   (i)   Copy the table into your answer booklet and complete it to show marginal cost and   average cost for **each** level of output.   **[7 marks]**

        (ii)   Use the completed table from (a) (i) above to plot the marginal cost, marginal revenue and average cost curves on the **same** diagram.   **[5 marks]**

(b)   (i)   With the aid of an example, explain the relationship between the marginal cost curve and the average cost curve.   **[5 marks]**

        (ii)   Identify the market structure under which the firm operates. (Justify your answer.)   **[3 marks]**

(c)   Analyse how a particular characteristic of perfect competition ensures that, in the long-run, perfectly competitive firms will make zero profits.   **[5 marks]**

Total 25 marks

4. (a) (i) Define the term 'public good'. **[2 marks]**

        (ii) Explain why public goods are usually provided by the government. **[3 marks]**

  (b) (i) Define the term 'externality'. **[2 marks]**

        (ii) a) Copy the diagram below into your answer booklet and label it to illustrate a negative production externality. **[4 marks]**
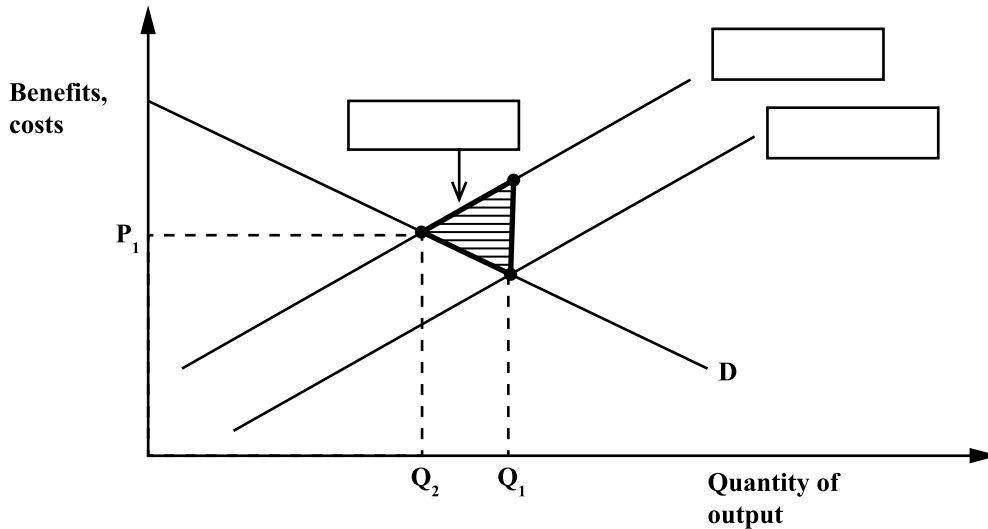
            b) Use the completed diagram to explain how negative externalities lead to market failure. **[4 marks]**

      (iii) Outline THREE policies that the private sector can adopt in order to correct market failures. **[6 marks]**

  (c) Consider the market for used cars, where good quality cars and poor quality cars are traded. In this market, the sellers know the quality of the cars while buyers do not.

      (i) Identify the issue being described above. **[1 mark]**

      (ii) Explain how the issue identified in (c) (i) above leads to market failure. **[3 marks]**

Total 25 marks

SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5. (a) (i) Explain what is meant by the statement "The demand for all productive resources is a derived demand." **[2 marks]**

(ii) Outline TWO factors that influence EACH of the following:

a) The demand for labour **[4 marks]**

b) The supply of labour **[4 marks]**

(b) Blue Corp is a semiconductor chip manufacturer. It operates in a perfectly competitive market and employs the least-cost combination of inputs. Blue Corp's marginal product of labour is 28 chips per worker hour and the wage rate is $14 per hour; the marginal product of the machine is 60 chips per machine hour.

(i) State the 'least-cost rule'. **[2 marks]**

(ii) Use the least-cost rule to calculate the hourly rental price of a machine. **[3 marks]**

(iii) Assume that the popularity of Blue Corp's semiconductor chips has decreased. With the aid of a well-labelled diagram, explain the effect of this decrease on the marginal revenue product curve for machine hours. **[6 marks]**

(c) Outline TWO factors that can account for workers in some countries being more productive than workers in other countries. **[4 marks]**

Total 25 marks

6. (a) (i) Distinguish between 'relative poverty' and 'absolute poverty'. **[4 marks]**

(ii) Outline TWO strategies that governments can employ to alleviate poverty.
[4 marks]

(b) (i) Given that Country A has a Gini coefficient of 0.61 and Country B has a Gini coefficient of 0.33, draw and label a diagram to show the Lorenz curve for both countries. Indicate, on your diagram, the line of inequality. **[5 marks]**

(ii) Explain the concept of 'income inequality'. **[3 marks]**

(iii) Compare the income share of the bottom fifty per cent of the population of Country A and Country B. **[3 marks]**

(iv) Outline THREE measures that the government of the country with more inequality can use to narrow the gap between the two countries. **[6 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

TEST CODE **02116032**

FORM TP 2014169

MAY/JUNE 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

10 JUNE 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE questions.

2. Answers ALL questions.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

02116032/CAPE 2014

Answer ALL questions.

1. (a) (i)   Define the term 'price ceiling'.   **[2 marks]**

        (ii) State the condition for an effective price ceiling.   **[1 mark]**

        (iii) Define the term 'price floor'.   **[2 marks]**

        (iv) State the condition for an effective price floor.   **[1 mark]**

        (v)   Identify THREE problems that are **likely** to arise from the implementation of price
              ceilings and price floors.   **[3 marks]**

    (b) Consider the market for unskilled labour in your home country.

        (i)   Using a suitable diagram, illustrate the market for unskilled labour. On your
              diagram, indicate the equilibrium market wage and the equilibrium level of
              employment.   **[4 marks]**

        (ii) Using the diagram from (b) (i) above, explain how the market for unskilled labour
              is affected by the implementation of an effective minimum wage. On the diagram,
              indicate the minimum wage, the number of workers who are employed, and the
              number of workers who are unemployed.   **[7 marks]**

                                                                    Total 20 marks

2. (a) State FOUR conditions which must be satisfied in a perfectly competitive labour
         market.   **[4 marks]**

    (b) Assume that there are only two jobs, teaching and engineering, and that the labour markets
         for both jobs are perfectly competitive. Further, assume that teachers earn US $25 000
         per year while engineers earn US $50 000 per year.

         Explain how the situation outlined above will affect BOTH markets in the longrun.
                                                                                      [4 marks]

    (c) The table on page 3 displays the cost and revenue data used by a firm to decide how much
         labour to hire and how much output to produce. Assume that total fixed costs (TFC) is
         $50. Use this information to answer the questions that follow.

