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Caribbean Advanced
Proficiency Examination®

SYLLABUS

ECONOMICS

CXC A20/U2/09

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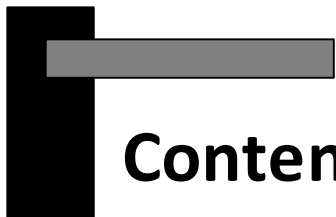
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CAPE®

CXC A20/U2/09



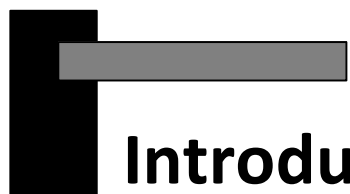
Contents

RATIONALE	1
AIMS	2
SKILLS AND ABILITIES TO BE ASSESSED	2
PRE-REQUISITES OF THE SYLLABUS	3
STRUCTURE OF THE SYLLABUS	3
UNIT 1: MICROECONOMICS	
<i>MODULE 1: METHODOLOGY: DEMAND AND SUPPLY</i>	4
<i>MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION</i>	12
<i>MODULE 3: DISTRIBUTION THEORY</i>	17
UNIT 2: MACROECONOMICS	
MODULE 1: MODELS OF THE MACROECONOMY	22
MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES	28
MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT AND GLOBAL RELATION	36
OUTLINE OF ASSESSMENT	44
REGULATIONS FOR PRIVATE CANDIDATES	55
REGULATIONS FOR RESIT CANDIDATES	56
ASSESSMENT GRID	57
RESOURCES	58
GLOSSARY	59

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Please check the website www.cxc.org for updates on CXC's syllabuses.




Introduction

The Caribbean Advanced Proficiency Examination® (**CAPE**®) is designed to provide certification of the academic, vocational and technical achievement of students in the Caribbean who, having completed a minimum of five years of secondary education, wish to further their studies. The examinations address the skills and knowledge acquired by students under a flexible and articulated system where subjects are organised in 1-Unit or 2-Unit courses with each Unit containing three Modules. Subjects examined under **CAPE**® may be studied concurrently or singly.

*The Caribbean Examinations Council offers three types of certification at the **CAPE**® level. The first is the award of a certificate showing each **CAPE**® Unit completed. The second is the **CAPE**® Diploma, awarded to candidates who have satisfactorily completed at least six Units, including Caribbean Studies. The third is the CXC Associate Degree, awarded for the satisfactory completion of a prescribed cluster of eight **CAPE**® Units including Caribbean Studies, ~~and~~ Communication Studies and Integrated Mathematics. Integrated Mathematics is not a requirement for the CXC Associate Degree in Mathematics. The complete list of Associate Degrees may be found in the CXC Associate Degree Handbook.*

*For the **CAPE**® diploma and the Associate Degree, candidates must complete the cluster of required Units within a maximum period of five years. To be eligible for a CXC Associate Degree, the educational institution presenting the candidates for the award, must select the Associate Degree of choice at the time of registration at the sitting (year) the candidates are expected to qualify for the award. Candidates will not be awarded an Associate Degree for which they were not registered.*



Economics Syllabus

◆ RATIONALE

Economics is the study of how society provides for itself by making the most efficient use of scarce resources so that both private and social welfare may be improved. The subject, therefore, covers the study of *individuals*, households, firms, government and international economic institutions as they attempt to make better use of scarce resources.

The study of Economics enables individuals to develop a better understanding of the economic issues which affect them and the world in which they live. It will also enable students to offer informed comments on economic matters. The knowledge gained from this course in Economics will be of lifelong value to the student, *since the syllabus seeks to develop professional, technical/vocational and entrepreneurial skills which are relevant to the field of economics*. The influence of the subject on all areas of activity should stimulate the individual to continue reading and *conducting* research in Economics. It is recognised that persons doing this course may be drawn from different backgrounds and may possess different interests. Some may wish to study Economics as preparation for further specialisation in the subject. Others may study the subject to complement other subject disciplines, *such as*, careers in finance, accounting or law. Some students may see the subject as one worthy of study in its own right. Students of Economics will be able to contribute, significantly, to economic and social development in the Caribbean *and the wider world* by acting as catalysts for wider awareness of social and economic issues.

A study of Economics at the CAPE level will be of benefit to all students by introducing them to the philosophy which underlies everyday economic interactions. The study will also train the student to think logically, critically and impartially on a variety of contentious issues.

Ultimately, this course of study in CAPE® Economics will develop the Ideal Caribbean Person who, as articulated by CARICOM Heads of Government at their 18th Summit, is emotionally secure with a high level of self-confidence and self-esteem; demonstrates multiple literacies, independent and critical thinking; questions the practices of past and present and brings this to bear on the innovative application of science and technology to problem solving; has a positive work attitude; and values and displays creative imagination and entrepreneurship. In keeping with the UNESCO Pillars of Learning, on completion of this course of study, students will learn to know, to do, to be, and to transform themselves and society.

◆ AIMS

The syllabus aims to:

1. promote understanding of the basic principles and concepts of economics which are accepted in large measure by economists while recognising that the field is changing continuously;
2. develop an appreciation of the various methods used by economists in analysing economic problems;

3. develop an understanding of the global economy and of the relationships between rich and poor nations with respect to international trade and finance and the most important international financial institutions;
4. encourage students to apply economic principles, theories and tools to everyday economic problems, for example, inflation, unemployment, environmental degradation, *sustainable development* and exchange rate instability and to contribute meaningfully to any dialogue on these issues;
5. encourage students to apply economic theory to the critical issues which affect the small open Caribbean-type economy;
6. encourage students to evaluate contentious economic issues so that decision-making may be informed by logical *and critical* thinking;
7. *sensitise students to the need for ethical behaviour in the conduct of economic transactions;*
8. *develop the capacity for critical thinking, creativity, problem-solving, leadership and management, positive cooperative behaviours, emotional intelligence, entrepreneurial skills and technological competence through authentic learning experiences; and,*
9. *integrate information, communication and technology (ICT) tools and skills.*

◆ SKILLS AND ABILITIES TO BE ASSESSED

The assessment will test candidates' skills and abilities to:

1. **identify and explain** economic theories, principles, concepts and methods;
2. **interpret, analyse and solve** economic problems using economic models and concepts;
3. **develop** structural and reasoned expositions and evaluate economic theories and policies.