Table showing cost and revenue data used by a firm

Labour (Units)	Output (Q)	Marginal Revenue ($)	Wage Rate ($)	Total Variable Cost ($)	Total Cost ($)	Marginal Cost ($)
0	0	3	15			
1	3	3	15			
2	8	3	15			
3	15	3	15			

(i)   Copy the table into your answer booklet and complete it to show total variable cost, total cost and marginal cost.   **[5 marks]**

(ii)   Describe the type of market in which the firm hires labour.   **[3 marks]**

(iii)   At the profit maximizing level, determine

    a)   how many units of output the firm will produce   **[1 mark]**

    b)   how many units of labour will be hired   **[1 mark]**

    c)   an equation to show the relationship between labour and output.

                                                             [2 marks]

                                                                Total 20 marks

3.   Workers can be categorized as unskilled, clerical, trades or professionals. There exists clear contrasts among the wages of the different categories of workers.

(a)   Explain the concept of 'wage differentials'.   **[3 marks]**

(b)   One of the consequences of extreme wage differentials is poverty. Outline THREE costs of poverty.   **[6 marks]**

(c)   Assume that the government decides to employ strategies to alleviate poverty, state THREE economic benefits of this intervention.   **[3 marks]**

(d)   Discuss TWO factors that may account for the differences in wages among the above mentioned categories of workers.   **[8 marks]**

                                                                Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 02

2 hours 30 minutes

02 JUNE 2014 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE sections: I, II and III.

2.   There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

MODULE 1: MODELS OF THE MACROECONOMY

Answer ONE question.

1.   (a)   Define the term 'intermediate good'.   **[2 marks]**

   (b)   (i)   Explain why intermediate goods are NOT counted in the calculation of GDP.

                                                                                            [2 marks]

          (ii)   Define the term 'value added'.   **[2 marks]**

   (c)   The following information is given for the Oilandia economy.

Items	Amount ($ Millions)
Wages and salaries	800
Consumption expenditure	600
Taxes	250
Transfer payments	50
Profits	200
Investment	150
Government spending	200
Exports	300
Imports	275
Rents	75

          (i)   a)   State the formula for calculating gross domestic product (GDP) using the
                       expenditure approach.   **[2 marks]**

                 b)   Calculate the GDP for Oilandia, using the expenditure approach.

                                                                                            [2 marks]

          (ii)   a)   Explain the income approach for calculating GDP.   **[3 marks]**

                 b)   Calculate the GDP for Oilandia using the income approach.   **[3 marks]**

   (d)   Describe THREE types of 'leakages' from the circular flow of an economy.   **[9 marks]**

                                                                            Total 25 marks

                                                            GO ON TO THE NEXT PAGE

2.   (a)   Define the following macroeconomic variables:

        (i)   Investment   **[2 marks]**

        (ii)   Interest rate   **[2 marks]**

    (b)   (i)   Distinguish between 'savings' and 'consumption'.   **[4 marks]**

        (ii)   With the use of an example, explain the term 'marginal propensity to consume'.
                [3 marks]

    (c)   The following information relates to the aggregate expenditure (AE) for an economy.

          Consumption (C) = 100 + 0.8 Y
          Investment (I) = 200
          Government spending (G) = 50

        (i)   Calculate the equilibrium level of income.   **[3 marks]**

        (ii)   State the multiplier of the economy.   **[2 marks]**

    (d)   Explain the following determinants of the variability of investment:

        (i)   Durability   **[3 marks]**

        (ii)   The accelerator   **[3 marks]**

        (iii)   Irregularity of innovation   **[3 marks]**

                      Total 25 marks

SECTION II

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

Answer ONE question.

3.   (a)   Define EACH of the following concepts:

          (i)   Velocity of money   **[2 marks]**

          (ii)   Currency substitution   **[2 marks]**

          (iii) Monetary transmission mechanism   **[2 marks]**

      (b)   Outline THREE reasons for holding money or THREE types of demand for money.
                                                                      [6 marks]

      (c)   Assess how the Central Bank can use monetary policy to positively impact aggregate demand.   **[5 marks]**

      (d)   Discuss TWO reasons why the Central Bank's policy options to combat inflation may achieve only limited success.   **[8 marks]**

                                                                      Total 25 marks

4.   (a)   (i)   Define the term 'balanced budget multiplier'.   **[2 marks]**

          (ii)   Explain the term 'automatic stabilizer'.   **[3 marks]**

          (iii) Identify TWO examples of automatic stabilizers.   **[2 marks]**

      (b)   Explain how government borrowing to finance fiscal deficits can have a negative impact on EACH of the following:

          (i)   Inflation   **[3 marks]**

          (ii)   Domestic investment   **[3 marks]**

          (iii) Domestic interest rates   **[3 marks]**

      (c)   (i)   Define the term 'fractional reserve banking system'.   **[2 marks]**

          (ii)   With the use of an example, describe how commercial banks use a 'fractional reserve banking system' to create money.   **[7 marks]**

                                                                      Total 25 marks

SECTION III

**MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT
AND GLOBAL RELATIONS**

Answer ONE question.

5.   (a)   Differentiate between 'economic growth' and 'economic development'.   **[4 marks]**

   (b)   Outline THREE determinants of economic growth.   **[6 marks]**

   (c)   Explain the concept 'human development index'.   **[3 marks]**

   (d)   Discuss THREE ways in which policymakers can enhance the wellbeing of society.
   [12 marks]

   Total 25 marks

6. (a) (i) Distinguish between 'nominal exchange rate' and 'real exchange rate'.

[4 marks]

(ii) Assume that the nominal exchange rate between Trinidad (TT) and Barbados (BBD) currency is TT $3 equivalent to BBD $1 and Barbados is the domestic country. Given that a bottle of wine costs TT $60 in Trinidad and BBD $20 in Barbados, calculate the real exchange rate. **[2 marks]**

(iii) Assume that there is depreciation in the real exchange rate of the Jamaican dollar. State the effect on

a) the price of Jamaican goods relative to foreign goods **[1 mark]**

b) Jamaican imports **[1 mark]**

c) Jamaican exports. **[1 mark]**

(b) Use the diagram below to explain the effect of an increase in demand for imported cars in Trinidad and Tobago on the demand for foreign exchange and the price of the TT dollar (nominal exchange rate).
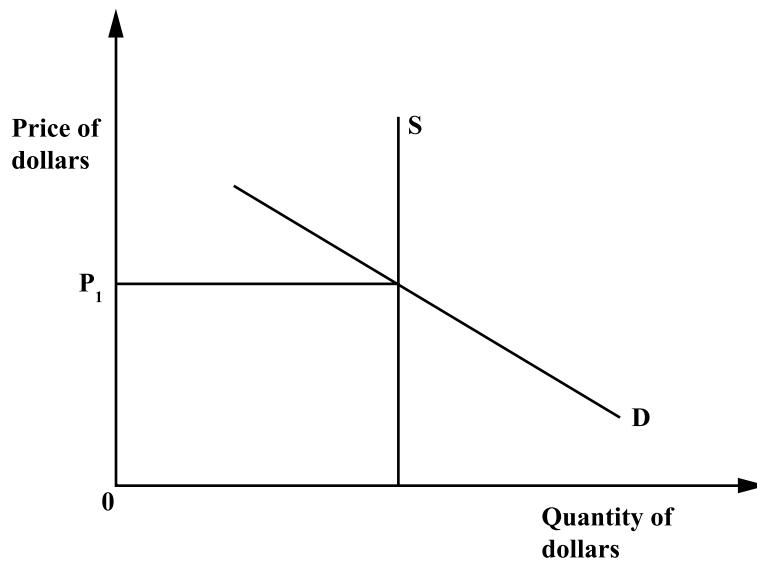
[4 marks]