◆ PREREQUISITES OF THE SYLLABUS

Successful participation in this course of study will be enhanced by the possession of good verbal and written communications skills. A good foundation in Mathematics would be an asset to students doing this course.

◆ STRUCTURE OF THE SYLLABUS

The Syllabus is arranged into two Units. Each Unit consists of three Modules, each Module requiring 50 hours.

UNIT 1: MICROECONOMICS

- Module 1 - *Methodology: Demand and Supply*
- Module 2 - *Market Structure, Market Failure and Intervention*
- Module 3 - *Distribution Theory*

UNIT 2: MACROECONOMICS

- Module 1 - Models of the Macroeconomy
- Module 2 - Macroeconomic *Problems and Policies*
- Module 3 - Growth, Sustainable Development and Global Relations

Lists of resources are provided in the syllabus. The lists provide information that may be helpful for the study of each Module.

It is advised that the topics listed in the sections do not necessarily follow sequentially. Teachers may thus introduce certain concepts before others.

It is recognised that Economics may be taught using a strictly qualitative approach or a strictly quantitative approach. However, a proper mix of the two approaches is critical to the understanding of the subject at this level. Teachers are advised, therefore, that proper delivery of the subject would involve the integration of the two approaches.

◆ UNIT 1: *MICROECONOMICS*

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY

GENERAL OBJECTIVES

On completion of this Module, students should:

1. appreciate the main problem of economics namely, the allocation of scarce resources and the inevitability of choice;
2. understand the laws, principles and theories governing demand and supply;
3. understand the basic tools of economic analysis.

SPECIFIC OBJECTIVES

TOPIC 1: Central Problem of Economics

Students should be able to:

1. explain the concept of scarcity;
2. apply the concept of opportunity cost in a variety of real-life situations;
3. explain the concept of production possibilities frontier (PPF);
4. use the production possibilities frontier to indicate constant returns, diminishing returns and increasing returns;
5. account for shifts in the production possibilities frontier (PPF);
6. differentiate between positive and normative economics;
7. outline the advantages and disadvantages of the alternative mechanisms by which resources are allocated.

CONTENT

1. The meaning of scarcity, free goods and economic goods.
2. (a) Definition of opportunity cost.
(b) Choice: what, how and for whom to produce.
(c) The concept of opportunity cost applied to economic agents (individuals, households, firms and governments).

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

3. (a) Assumptions: maximum output attainable, given full employment and constant state of technology.
(b) Regions: attainable, unattainable, efficient and inefficient levels of production.
4. Production possibilities frontier: slopes and shapes.
5. Use of production possibilities frontier to show growth and technological change.
6. Examples of positive and normative statements.
7. Different types of economic systems: traditional, market, planned and mixed.

SPECIFIC OBJECTIVES

TOPIC 2: Theory of Consumer Demand

Students should be able to:

1. explain the concept of utility;
2. explain the law of diminishing marginal utility and the limitation of marginal utility theory;
3. explain the meaning of indifference curves and budget lines;
4. explain consumer equilibrium using the marginal utility approach;
5. explain consumer equilibrium using the indifference curve approach;
6. isolate the income and substitution effects of a price change;
7. explain effective demand;
8. derive the demand curve using both the marginal utility and indifference curve approaches;
9. differentiate among normal, inferior and Giffen goods;
10. distinguish between shifts of the demand curve and movements along the curve;

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

11. identify the factors that affect demand;
12. explain the meaning of consumer surplus;
13. explain price elasticity, income elasticity and cross elasticity of demand;
14. calculate numerical values of elasticity;
15. interpret numerical values of elasticity;
16. assess the implications of price elasticity of demand for total spending and revenue;
17. state the factors that determine the price elasticity of demand.

CONTENT

1. Utility: total, marginal, cardinal (marginalist approach), ordinal (indifference curve approach).
2. (a) Explanation of diminishing marginal utility.
(b) The main assumptions and limitations of Marginal Utility Theory.
3. Indifference curves and the budget constraint (budget lines).
4. The law of equi-marginal returns.
5. The point of tangency of the budget line to the indifference curve.
6. Income and substitution effects of a price change.
7. Effective demand.
8. Deriving the demand curve using the marginal utility as well as the indifference curve approach.
9. Normal, inferior and Giffen goods using the indifference curve approach.
10. Shift versus movements along demand curves.
11. Price and the conditions of demand.
12. Consumer surplus including graphical representations.

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

13. Price, income, and cross elasticities.
14. Calculation of values of elasticity.
15. Classification and interpretations (sign and size); including the drawings and interpretations of graphs.
16. The implications of price elasticity of demand for total spending and revenue.
17. Factors that determine the price elasticity of demand.

SPECIFIC OBJECTIVES

TOPIC 3: Theory of Supply

Students should be able to:

1. identify the factors of production;
2. explain the term production function;
3. differentiate between the short run and long run;
4. explain the law of diminishing returns;
5. calculate total, average and marginal physical product;
6. explain the relationships among total, average and marginal physical product;
7. identify the stages of production as they relate to total, average and marginal product;
8. calculate total, average, marginal and other costs;
9. explain the relationship among total, average and marginal costs;
10. explain why supply curves are usually positively sloped;
11. explain the concept of producer surplus;
12. explain the shape of the short run and long run supply curves;

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

13. explain returns to scale and the concepts of economies and diseconomies of scale;
14. distinguish between a movement along the supply curve and a shift in the supply curve;
15. explain the concept of elasticity of supply;
16. calculate elasticity of supply;
17. interpret elasticity of supply.

CONTENT

1. Factors of production: land, labour, capital and entrepreneurship.
2. Relationship between output and input.
3. Fixed and variable factors.
4. The law of diminishing returns.
5. Calculation of total average and marginal physical product. (See suggested teaching and learning activities).
6. Change in the relationship as input increases.
7. Production and its stages, as they relate to the total, average and marginal product including the use of graphs.
8.
 - (a) Fixed cost, variable cost, total cost, marginal cost, average fixed cost, average variable cost, average total cost, sunk costs.
 - (b) The shape of the long run average total cost curve.
 - (c) Productive optimum.
9. The relationship between total, average and marginal cost including the use of graphs.
10. Relationship between quantity supplied and price.
11. Producer surplus including graphical representations.

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

12. Relationship between marginal cost and the average cost in the short run and long run. Explanation of why the supply curve is the section of the marginal cost curve above the average variable cost and average total cost.
13.
 - (a) Long run and economies of scale.
 - (b) Factors determining economies of scale.
 - (c) Internal and external economies of scale.
 - (d) Diseconomies of scale.
14. Price and the conditions of supply.
15. Concept of elasticity of supply.
16. Calculation of elasticity of supply.
17. Classification and interpretation (size of coefficient) including the drawing and interpretation of graphs.

SPECIFIC OBJECTIVES

TOPIC 4: *Market Equilibrium*

Students should be able to:

1. explain the concept of the market;
2. explain market equilibrium;
3. calculate equilibrium price and quantity;
4. outline factors that cause changes in equilibrium;
5. evaluate the impact of price controls on market equilibrium;
6. analyse the effects of taxation and subsidies on market equilibrium.

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

CONTENT

1. The concept of the market.
2. Equilibrium price, equilibrium quantity.
3. Use of demand and supply data to calculate equilibrium price and quantity.
4. Changes in conditions of supply and demand.
5. The effects of price ceilings and price floors on equilibrium.
6. (a) *The effects of taxation and subsidies on market equilibrium.*
(b) *The incidence of an indirect tax.*

Suggested Teaching and Learning Activities

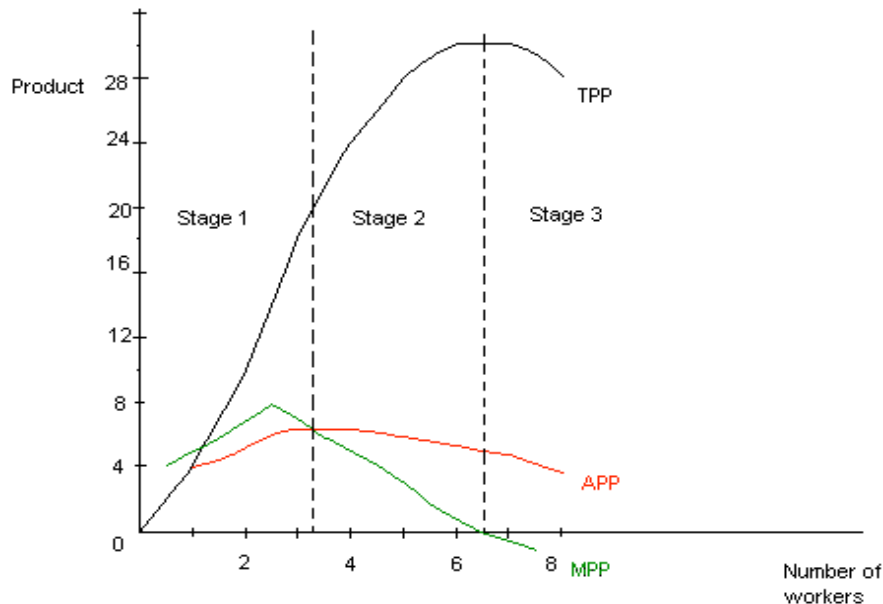
To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in the teaching and learning activities listed below.

1. For topic 1, Central Problem of Economics, let students provide examples from personal life, the home, firms and government to demonstrate opportunity cost and the production possibilities frontier (PPF).
2. For topic 2, Theory of Consumer Demand, let students derive their own schedule and plot the demand curve for commodities which they use in their everyday lives.
3. For utility, use water or any other drink to show the different levels of satisfaction (utility). Use the data to derive total and marginal utility curves.
4. For the concept of elasticity, teachers may use two types of materials, one that could change in varying degrees and the other which remains the same regardless of circumstances. Teachers should then apply this concept to market conditions illustrating the concepts of elasticity and inelasticity.
5. For deadweight loss, teachers may use the graphs for consumer and producer surplus to show how market intervention may lead to loss welfare (deadweight loss).
6. For stages of production, allow students to derive the total average and marginal product curves using simulated data. Use the results of the graphs to point out the different stages of production. An example is given below.

UNIT 1

MODULE 1: METHODOLOGY: DEMAND AND SUPPLY (cont'd)

GRAPH SHOWING THE STAGES OF PRODUCTION



- (i) Stage 1 occurs up to the point where $APPL$ is at its maximum.
- (ii) Stage 2 occurs from the point where $APPL$ is at a maximum up to the point where $MPLL$ is zero. In this stage new workers add to total physical output.
- (ii) Stage 3 occurs when $MPLL$ is negative.

The producer will operate in stage 2. In stage 1 there is insufficient labour being used (up to the point where $MPLL$ is at its maximum) and the output per worker is increasing. In stage 3 the producer gets no addition to total physical output from additional workers. It would be possible to have more total physical product with less labour applied to a fixed factor (say machinery).

UNIT 1

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

GENERAL OBJECTIVES

On completion of this Module, students should:

1. appreciate the distinction between the different types of market structures;
2. develop awareness of the causes of market failure;
3. appreciate the measures that can be adopted to reduce or eliminate market failure;
4. appreciate the arguments which suggest that government intervention may not necessarily improve economic performance.

SPECIFIC OBJECTIVES

TOPIC 1: Market Structure

Students should be able to:

1. outline the goals of the firm;
2. explain how firms measure profits;
3. explain the concepts of average, marginal and total revenue;
4. explain the concept of market structure;
5. outline the characteristics of the different market structures;
6. distinguish among the different market structures;
7. explain the factors that influence the pricing and output decisions of the firm;
8. calculate measures of industrial concentration;
9. interpret measures of industrial concentration.

UNIT 1

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION (cont'd)

CONTENT

1. Profit maximization, growth, satisficing, sales and revenue maximization, market dominance.
2. Total revenue, total cost, normal and economic (abnormal) profit.
3. Relationship between average, marginal and total revenue.
4. Types of market structures: perfect competition, monopoly including price discrimination, monopolistic competition, oligopoly and cartels.
5. Characteristics of the different market structures.
 - (a) *barriers to entry;*
 - (b) *control over market and price;*
 - (c) *nature of the good;*
 - (d) *numbers of buyers and sellers;*
 - (e) *competitive behaviour and performance.*
6. Focus on all characteristics of the different markets in addition to profit maximization.
 - (a) *Examples of close approximations of market structures in the Caribbean.*
7. Marginal cost and marginal revenue, total cost and total revenue, marginal cost pricing and average cost pricing.
8. Herfindahl Hirschman Index - the percentage of an industry's output produced by its four largest firms (four-firm concentration ratio):

$$H = \sum_{i=1}^n s_i^2$$

where s_j is the market share of firm i in the market, and n is the number of firms.