(c) Discuss TWO advantages and ONE disadvantage of globalization on developing countries. **[12 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 032

1 hour 30 minutes

09 JUNE 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE questions.

2. Answers ALL questions.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1. (a) (i) Differentiate between 'gross domestic product (GDP)' and 'gross national product (GNP)'. **[4 marks]**

        (ii) Identify THREE approaches used to measure GDP. **[3 marks]**

        (iii) State THREE reasons why GDP is NOT considered to be a complete measure of economic wellbeing. **[3 marks]**

    (b) (i) Define the term 'standard of living'. **[2 marks]**

        (ii) Discuss TWO ways in which an increase in income (or GDP) may negatively impact a country's standard of living. **[8 marks]**

        Total 20 marks

2. (a) Define EACH of the following terms:

        (i) Fiscal policy **[2 marks]**

        (ii) Monetary policy **[2 marks]**

        (iii) Economic development **[2 marks]**

    (b) Explain TWO ways in which government's attempt to protect the environment can contribute to a budget deficit. **[6 marks]**

    (c) Rapid expansion in housing and other development projects is likely to have negative impact on the environment.

        (i) Discuss ONE way in which monetary policy could contribute to the problem above. **[4 marks]**

        (ii) Discuss ONE way in which fiscal policy can be used to solve the problem. **[4 marks]**

        Total 20 marks

3.   (a)   (i)   Define EACH of the following terms:

           a)   Economic growth   **[2 marks]**

           b)   Human development index (HDI)   **[2 marks]**

      (ii)   Identify the THREE main variables used in calculating the HDI.   **[3 marks]**

(b)   Explain the relationship between 'per capita income' and 'environmental quality'.

[3 marks]

(c)   (i)   Define the term 'balance of payments'.   **[2 marks]**

      (ii)   Discuss TWO ways in which environmental degradation can negatively impact the balance of payments of countries whose main income earner is tourism.

[8 marks]

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

21 MAY 2015 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

MODULE 1: METHODOLOGY – DEMAND AND SUPPLY

Answer ONE question.

Draw ALL diagrams neatly and carefully, and clearly label ALL axes and curves.

1. Table 1 shows the quantity of chocolate bars that Romain consumes in a given period of time, the total utility and marginal utility associated with the consumption of the chocolate bars.

TABLE 1

Chocolate Bars	Total Utility	Marginal Utility
0	0	
1		20
2	35	
3	47	
4		0
5	45	

(a)   (i)   Copy Table 1 into your answer booklet and complete it to show the total utility and the marginal utility derived from the consumption of 1 to 5 chocolate bars.

[5 marks]

         (ii)   Define EACH of the following terms:

               a)   Total utility   **[2 marks]**

               b)   Marginal utility   **[2 marks]**

               c)   Law of diminishing marginal utility   **[2 marks]**

         (iii)   State the point at which Romain

               a)   begins to lose satisfaction from his consumption of each additional chocolate bar   **[1 mark]**

               b)   maximizes his satisfaction from consuming chocolate bars.

[1 mark]

GO ON TO THE NEXT PAGE

(b)   Assume that the maximum amount that Romain is willing to pay for a chocolate bar is $5.00 and the current market price is $2.50. At this price Romain is willing and able to purchase 6 chocolate bars.

   (i)   Define the term 'consumer surplus'.   **[2 marks]**

   (ii)   Draw Romain's demand curve.   **[4 marks]**

   (iii) On the demand curve in (b) (ii) above, shade and label the TOTAL consumer surplus.   **[2 marks]**

(c)   With reference to marginal utility theory, justify the shape of Romain's demand curve for chocolate bars.   **[4 marks]**

Total 25 marks

2. The following equations are for the demand and supply curves in the market for pens.

Demand: $Q_d = 20 - 2P$

Supply: $Q_s = 5 + 3P$,

where Q_d is the quantity demanded, Q_s is the quantity supplied, and P is the price per pen, in dollars.

(a) (i) Define the term 'market equilibrium'. **[2 marks]**

(ii) Copy Table 2 into your answer booklet and complete it to show the quantity of pens demanded and the quantity supplied.

TABLE 2

Price per Unit	Quantity Demanded	Quantity Supplied
1		
2		
3		
4		

[5 marks]

(iii) Use the information from the completed Table 2 to draw a diagram that shows

a) the demand curve and supply curve for pens **[3 marks]**

b) the equilibrium price and quantity. **[2 marks]**

(iv) a) If the government sets a price of $2 per pen, state the name of this type of intervention. **[1 mark]**

b) Explain, giving details, the market outcome at this price. **[3 marks]**

(b) In an effort to balance the budget, the government has decided to apply a specific tax of $1 per pen levied on the producer.

(i) Illustrate this change on the diagram in (a) (iii) above. **[5 marks]**

(ii) Analyse the total welfare effect (consumer surplus, producer surplus, government revenue and deadweight loss) of the tax. Refer to the diagram in (b) (i) above to support your analysis. **[4 marks]**

Total 25 marks

SECTION II

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

Answer ONE question.