9.
 - (a) *Interpretation related to market structures.*
 - (b) *Limitations of measures of industrial concentration.*

UNIT 1

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION (cont'd)

SPECIFIC OBJECTIVES

TOPIC 2: Market Failure

Students should be able to:

1. explain the concept of economic efficiency;
2. distinguish among private goods, public goods and merit goods;
3. distinguish between social costs and private costs and social benefits and private benefits;
4. explain the concept of market failure;
5. explain what is meant by deadweight loss;
6. outline the causes of market failure.

CONTENT

1. Inclusion of discussion of Pareto efficiency.
2. (a) *Examples of private goods, public goods and merit goods.*
(b) *Discussion of issues of rivalry and exclusion.*
3. Social costs, private costs, social benefits, private benefits, external costs, external benefits. Use of graphical representations.
4. Divergence of social costs and social benefits and efficiency. Use of graphical representations.
5. Deadweight loss including verbal and graphical representations.
6. Causes of market failure:
 - (a) *monopoly;*
 - (b) *public goods and merit goods;*
 - (c) *externalities: positive and negative;*
 - (d) *divergence between social and private costs and social and private benefits;*
 - (e) *imperfect information;*

UNIT 1

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION (cont'd)

- (f) *asymmetric information: adverse selection and moral hazard;*
- (g) *open access to resources;*
- (h) *lack of property rights (squatting, streams, ocean);*
- (i) *non-existence of markets (for trading).*

SPECIFIC OBJECTIVES

TOPIC 3: Intervention

Students should be able to:

1. evaluate the measures used by government to correct market failure;
2. evaluate the measures used by the private sector to correct market failure.

CONTENT

1. Measures used by government to control market failure:
 - (a)
 - *regulation;*
 - *anti-trust policy;*
 - *taxation;*
 - *privatisation and deregulation;*
 - *state ownership;*
 - *subsidies;*
 - *legislation;*
 - *market creation (tradable permits);*
 - (b) *pros and cons of government intervention;*
 - (c)
 - *merits and demerits;*
 - *effectiveness of intervention in Caribbean societies (effect of small size in relation to policy making).*
2. Private Sector Intervention:
 - (a) *corporate code of conduct;*
 - (b) *corporate social responsibility;*
 - (c) *voluntary agreements;*
 - (d) *corporate ethics.*

UNIT 1

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION (cont'd)

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in the teaching and learning activities listed below.

1. For price discrimination, teachers could identify the first, second and third degree price discrimination using different examples from students' experiences. Teachers should then illustrate by use of diagrams.
2. For the kinked demand curve model, teachers may use the daily newspaper or mobile phone industry as examples.

UNIT 1

MODULE 3: DISTRIBUTION THEORY

GENERAL OBJECTIVES

On completion of this Module, students should:

1. understand what accounts for the returns that accrue to the owners of the factors of production;
2. appreciate the issues surrounding poverty and the measures used to alleviate poverty;
3. develop skills in applying microeconomic analysis to critical social issues involving income inequality.

SPECIFIC OBJECTIVES

TOPIC 1: The Demand for and Supply of Factors

Students should be able to:

1. explain the rewards of the factors of production;
2. explain the concept of derived demand;
3. outline the marginal productivity theory;
4. apply the marginal productivity theory to the demand for land, capital and labour;
5. *analyse* the factors affecting the supply of land, capital and labour;
6. *analyse* the factors determining rent, interest and wages;
7. distinguish between transfer earnings and economic rent.

CONTENT

1. Rent, interest, wages and profits.
2. Derived demand.
3. (a) The assumptions and limitations of Marginal Productivity Theory.
(b) Marginal Physical Product, Marginal Revenue Product and their relationship.

UNIT 1

MODULE 3: DISTRIBUTION THEORY

4. The value of the Marginal Product:
 - (a) land;
 - (b) labour;
 - (c) capital - using present value (use of graphical representation required).
5. The fixity of land, the supply of loanable funds and the labour supply.
6. The demand for and supply of factors.
7. Numerical, graphical and verbal explanations of transfer earnings and economic rent.

SPECIFIC OBJECTIVES

TOPIC 2: *Wage Differentials*

Students should be able to:

1. explain the concept of wage differentials;
2. analyse imperfections in the labour market;
3. analyse the effect of labour mobility on wages;
4. explain the concept of compensating wage differentials;
5. explain the role of Government, Trade Unions and Employers' Associations in the pricing of labour.

CONTENT

1. Differences in wages within industries and among industries.
2. Imperfections on the demand side (for example, differences in marginal productivity) and on the supply side (for example, geographical immobility).
3. The mobility and immobility of labour; geographical (migration of workers), occupational.
4. Compensating (equalizing) differential
5. The minimum wage rate; monopsonies; migration of workers; collective bargaining; trade union strategies, the role of employers' associations; efficiency wage.

UNIT 1

MODULE 3: DISTRIBUTION THEORY

SPECIFIC OBJECTIVES

TOPIC 3: *Income inequality, Poverty and Poverty Alleviation*

Students should be able to:

1. differentiate between size and functional distribution of income;
2. explain the concept of income inequality;
3. explain the measures of income inequality;
4. explain the measures used to reduce income inequality;
5. distinguish between absolute and relative poverty;
6. outline factors that contribute to poverty;
7. explain why certain categories of people are more susceptible to poverty than others;
8. *evaluate* the different ways used to measure poverty;
9. outline strategies used by Governments to alleviate poverty;
10. analyse the economic costs of poverty;
11. *assess* the economic benefits of government intervention to alleviate poverty.