3.   (a)   (i)   a)   Define the term 'price discrimination'.   **[2 marks]**

b)   Outline ONE form of price discrimination that may be used by a firm.
[2 marks]

(ii)   Outline TWO conditions that are necessary for price discrimination.   **[4 marks]**

(iii)   Explain ONE reason why a firm would opt to apply price discrimination.
[3 marks]

(b)   List TWO types of market structures that exist in CARICOM and give **one** example of EACH.   **[4 marks]**

(c)   (i)   Illustrate, using a diagram, the profit maximizing output and price for a monopolistic firm.   **[6 marks]**

(ii)   Analyse why a perfectly competitive firm is more efficient than a monopolistic firm.   **[4 marks]**

Total 25 marks

4.   (a)   Define EACH of the following terms:

(i)   Market failure   **[2 marks]**

(ii)   Pareto efficiency   **[2 marks]**

(iii)   Productive efficiency   **[2 marks]**

(b)   (i)   State THREE reasons why the competition or regulatory authorities may prevent a merger of TWO major companies in an industry.   **[3 marks]**

(ii)   Explain how EACH of the following types of goods contributes to market failure, stating an example of EACH.

a)   Public   **[4 marks]**

b)   Merit   **[4 marks]**

(c)   Discuss TWO measures used by governments to correct market failure.   **[8 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5.   (a)   (i)   Define the term 'wage differentials'.   **[2 marks]**

        (ii) Identify TWO factors that may cause imperfections in the labour market on the

              a)   demand side   **[2 marks]**

              b)   supply side.   **[2 marks]**

     (b)   (i)   Distinguish between 'geographical mobility' and 'occupational mobility'.
                                                                                       [4 marks]

        (ii) Discuss TWO effects of labour mobility on wages across different CARICOM
              territories.   **[8 marks]**

     (c)   Using a well-labelled diagram, analyse the effect of a monopoly trade union in determining
           wages and the level of employment under perfect competition.   **[7 marks]**

                                                                              Total 25 marks

6.   (a)   (i)   Explain the concept of 'income inequality'.   **[3 marks]**

        (ii) Identify THREE measures used to reduce income inequality.   **[3 marks]**

     (b)   (i)   List TWO ways of measuring poverty.   **[2 marks]**

        (ii) Explain THREE economic costs of poverty.   **[9 marks]**

     (c)   The main aim of the Millennium Development Goals is to alleviate poverty. In support of
           this aim most governments in CARICOM have expended millions of dollars in resources
           to attempt to alleviate poverty.

           Assess TWO economic benefits of this expenditure by CARICOM governments.
                                                                                       [8 marks]

                                                                              Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2015174

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

09 JUNE 2015 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE questions.

2.   Answer ALL questions.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

02116032/CAPE 2015

Answer ALL questions.

1. (a) (i) Define the term 'law of diminishing returns'. **[2 marks]**

    (ii) Distinguish between 'economies of scale' and 'diseconomies of scale'.
    [4 marks]

    (iii) Explain ONE factor that determines

        a) economies of scale **[3 marks]**

        b) diseconomies of scale. **[3 marks]**

    (b) (i) Define the term 'supply schedule'. **[2 marks]**

    (ii) Identify TWO determinants of supply. **[2 marks]**

    (c) The insurance and banking sectors in the Caribbean are said to display 'economies of scale'. Explain why this may be true. **[4 marks]**

    Total 20 marks

2. (a) (i) Identify THREE basic features of EACH of the following concepts relating to market structure:

        a) Perfect competition **[3 marks]**

        b) Monopolistic competition **[3 marks]**

        c) Monopoly **[3 marks]**

    (ii) Determine which of the above market structures is usually best for consumers.
    [1 mark]

    (b) The banking sector in most Caribbean countries is often described as oligopoly. State FOUR features of the sector that supports this view of the banking sector. **[4 marks]**

    (c) Explain TWO negative consequences, for consumers, that can result from an oligopolistic market structure of the banking sector. **[6 marks]**

    Total 20 marks

3. (a) (i) Define the term 'income inequality'. **[2 marks]**

  (ii) List TWO measures of income inequality. **[2 marks]**

  (iii) Identify TWO ways by which poverty is measured. **[2 marks]**

  (b) Explain TWO ways in which an efficient banking sector can contribute to poverty reduction in your country. **[6 marks]**

  (c) Discuss TWO ways by which a non-competitive banking sector can contribute to greater poverty OR income inequality. **[8 marks]**

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 02

2 hours 30 minutes

01 JUNE 2015 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Begin EACH question on a separate page.

5. You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

SECTION I

MODULE 1: MODELS OF THE MACROECONOMY

Answer ONE question.

1. (a)   (i)   Define the term 'gross domestic product (GDP)'.   **[2 marks]**

        (ii)   Explain why certain **final** goods and services are NOT included in the measurement of GDP.   **[3 marks]**

        (iii) Explain why economists use 'real GDP' rather than 'nominal GDP' to gauge economic wellbeing.   **[3 marks]**

    (b)   Consider the data on GDP presented in Table 1.

TABLE 1

Year	Nominal GDP (millions)	Real Potential GDP (2005 dollars)	GDP Deflator (base year = 2005)
2013	9 269	7 730	113
2014	9 873	10 145	118

N.B. For this question, round all numerical answers to one decimal place.

    (i)   Calculate real GDP in 2013 and 2014, respectively.   **[4 marks]**

    (ii)   Calculate the growth (in percentage terms) of nominal GDP between 2013 and 2014.   **[2 marks]**

    (iii) Calculate the growth (in percentage terms) of the real GDP between 2013 and 2014.   **[2 marks]**

    (iv)   Explain the difference between 'the growth of nominal GDP' and 'the growth of real GDP'.   **[3 marks]**

    (v)   Calculate the output gap (in percentage terms) in 2013 and in 2014, respectively.   **[4 marks]**

    (vi)   State whether the output gap was recessionary or inflationary in 2013 and 2014, respectively.   **[2 marks]**

Total 25 marks

2. (a) (i) Identify the **most** important determinant of consumer spending and personal saving.

[1 mark]

(ii) Define EACH of the following terms:

a) Marginal propensity to consume (MPC) **[2 marks]**

b) Marginal propensity to save (MPS) **[2 marks]**

(iii) Describe the relationship between MPC and MPS. **[2 marks]**

(b) Use the following information to answer Parts (i) and (ii).

Consider the Keynesian consumption function:

$$C = 2000 + 0.8\ (Y{-}T)$$

where   C = personal consumption

Y = personal income

T = income taxes

Also, suppose Y = 40 000 and T = 0.25Y.

(i) Calculate

a) the average propensity to consume (APC) **[2 marks]**

b) the average propensity to save (APS). **[3 marks]**

(ii) Calculate the multiplier and interpret its value. **[4 marks]**

(c) Distinguish between the 'investment demand curve' and the 'investment curve'.

[4 marks]

(d) (i) Using the accelerator model of investment, calculate the change in investment if firms desire to hold 25% of output as inventory and output falls by $500 million.

[3 marks]

(ii) Calculate the change in investment if firms' desire to hold inventories rise to 30%, with all else remaining constant. **[2 marks]**

Total 25 marks

SECTION II

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

Answer ONE question.

3. (a) (i) Define EACH of the following terms:

   a) National budget deficit **[2 marks]**

   b) National debt **[2 marks]**

   (ii) State FOUR causes of national debt. **[4 marks]**

   (b) (i) Explain why the size of national debt is commonly expressed as a ratio to GDP. **[3 marks]**

   (ii) Evaluate the statement "public debt is a burden on future generations". **[4 marks]**

   (c) Table 2 shows government spending and tax revenue for a hypothetical economy over a four-year period. All figures are in millions.

TABLE 2

Year	Government Spending	Tax Revenue	Budget Balance	Deficit/Surplus/Neither
1	$800	$825		
2	$850	$850		
3	$900	$875		
4	$950	$900		

   (i) Copy Table 2 into your answer booklet and complete it to show the budget balance indicating whether it is a deficit, surplus or neither. **[8 marks]**

   (ii) Calculate the public debt in this economy over the four-year period. **[2 marks]**

Total 25 marks

4. (a) (i) Define the term 'fiscal policy'. **[2 marks]**

(ii) Explain, using TWO examples, the term 'automatic stabilizers'. **[5 marks]**

(iii) Distinguish between 'discretionary fiscal policy' and 'non-discretionary fiscal policy'. **[4 marks]**

(b) Analyse how monetary policy can be used to address

(i) the problem of recession or slow growth **[4 marks]**

(ii) inflation. **[4 marks]**

(c) (i) Define the term 'stagflation'. **[2 marks]**

(ii) With the use of a labelled Phillips curve, explain how the use of fiscal and monetary policies to solve problems of inflation and unemployment can further compound the problems. **[4 marks]**

Total 25 marks

SECTION III

MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT AND GLOBAL RELATIONS

Answer ONE question.

5.   (a)   Table 3 shows data on income and population differences among groups of countries for 2013. Use this information to answer the following questions.

TABLE 3

1	2	3	4
Income Groups by GDP per capita (2013)	GDP (US $ million)	World GDP (%)	World Population (%)
Low ($1 350 or less)	2 278 000		60
Lower-Middle ($1 351–$5 390)	3 228 000		17
Upper-Middle ($5 391–$16 710)	3 674 000		8
High ($16 711 or more)	36 594 000		15
World	45 774 000	100	100

(i)   Copy Table 3 into your answer booklet and complete it by calculating the percentage of World GDP earned by EACH income group. **Round your answers to one decimal place.**   **[4 marks]**

(ii)   List FOUR factors which could explain the inequality in income amongst all groups in the table.   **[4 marks]**

(iii) Identify the income group in which the majority of CARICOM countries fall and state TWO structural peculiarities of CARICOM countries which might justify them being in that group.   **[3 marks]**

(iv)   Outline THREE implications for CARICOM economies that might result from the structural peculiarities identified in (a) (iii) above.   **[6 marks]**

(b)   Discuss ONE benefit of economic growth and ONE cost of economic growth.

[8 marks]

Total 25 marks

GO ON TO THE NEXT PAGE

6.   (a)   (i)   Identify THREE factors which may affect the levels of imports and exports of a country. **[3 marks]**

         (ii)   Explain EACH of the following concepts:

             a)   Comparative advantage **[3 marks]**

             b)   The effects of foreign exchange earnings on small open economies **[3 marks]**

   (b)   (i)   Define the term 'protectionism'. **[2 marks]**

         (ii)   Discuss the infant industry's argument for protection. **[4 marks]**

   (c)   (i)   Define 'trade liberalization'. **[2 marks]**

         (ii)   Discuss TWO benefits of trade liberalization. **[8 marks]**

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 032

1 hour 30 minutes

08 JUNE 2015 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE questions.

2.   Answer ALL questions.

3.   Answers for ALL questions must be written in the answer booklet provided.

4.   Begin EACH question on a separate page.

5.   You may use a silent, non-programmable calculator to answer questions.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

Answer ALL questions.

1. (a) (i) Define EACH of the following terms:

            a)   Consumption function **[2 marks]**

            b)   Autonomous consumption **[2 marks]**

    (ii) Identify THREE non-income determinants of consumption. **[3 marks]**

  (b) Outline TWO ways in which Internet shopping can have a negative impact on the gross domestic product (GDP) of a country. **[4 marks]**

  (c) The rapid expansion of Internet shopping is a relatively new development in the Caribbean. Discuss THREE ways in which this trend can contribute positively to raising the country's standard of living or GDP. **[9 marks]**

Total 20 marks

2. (a) (i) Define EACH of the following terms:

            a)   Monetary transmission mechanism **[2 marks]**

            b)   Monetary policy **[2 marks]**

    (ii) Identify TWO types of money. **[2 marks]**

    (iii) State THREE functions of money. **[3 marks]**

    (iv) State THREE desirable properties of money. **[3 marks]**

  (b) Assess how Caribbean governments' tax revenue can be affected by increasing amounts of online shopping by residents. **[4 marks]**

  (c) Assess how monetary policy can be used to reduce the amount of online shopping, given that most online purchases are done using credit cards. **[4 marks]**

Total 20 marks

3.   (a)   (i)   Define EACH of the following the terms:

                a)   Exchange rate   **[2 marks]**

                b)   Balance of payments   **[2 marks]**

            (ii)   Identify THREE main types of exchange rates.   **[3 marks]**

       (b)   Outline TWO reasons why a 'free-floating exchange' is argued to be better than a 'fixed exchange'.   **[4 marks]**

       (c)   Many Caribbean countries no longer have control of their exchange rate, hence people are free to shop online without restriction.

             Explain THREE ways by which increased online shopping can negatively impact the balance of payments of such countries.   **[9 marks]**

                                                         Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Write your answers in the spaces provided at the end of each section in this booklet.

4. Do NOT write in the margins.

5. You may use a silent, non-programmable calculator to answer questions.

6. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

"*"Barcode Area"*"
Sequential Bar Code

SECTION I

MODULE 1: METHODOLOGY – DEMAND AND SUPPLY

Answer ONE question.

Draw ALL diagrams neatly and carefully, and clearly label ALL axes and curves.

1. (a) Define EACH of the following terms:

   (i) Normal good **[2 marks]**

   (ii) Inferior good **[2 marks]**

   (iii) Giffen good **[2 marks]**

   (b) Explain EACH of the following approaches to understanding consumer behaviour:

   (i) Ordinalist **[3 marks]**

   (ii) Cardinalist (marginalist) **[3 marks]**

   (c) Discuss, with the aid of diagrams, the ordinal approach to the derivation of the demand curve. **[13 marks]**

   Total 25 marks

2. (a) Define EACH of the following terms:

   (i) Total product **[2 marks]**

   (ii) Average product **[2 marks]**

   (iii) Marginal product **[2 marks]**

   (b) Explain EACH of the following terms in the context of the manufacture of electric fans:

   (i) The law of diminishing returns **[3 marks]**

   (ii) The concept of the short-run **[3 marks]**

   (c) Assess, with the aid of a diagram showing the **three** stages of production, the ideal production stage for electric fans. **[13 marks]**

   Total 25 marks

GO ON TO THE NEXT PAGE

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section I</u> here.
Remember to write the question number in the box provided below.

Question No. ☐

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

SECTION II

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

Answer ONE question.