CONTENT

1. Size and functional distribution of income.
2. How income is distributed.
3. Lorenz curve measurement of income inequality; and Gini coefficient (interpretation only).
4. Measures to reduce inequality: taxes, subsidies, transfers.
5. Absolute versus relative poverty.
6. Factors that contribute to poverty including:
 - (a) *social and physical environment*;
 - (b) *discrimination – gender, race*;

UNIT 1

MODULE 3: DISTRIBUTION THEORY

- (c) *restrictions on certain economic activities;*
 - (d) *non-ownership of resources;*
 - (e) *family size;*
 - (f) *single parent; female- headed families.*
7. *Persons who are most susceptible to poverty:*
- (a) *people with special needs;*
 - (i) *physically challenged;*
 - (ii) *elderly;*
 - (iii) *youth;*
 - (iv) *single parent families;*
 - (v) *indigenous people;*
 - (b) *reasons – Limited access to employment, level of training, legislation, availability of income to share among family.*
8. *Ways used to measure poverty:*
- (a) *basic needs;*
 - (b) *poverty line;*
 - (c) *head count;*
 - (d) *UNDP Human Development Index (HDI).*
9. *Strategies to alleviate poverty:*
- (a) *transfer payments;*
 - (b) *free education and health care;*
 - (c) *housing;*
 - (d) *minimum wage legislation;*
 - (e) *equal employment opportunities;*
 - (f) *Government employment creation (special works programmes).*

UNIT 1

MODULE 3: DISTRIBUTION THEORY

10. The cost of poverty, including:
- (a) *unemployed human resources;*
 - (b) *lower potential output;*
 - (c) *inefficient allocation of Government expenditure;*
 - (d) *social and environmental costs.*
11. Economic benefits including:
- (a) *provision of education and health leading to development of human capital;*
 - (b) *improvement in well-being as measured by the UNDP (HDI);*
 - (c) *more equitable distribution of income.*

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in the teaching and learning activities listed below.

1. Use knowledge from topic 3, unit 1, Theory of Supply, to derive the demand curve for factors of production.
2. Teachers may use graphical representation of the Lorenz Curve to illustrate unequal distribution of income. Teachers should also relate the Lorenz Curve to the GINI coefficient. Also show the effect of taxes on the Lorenz Curve and the GINI coefficient.

◆ UNIT 2: *MACROECONOMICS*

MODULE 1: MODELS OF THE MACROECONOMY

GENERAL OBJECTIVES

On completion of this Module, students should:

1. appreciate the notion of National Income accounting and the importance of these accounts for macroeconomic theory and policy;
2. understand the views of the classical keynesian and monetarists schools;
3. understand the factors that influence the level of investment in an economy.

SPECIFIC OBJECTIVES

TOPIC 1: National Income *Accounting*

Students should be able to:

1. explain the circular flow of income;
2. explain the concept of National Income Accounting;
3. explain the different ways of deriving National Income Accounts;
4. interpret National Income statistics;
5. use National Income accounts to analyze the performance on an economy as a whole;
6. derive real GDP from nominal GDP;
7. explain the limitations of GDP.

CONTENT

1. Economic agents.
2. Gross Domestic Product (GDP), Gross National Product (GNP) and other measures.
3. Calculation of GDP, GNP and their components (personal income, disposable income), Net National Income (NNI), and per capita income; avoidance of double counting.

UNIT 2

MODULE 1: MODELS OF THE MACROECONOMY

4. Total measures:
 - (a) *GDP at market prices;*
 - (b) *GDP at factor costs.*
5. Use of National income accounts to measure economic performance over time and to make inter- country comparisons.
6. Calculation of real and nominal GDP using the price deflator.
7. Limits of National Income Accounts as a measure of well-being:
 - (a) *non-inclusion of the informal sector (the underground economy, illegal activities);*
 - (b) *non-payment for do-it-yourself activities;*
 - (c) *non-accounting for externalities, environmental degradation (Green GDP);*
 - (d) *the fact that it measures changes in the value of output but not changes in the quality of life.*

SPECIFIC OBJECTIVES

TOPIC 2: Classical models of the Macroeconomy

Students should be able to:

1. explain why within the classical model, all employment is voluntary;
2. explain how full employment is restored in the classical model;
3. explain the factors that influence aggregate demand;
4. explain the factors that influence aggregate supply;
5. interpret the classical long run supply curve;
6. explain price level determination within the classical model;
7. use the classical aggregate demand and supply model to show changes in the price level and employment.

UNIT 2

MODULE 1: MODELS OF THE MACROECONOMY

CONTENT

1. Flexibility of wages and prices.
2. The role of wage price and interest rate flexibility.
3. The factors that influence aggregate demand:
 - (a) consumer spending;
 - (b) investment spending;
 - (c) Government spending;
 - (d) net export spending.
4. Factors that influence aggregate supply including changes in input prices and incomes.
5. The assumptions of the vertical aggregate supply curve.
6. The interaction of the classical aggregate demand and supply curves.
7. Shifts in the aggregate demand and aggregate supply curves.

SPECIFIC OBJECTIVES

TOPIC 3: Basic Keynesian Models

Students should be able to:

1. explain the consumption function;
2. explain the relationship between saving and consumption;
3. calculate the simple multiplier;
4. explain the effect of changes in investment on national income;
5. explain the effect of government spending on national income;
6. describe the effect of withdrawals and injections on national income;
7. explain the relationship between net exports and national income;

UNIT 2

MODULE 1: MODELS OF THE MACROECONOMY

8. determine the equilibrium level of national income;
9. explain inflationary and deflationary gaps.

CONTENT

1. Autonomous and induced consumption.
2.
 - (a) Income = consumption plus saving.
 - (b) marginal propensity to consume and save.
 - (c) average propensity to consume and save.
3. Simple multiplier $\left(\frac{1}{1 - mpc} \right)$.
4. Relationship between changes in investments and national income.
5. Government's expenditure and its effects on national income.
6.
 - (a) Concepts of injections and withdrawals in an economy.
 - (b) The effect of injections and withdrawals on national income.
 - (c) Small multipliers in the Caribbean context due to leakages.
7.
 - (a) Relationship between net exports ($x - m$) and national income.
 - (b) Exports as an injection and imports as a withdrawal.
8. Determination of equilibrium income using:
 - (a) 45° line or $E=Y$;
 - (b) withdrawals and injections approach;
 - (c) the Keynesian aggregate demand and supply curves (long run and short run).

UNIT 2

MODULE 1: MODELS OF THE MACROECONOMY

9. (a) Full employment level of output.
- (b) Actual level of output.
- (c) Equilibrium level of national income could be either below, at or above potential level of output.

SPECIFIC OBJECTIVES

TOPIC 4: Investment

Students should be able to:

1. explain the concept of investment;
2. differentiate between the investment demand curve and the investment curve;
3. explain the accelerator theory;
4. outline the factors that account for the volatility of investment.

CONTENT

1. Investment (induced and autonomous).
2. (a) Marginal efficiency of capital (investment demand as a function of expected rate of return).
- (b) Marginal efficiency of investment (non-interest rates as determinants of investment demand, taxes, costs, stock of capital goods on hand expectations).
3. Accelerator theory of investment.
4. Determinants of investment:
 - (a) The accelerator;
 - (b) Durability;
 - (c) Irregularity of innovation;
 - (d) Variability of profits, expectations and interest rates.

UNIT 2

MODULE 1: MODELS OF THE MACROECONOMY

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in the teaching and learning activities listed below.

1. For topic 1, teachers should pay special attention to the rules of accounting working from the GDP down to consumption and savings. Teachers should also deal with the concepts such as market price and factor costs, as well as real GDP and normal GDP. Make use of the circular flow diagram from the closed economy to the open economy.
2. For topic 2, Classical Models of the Macroeconomy, teachers should use graphs to emphasise flexibility and the automatic return to equilibrium.
3. For topic 3, teachers could demonstrate the operation of the multiplier by using data to show the successive rounds of spending. Calculations and graphical representations of the multiplier are required.
4. Use the 45° line and average demand and average supply to show inflationary and deflationary gaps.
5. For topic 4, Investment, teachers may use tables to illustrate and explain the accelerator, that is, the necessity to increase expenditure, constantly, for investment.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

GENERAL OBJECTIVES

On completion of this Module, students should:

1. understand the reasons why an economy may be characterised by unemployment and how intervention may be used to improve economic performance;
2. appreciate the role of the Central Bank in the economy;
3. understand monetary and fiscal policy and their applications;
4. understand the nature and burden of the national debt.

SPECIFIC OBJECTIVES

TOPIC 1: Unemployment and Inflation

Students should be able to:

1. explain what is meant by the labour force;
2. explain the unemployment rate;
3. distinguish between unemployment and underemployment;
4. evaluate the costs of unemployment;
5. explain the causes of unemployment;
6. evaluate the policies used to reduce unemployment;
7. explain the causes of inflation;
8. distinguish between real and nominal variables;
9. explain how inflation is measured;
10. explain the causes of inflation;
11. evaluate the effects of inflation;
12. evaluate the policies used to combat inflation;
13. explain the relationship between the unemployment rate and inflation.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

CONTENT

1. Employed and unemployed.
2. The unemployment rate.
3. Unemployment and underemployment.
4. The effect on output, income and growth: additional financial burden on the state; social costs.
5. Labour immobility, other market imperfections, structural changes in the economy, inadequate aggregate demand, increase in labour force participation rate, seasonality, intervention.
6. Fiscal policy, monetary policy, wage subsidies, retraining programmes, investment tax credit, employment tax credit, government employment programmes, reducing market imperfections.
7. Inflation: general price level.
8. Real and money wages:
 - (a) real and nominal GDP;
 - (b) real and nominal interest rate.
9. The GDP deflator; the retail price index; the producer price index. Calculations and limitations of the indices.
10. Demand shocks, supply shocks, increase in the money supply growth rate.
11. The costs and benefits of inflation: the impact of redistribution of wealth; impact of business activity and growth, impact on the balance of payments.
12. Income policy, monetary policy, fiscal policy and supply side measures.
13. Trade-off between inflation and the rate of unemployment: Phillips curve – stagflation.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

SPECIFIC OBJECTIVES

TOPIC 2: Monetary Theory and Policy

Students should be able to:

1. explain the concept of money;
2. outline the functions of money;
3. explain the demand for money;
4. explain the supply of money;
5. explain monetary policy;
6. explain how the money supply is controlled;
7. explain how money is created in the banking system;
8. explain why residents substitute foreign for domestic currency;
9. explain the Quantity Theory of Money;
10. outline the types of monetary policy;
11. describe the effects of monetary policy on national income;
12. evaluate the limitations of monetary policy.

CONTENT

1. (a) The meaning of money.
(b) Types of money: token and commodity.
2. Functions of money.
3. (a) Liquidity Preference Theory.
(b) Motives for holding money (transactions, precautionary, speculative).

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

4. The money supply (M1, M2).
5. Monetary policy – expansionary and contractionary policies.
6.
 - (a) The role of the central bank in creating high-powered money (monetary base).
 - (b) Instruments of monetary control:
 - (i) open market operations;
 - (ii) discount rates;
 - (iii) financing fiscal deficits;
 - (iv) reserve requirements;
 - (v) moral suasion;
 - (vi) interest rates.
7.
 - (a) Excess reserves.
 - (b) Credit creation.
 - (c) The money multiplier.
8. The nature of currency substitution and hoarding.
9. The Quantity Theory of money.
10.
 - (a) Tight monetary policy (inflation).
 - (b) Easy monetary policy (unemployment).
 - (c) Balance of payments.
11. How monetary policy affects national income.
12. Limitations of monetary policy including the fact that it is:
 - (a) *permissive, not compelling and only creates the environment;*
 - (b) difficult to control the money supply of foreign-owned commercial banks;
 - (c) difficult to eliminate lags in monetary policy;
 - (d) weakened by fiscal indiscipline.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

SPECIFIC OBJECTIVES

TOPIC 3: Fiscal Policy

Students should be able to:

1. explain the concept of fiscal policy;
2. outline the goals of fiscal policy;
3. explain the nature of the budget;
4. explain the balanced budget multiplier;
5. outline methods of financing budget deficits;
6. evaluate the limitations of fiscal policy;
7. distinguish between discretionary and non-discretionary fiscal policy.

CONTENT

1. The meaning of fiscal policy.
2. Fiscal policy as a means of addressing:
 - (a) aggregate demand;
 - (b) unemployment;
 - (c) inflation;
 - (d) balance of payments.
3. The nature of the budget:
 - (a) taxation, revenue, transfer, expenditure;
 - (b) budget surplus and budget deficit;
 - (c) balanced budget.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

4. Explanation of the balanced budget multiplier.
5. Methods of financing budget deficits including external and domestic borrowing.
6. Lags and potency of fiscal policy.
7. (a) Expansionary and contractionary.
(b) Automatic stabilisers.

SPECIFIC OBJECTIVES

TOPIC 4: Public Debt

Students should be able to:

1. explain the national debt;
2. explain the cause of the national debt;
3. evaluate the effects of the national debt on the economy;
4. explain the burden of the national debt;
5. evaluate ways of reducing the debt burden;
6. interpret the debt service ratio;
7. calculate the debt service ratio.