3.   (a)   Identify THREE goals of a firm.   **[3 marks]**

(b)   Explain EACH of the following measures of industrial concentration:

   (i)   Four firm concentration ratio   **[3 marks]**

   (ii)   The Herfindahl–Hirschman Index   **[3 marks]**

(c)   (i)   Outline TWO key features of the oligopolistic market structure.   **[4 marks]**

   (ii)   Assess how any ONE of the two features mentioned in (c) (i) above can influence the mobile phone industry.   **[4 marks]**

(d)   Discuss, with the aid of the kinked demand curve (label elastic and inelastic portions), the pricing and output decision of the oligopolistic firm.   **[8 marks]**

Total 25 marks

4.   (a)   Identify THREE characteristics of the perfectly competitive market structure.
   [3 marks]

(b)   Suggest TWO reasons why the perfectly competitive market structure is considered the most efficient market structure.   **[6 marks]**

(c)   Compare, with the aid of a diagram, the pricing and output decision of the perfectly competitive firm and the monopolist.   **[8 marks]**

(d)   (i)   Explain how market failure is caused by a monopolist.   **[3 marks]**

   (ii)   Assess governments' response to market failure caused by monopolies.
   [5 marks]

Total 25 marks

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section II</u> here.
Remember to write the question number in the box provided below.

Question No.

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

- 14 -

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. [ ] **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5. (a) Draw a labour market diagram, and show on your diagram how EACH of the following events will affect the equilibrium wage and level of employment:

(i) A surge of migrants into the country **[5 marks]**

(ii) World demand for tourism increases **[5 marks]**

(b) The following table shows the number of belts that can be produced daily by a given number of workers. One belt sells for $70 and the daily wage is $500.

Number of Workers	Output	Marginal Product	Value of Marginal Product
1	25		
2	45		
3	60		
4	72		
5	80		
6	85		

(i) Copy and complete the table to show the marginal product and the value of the marginal product. **[6 marks]**

(ii) Sketch the firm's labour demand curve. **[3 marks]**

(c) (i) Determine the number of workers who will be hired if the government sets a minimum wage of $1000 per day. **[3 marks]**

(ii) Justify the manager's employment of FIVE workers per day in the manufacture of belts. **[3 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

6. (a) Define EACH of the following terms:

  (i) Income inequality **[2 marks]**

  (ii) Poverty **[2 marks]**

 (b) (i) Outline THREE factors that could contribute to poverty. **[6 marks]**

  (ii) Critique the human development index (HDI) as a measure of poverty.
  [3 marks]

 (c) Justify, with the aid of diagrams, why a legal minimum wage will alleviate poverty in a monopsonic labour market but not in a perfectly competitive labour market.
  [12 marks]

  Total 25 marks

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

**Write the answer to the question you have chosen to answer in <u>Section III</u> here.
Remember to write the question number in the box provided below.**

Question No. ☐

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

02116020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE questions. Answer ALL questions.

2. Write your answers in the spaces provided in this booklet.

3. Do NOT write in the margins.

4. You may use a silent, non-programmable calculator to answer questions.

5. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**

6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

"*"Barcode Area"*"
Sequential Bar Code

Answer ALL questions.

1. (a) Outline THREE reasons why people migrate.

    ....

    ....

    ....

    ....

    ....

    ....

    ....

    ....
    [6 marks]

    (b) (i) Explain the concept of scarcity.

        ....

        ....

        ....

        ....

        ....
        [3 marks]

        (ii) Explain how immigration (inward migration) can affect the scarcity of resources
        in a country.

        ....

        ....

        ....

        ....

        ....
        [3 marks]

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code
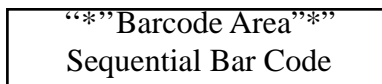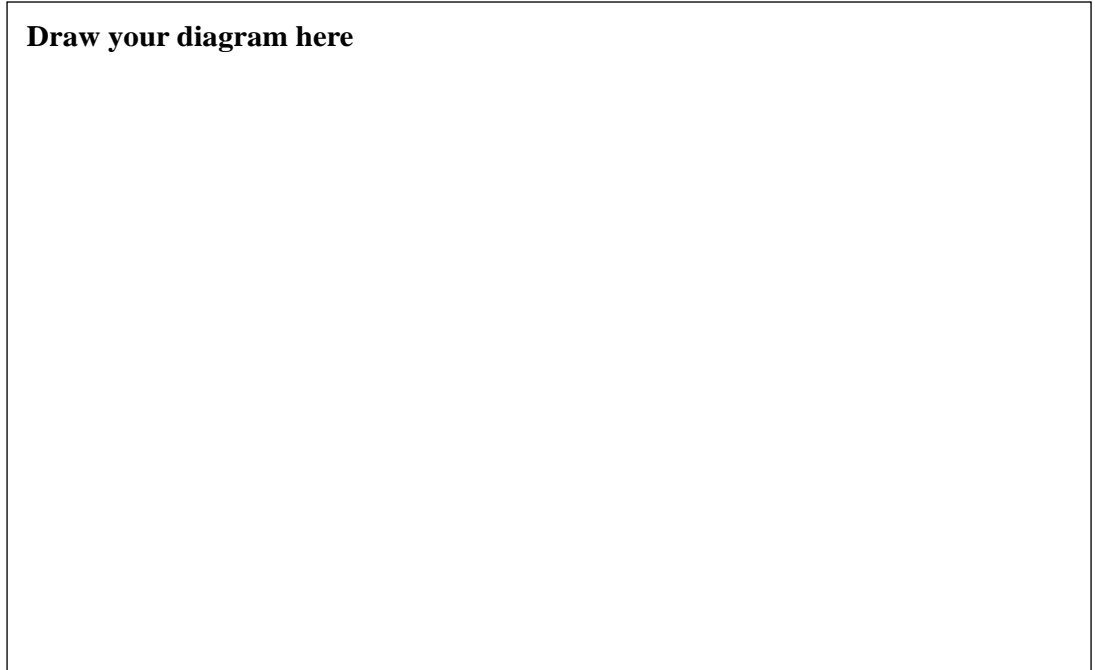
(c) Assume that there is a large influx of highly skilled workers into the region and all resources are being used efficiently.

Analyse, with the aid of a production possibilities frontier (PPF) diagram, the impact of this movement on the health services and agricultural sector.

Draw your diagram here

....

....

....

....

....

....

....

....

....

....

[8 marks]

Total 20 marks

"*"Barcode Area"*"
Sequential Bar Code
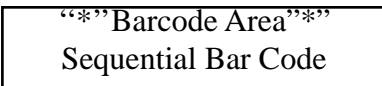
2. (a) Define EACH of the following terms:

(i) Market failure

....

....

....

....
[2 marks]

(ii) Externality

....

....

....