CONTENT

1. The national debt:
 - (a) stock/flow;
 - (b) fiscal indiscipline;
 - (c) domestic and foreign debt.
2. The causes of the national debt.

UNIT 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

3. The effects of the national debt on the economy:
 - (a) output and investment decisions;
 - (b) exchange rate pressures;
 - (c) inflation;
 - (d) crowding out and crowding in.
4. The responsibility for debt repayment.
5. Management of the national debt:
 - (a) internal and external borrowing;
 - (b) taxation;
 - (c) debt rescheduling;
 - (d) debt forgiveness.
6. Interpretation of the debt service ratio.
7. Calculation of the debt service ratio (principal plus interest as a percentage of export).

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in the teaching and learning activities listed below.

1. For topic 1, Unemployment and Inflation, teachers should use the Phillips Curve to show the relationship between the unemployment rate and inflation rate.
2. For topic 2 (money multiplier), show the various rounds in the money expansion process as done in the multiplier. Use Central Bank Acts and Reports for data gathering.
3. For fiscal policy, there is no need for students to derive the balanced budget multiplier. This should only be explained.
4. Teachers should emphasise the causes of the national debt and the burden it places on future generations.

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

GENERAL OBJECTIVES

On completion of this Module, students should:

1. understand the basic concepts of growth and development;
2. understand the impact of imports and exports on the macroeconomy;
3. understand the balance of payments accounts and *appreciate* the causes and consequences of balance of payments crises;
4. *become aware of* the benefits and costs derived from current integration arrangements, such as CARICOM, FTAA and the EU;
5. understand the role and functions of international economic institutions.

SPECIFIC OBJECTIVES

TOPIC 1: Growth and *Sustainable Development*

Students should be able to:

1. distinguish between growth and development;
2. explain the concept of sustainable development;
3. outline the factors that determine growth;
4. outline the factors that contribute to sustainable development;
5. explain the concept of human development;
6. analyse the structural characteristics of Caribbean economies;
7. analyse the impact of the region's structural characteristics on sustainable economic development.

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

CONTENT

1. Differences between growth and development.
2. Current growth versus the well-being of future generations.
3. Differences between exogenous (technical change) and endogenous growth (capital accumulation, human capital).
4. Economic, social and environmental factors.
5. Indices of human development including mortality rates, literacy, per capita income, life expectancy.
6. Structural characteristics of Caribbean economies including:
 - (a) small size;
 - (b) openness;
 - (c) composition of exports;
 - (d) resource base;
 - (e) poverty;
 - (f) economic dependence.
7. Implications for regional economies:
 - (a) dependence on aid;
 - (b) preferential trade agreements;
 - (c) foreign direct investment (FDI);
 - (d) vulnerability to natural and man-made change;
 - (e) changes in world prices.

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

SPECIFIC OBJECTIVES

TOPIC 2: International Trade

Students should be able to:

1. analyse the role of imports and exports in a small open economy;
2. outline the factors that influence exports and imports;
3. explain the effects of foreign exchange earnings on a small open economy;
4. explain the theory of comparative advantage;
5. evaluate the arguments for protection;
6. evaluate the arguments for Trade Liberalisation;
7. outline methods of trade protection;
8. explain the commodity, terms of trade;
9. interpret changes in the commodity terms of trade;
10. calculate the commodity, terms.

CONTENT

1. The role of exports in creating domestic income and the role of imports in generating income for foreigners.
2. The factors which determine exports and imports including:
 - (a) international price;
 - (b) domestic production;
 - (c) domestic prices and exchange rates;
 - (d) international economic activity as it affects the tourism market in the Caribbean;
 - (e) shifts in international demand and the emergence of substitutes;
 - (f) changes in International Income.

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

3. Foreign exchange earnings from exports:
 - (a) access to capital goods;
 - (b) the export multiplier;
 - (c) access to consumer goods;
 - (d) increased domestic production.
4. The theory of comparative advantage.
5. Arguments for protection including:
 - (a) infant industries;
 - (b) employment;
 - (c) food security.
6. Arguments for Trade Liberalisation including access to technology, availability of cheaper goods and services. Application of the theory of comparative advantage.
7. Methods of protection including: tariffs, quotas and other non-tariff methods.
8. Explanation of the commodity terms of trade.
9. Interpretation of changes in the commodity terms of trade.
10. Export price index divided by import price index multiplied by 100.

SPECIFIC OBJECTIVES

TOPIC 3: Balance of Payments and Exchange Rates

Students should be able to:

1. explain the balance of payments;
2. distinguish between the current account and capital account;
3. analyse the causes and consequences of balance of payments disequilibria;
4. outline the policy measures for correcting balance of payments disequilibria;
5. explain exchange rates;

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

6. explain exchange rates determination;
7. distinguish between fixed and floating exchange rate regimes;
8. describe the effects of the exchange rate changes.

CONTENT

1. Explanation of the balance of payments.
2. Capital items and current items.
3. The causes and consequences of balance of payments - disequilibria.
4. Policy responses to balance of payments crises including:
 - (a) devaluation;
 - (b) expenditure switching;
 - (c) expenditure reducing measures.
5. Explanation of exchange rates.
6. Determination of exchange rates.
7. Fixed and floating exchange rate systems (fixed, free floating and managed float).
8. The effects of exchange rate changes.

SPECIFIC OBJECTIVES

TOPIC 4: Economic Integration

Students should be able to:

1. explain the main forms of economic integration;
2. evaluate the costs and benefits of economic integration;
3. evaluate the objectives of Caribbean integration;
4. analyse the implications of international integration arrangements for Caribbean economies.

UNIT 2

MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

CONTENT

1. Main forms of economic integration, including:
 - (a) *free trade area*;
 - (b) *customs union*;
 - (c) *common market*;
 - (d) *economic union*.
2. The costs and benefits of economic integration including trade creation and trade diversion.
3. The objectives of CARICOM and the rationale for the CARICOM Single Market and Economy (CSME).
4. The significance of integration movements, for example European Union (EU) and the North American Free Trade Agreement (NAFTA) for Caribbean Economies.

SPECIFIC OBJECTIVES

TOPIC 5: International *Economic Relations*

Students should be able to:

1. explain the role and functions of the World Trade Organisation (WTO);
2. explain the role of international financial institutions (IFI's);
3. explain the term multinational (transnational) corporation;
4. explain the nature of foreign direct investment;
5. outline the potential benefits and disadvantages of foreign direct investment;
6. explain the term globalisation;
7. describe the factors responsible for globalisation;
8. *evaluate* the effects of globalisation on developing countries.