....
[2 marks]

(b) Outline TWO negative externalities and TWO positive externalities that may be caused by immigration.

Negative: ....

....

....

....

....

Positive: ....

....

....

....

....
[8 marks]

"*"Barcode Area"*"
Sequential Bar Code

(c) Assess TWO corrective measures that governments might take to correct the market failure that results in the under-consumption of tertiary education.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

[8 marks]

Total 20 marks

"*"Barcode Area"*"
Sequential Bar Code
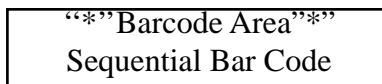
3. (a) Define EACH of the following terms:

(i) Wage differentials

....

....

....

....

....

....
[2 marks]

(ii) Compensating wage differentials

....

....

....

....

....

....
[2 marks]

"*"Barcode Area"*"
Sequential Bar Code

(b)   Explain how the migration of unemployable people might affect the redistribution of income in

(i)   the home country (country of origin)

....

....

....

....

....

....

....

....

[3 marks]

(ii)   the host country (country migrated to).

....

....

....

....

....

....

....

....

[3 marks]

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code
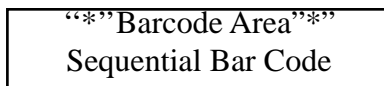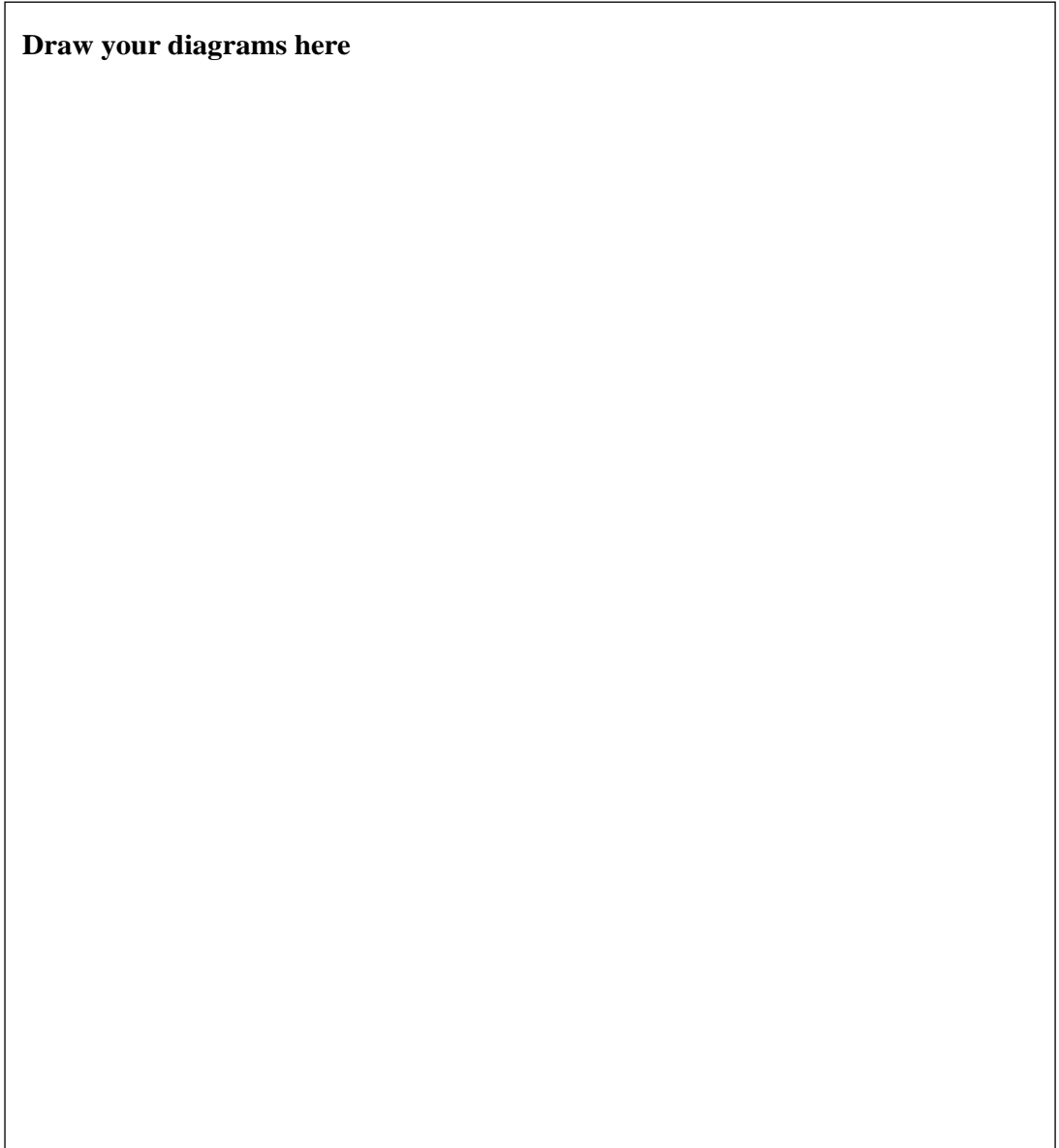
(c) Discuss, with the aid of diagrams, the effect of inward migration on the narrowing of the wage gap between the home (low-wage) country and the host (high-wage) country.

Draw your diagrams here

02116032/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

[10 marks]

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

"*"Barcode Area"*"
Sequential Bar Code

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE sections: I, II and III.

2. There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3. Write your answers in the spaces provided at the end of each section in this booklet.

4. Do NOT write in the margins.

5. You may use a silent, non-programmable calculator to answer questions.

6. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

"*"Barcode Area"*"
Sequential Bar Code

SECTION I

MODULE 1: MODELS OF THE MACROECONOMY

Answer ONE question.

1. (a) (i) Define the term 'equilibrium level of output'. **[2 marks]**

(ii) Outline TWO factors that could account for the volatility of investment spending. **[4 marks]**

(b) Differentiate between the 'investment curve' and the 'investment demand curve' for an economy. **[4 marks]**

(c) Table 1 shows the expected rate of return and the volume of investment, in millions, for a country.

TABLE 1

Expected Rate of Return of Return (%)	Volume of Expected Investment (millions) ($)
11	55
10	75
8	90
5	125
3	150
1	190

(i) Explain why the information in Table 1 essentially describes an investment demand curve. **[3 marks]**

(ii) Using the information in Table 1, graph the investment demand curve. **[4 marks]**

(d) Discuss TWO ways in which businesses adjust their level of inventory investment if the level of GDP is in disequilibrium. **[8 marks]**

Total 25 marks

GO ON TO THE NEXT PAGE

02216020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

2. (a) Describe the relationship between the marginal propensity to consume (MPC) and marginal propensity to save (MPS). **[2 marks]**

(b) Table 2 shows the levels of GDP (disposable income) and savings in an economy.

TABLE 2

GDP (Disposable Income) ($)	Consumption	Savings ($)	APC
480		−8	
520		0	
560		8	
600		16	
640		24	
680		32	
720		40	
760		48	
800		56	

Copy and complete Table 2 to show the 'consumption' and the 'average propensity to consume' (PPC).

[6 marks]

(c) (i) From your completed Table 2, draw ONE graph to show the consumption schedule and ONE graph to show the saving schedule. **[8 marks]**

(ii) Determine the break-even level of income. **[1 mark]**

(d) Discuss TWO ways in which the economy adjusts withdrawals if the level of GDP is in disequilibrium. **[8 marks]**

Total 25 marks

02216020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section I</u> here.
Remember to write the question number in the box provided below.

Question No. ☐

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ▢ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02216020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

SECTION II

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

Answer ONE question.

3. (a) (i) Define the term 'inflation' and state how it is measured. **[3 marks]**

      (ii) State FOUR challenges in measuring inflation accurately. **[4 marks]**

    (b) Differentiate between 'cost-push inflation' and 'demand-pull inflation'. **[4 marks]**

    (c) Describe TWO ways in which inflation impacts a country's balance of payments.
[6 marks]

    (d) Discuss ONE positive and ONE negative effect of inflation on an economy.
[8 marks]

Total 25 marks

4. (a) (i) State THREE functions of money. **[3 marks]**

      (ii) Outline TWO motives for holding money. **[4 marks]**

    (b) Explain TWO ways in which the fluctuating value of money affects an economy.
[6 marks]

    (c) Outline TWO ways in which a surplus of money affects the money market. **[4 marks]**

    (d) The widespread use of credit cards has resulted in huge debts as people spend far more than they earn. Discuss TWO potential economic consequences of a large increase in consumer spending. **[8 marks]**

Total 25 marks

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section II</u> here.
Remember to write the question number in the box provided below.

Question No. ☐

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02216020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

02216020/CAPE 2016

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

"*"Barcode Area"*"
Sequential Bar Code

SECTION III

**MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT
AND GLOBAL RELATIONS**

Answer ONE question.

5. (a) Explain what is meant by a 'current account deficit'.   **[3 marks]**

    (b) Explain TWO ways in which Caribbean countries could improve performance on their
         current account.   **[6 marks]**

    (c) Outline TWO ways in which EACH of the following policies may be used to correct
         balance of payments disequilibrium.

         (i)   Expenditure-switching   **[4 marks]**

         (ii) Expenditure-reducing   **[4 marks]**

    (d) Discuss ONE positive and ONE negative effect of a current account deficit on a country.
                                                                                  [8 marks]

                                                                          Total 25 marks

6. (a) (i)   Explain the theory of comparative advantage.   **[3 marks]**

         (ii) Describe the trade patterns in the Caribbean.   **[2 marks]**

    (b) Describe TWO advantages and TWO disadvantages of regional trading groups, such as
         North American Free Trade Agreement (NAFTA).   **[12 marks]**

    (c) Discuss the effectiveness of devaluation and quota policies in addressing trade deficits.
                                                                                  [8 marks]

                                                                          Total 25 marks

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section III</u> here.
Remember to write the question number in the box provided below.

Question No. ☐

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Write the answer to the question you have chosen to answer in <u>Section III</u> here.
Remember to write the question number in the box provided below.

Question No. ☐

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

02216020/CAPE 2016

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

Question No. ☐ **continued**

....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....
....

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

02216020/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – Paper 032

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of THREE questions. Answer ALL questions.

2. Write your answers in the spaces provided in this booklet.

3. Do NOT write in the margins.

4. You may use a silent, non-programmable calculator to answer questions.

5. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**

6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

"*"Barcode Area"*"
Sequential Bar Code

Answer ALL questions.

1. (a) (i) Outline THREE incentives that encourage persons to enter the underground economy.

....

....

....

....

....

....

....

....

....

[6 marks]

(ii) Identify TWO examples of activities that usually take place in the underground economy.

....

....

....

[2 marks]

(iii) List FOUR characteristics of enterprises in the underground economy.

....

....

....

....

....

....

[4 marks]

GO ON TO THE NEXT PAGE
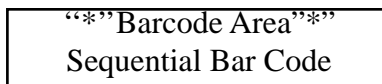
"*"Barcode Area"*"
Sequential Bar Code

(b) Discuss the use of official GDP data to analyse an economy with a large underground economy.

....

....

....

....

....

....

....

....

....

[4 marks]

(c) Analyse the likely impact of the underground economy on government spending/investment.

....

....

....

....

....

....

....

....

....

[4 marks]

Total 20 marks

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

2. (a) (i) Define the term 'labour force'.

....

....

....

....

....
[2 marks]

(ii) Identify THREE factors that determine the size of a country's labour force.

....

....

....

....

....

....
[3 marks]

GO ON TO THE NEXT PAGE

02216032/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

(b)   (i)   State FOUR challenges that governments face in trying to produce accurate unemployment statistics.

....

....

....

....

....

....

....

....

....

....

....

[4 marks]

(ii)   Explain how the unemployment rate is calculated.

....

....

....

....

....

....

....

[3 marks]

GO ON TO THE NEXT PAGE

02216032/CAPE 2016

"*"Barcode Area"*"
Sequential Bar Code

(c)   (i)   Analyze the impact of an increase in official unemployment on the underground economy.

....

....

....

....

....

....

....

....

....

[4 marks]

(ii)   Analyze why the size of the underground economy may not decline even if the official economy is growing.

....

....

....

....

....

....

....

....

....

[4 marks]

Total 20 marks

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

3.   (a)   Define EACH of the following:

(i)   Economic growth

....

....

....

....

....
[2 marks]

(ii)   Economic development

....

....

....

....

....
[2 marks]

(b)   Describe TWO structural characteristics of Caribbean economies which may help to explain why they have substantial underground economies.

....

....

....

....

....

....

....

....

....
[4 marks]

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code
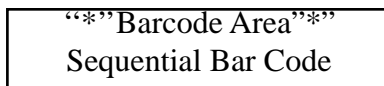
(c)   It is said that workers in the underground economy in many countries experience higher levels of poverty.

Discuss EACH of the following strategies used by government to reduce poverty:

(i)   Provision of free or subsidized education

....
....
....
....
....
....
....
....
....

[4 marks]

(ii)   Provision of free or subsidized health care

....
....
....
....
....
....
....
....
....

[4 marks]

GO ON TO THE NEXT PAGE

"*"Barcode Area"*"
Sequential Bar Code

(d) Discuss how the underground economy may contribute to the development of 'Third World' (developing) countries.

....

....

....

....

....

....

....

....

....

....

[4 marks]

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

"*"Barcode Area"*"
Sequential Bar Code