UNIT 2



MODULE 3: MACROECONOMIC PROBLEMS AND POLICIES

CONTENT

1. The role and functions of the WTO.
2. The role of the IMF and World Bank in the International Financial System.
3. Explanation of multinational (transnational) corporation.
4. The nature of foreign direct investment.
5. Potential benefits and disadvantages, including:
 - (a) access to technology and capital;
 - (b) access to markets;
 - (c) access to management skills;
 - (d) repatriation of profits;
 - (e) transfer pricing;
 - (f) crowding out of domestic businesses.
6. The concept of globalisation.
7. Forces driving globalisation, for example, technological innovation, trade liberalisation, and liberalisation of capital markets.
8. Implications of globalisation for developing countries with particular reference to the greater Caribbean (greater competition, access to markets, access to technology, cheaper prices and greater variety of goods, loss of preferential markets).

Suggested Teaching and Learning Activities

To facilitate students' attainment of the objectives of this Module, teachers are advised to engage students in examining the structure of the economies of the Caribbean and the problems of imports and exports using international partnership agreements and policies. Teacher should ensure that students could distinguish among;

- (a) Terms of Trade;
- (b) Balance of Trade; and
- (c) Balance of Payments.

◆ OUTLINE OF ASSESSMENT

Each Unit of the syllabus will be assessed separately. The same scheme of assessment will be applied to each Module in each Unit. Grades will be awarded independently for each Unit.

Candidate assessment on each Unit will comprise two components:

1. External Assessment undertaken at the end of the academic year in which the Unit is taken.
This component contributes 80% to the candidate's overall grade.
2. *School Based Assessment* undertaken throughout the course of the Unit. This contributes 20% to the candidate's overall grade.

EXTERNAL ASSESSMENT (80%)

Paper 01 (1 hour 30 minutes)	Forty-five multiple-choice items, fifteen (15) on each Module.	30%
Paper 02 (2 hours 30 minutes)	The paper consists of three (3) <i>compulsory questions, (one from each Module in the Unit.)</i>	50%

SCHOOL BASED ASSESSMENT FOR EACH UNIT (20%)

Paper 031

School Based Assessment in each Unit will comprise one project testing *one or more Modules*. This project is to be assessed by the teacher, using assessment criteria provided by CXC.

Topics of projects will be determined largely by the candidate in consultation with the teacher who must adhere to the guidelines set out on pages 47–49.

Paper 032

Private candidates are required to write an Alternative Paper – 032. Details of this paper is on pages 55-56.

MODERATION OF SCHOOL BASED ASSESSMENT

A School Based Assessment Record Sheet will be sent each year to schools submitting students for the examinations.

All School-Based Assessment Record Sheets and sample of assignments must be submitted to CXC by May 31 of the year of the examination. *All School-Based Assessment Record of marks must be submitted online using the SBA data capture module of the Online Registration System (ORS) found on the Council's website www.cxc.org*

A sample of assignments will be requested by CXC for moderation purposes. These samples will be re-assessed by CXC Examiners who moderate the Internal Assessment. Teachers' marks may be adjusted as a result of moderation. The Examiners' comments will be sent to schools.

Copies of the students' assignments that are not submitted must be retained by the school until three months after publication by CXC of the examination results.

ASSESSMENT DETAILS

EXTERNAL ASSESSMENT

External Assessment by written papers (80% of Total Assessment)

Paper 01 – (1 hour 30 minutes - 30% of Total Assessment)

1. **Composition of Paper**

- (a) This paper consists of forty-five multiple choice items, fifteen on each module.
- (b) Paper 01 will assess the candidate's mastery of skills *outlined* on page 2, but will focus primarily on the candidate's ability to interpret basic economic data and to solve quantitative problems in economics.

2. **Mark Allocation**

- (a) This paper is worth 90 marks, each question being allocated 2 marks.
- (b) Paper 01 contributes 30% to the candidate's final grade.

3. **Question Type**

- (a) Paper 01 comprises forty-five multiple choice items.
- (b) Some of the questions will be based on sets of economic data which will be provided with the relevant questions.

4. **Use of Calculators**

Candidates may use silent non-programmable calculators.

Paper 02 – (2 hours 30 minutes - 50% of Total Assessment)

1. Composition of Paper

The paper consists of three (3) compulsory questions, (one from each Module in the Unit.)

2. Mark Allocation

- (a) *Each question is equally weighted.*
- (b) This paper tests candidates' understanding of basic economic concepts and their ability to apply these concepts to everyday situations. It will also test candidates' ability to recognise the limitations of economic theory and to present their ideas in a clear, logical and coherent manner.
- (c) Paper 02 contributes 50% to the candidate's final grade.

3. Question Type

- (a) Paper 02 comprises *three* essay-type questions which require candidates to provide extended responses.
- (b) Questions may use stimulus material, for example, tables, graphs, reports, diagrams or prose.

Paper 01, Paper 02 and the *school-based* assessment will test the candidate's ability to demonstrate the following SKILLS critical to the study of Economics:

- (i) Knowledge and Understanding;
- (ii) Application and Analysis;
- (iii) Evaluation *and Synthesis*.

GUIDELINES FOR THE CONDUCT OF *SCHOOL-BASED* ASSESSMENT

School-Based Assessment is an integral part of student assessment in the course covered by this syllabus. It is intended to assist students in acquiring certain knowledge, skills and attitudes that are critical to the subject. The activities for the Internal Assessment are linked to the Modules and should form part of the learning activities to enable the student to achieve the objectives of the syllabus.

During the course of study of the subject students obtain marks for the competence they develop and demonstrate in undertaking their *School-Based* Assessment assignment. These marks contribute to the final marks and grades that are awarded to students for their performance in the examination.

The guidelines provided in this syllabus for selecting appropriate tasks are intended to assist teachers and students in selecting assignments that are valid for the purpose of Internal Assessment. These guidelines are also intended to assist teachers in awarding marks according to the degree of achievement in the *School-Based* Assessment component of the course. In order to ensure that the scores awarded by teachers are *in line* with the CXC standards, the council undertakes the moderation of a sample of the *School-Based* Assessment assignments marked by each *centre*.

School-Based Assessment provides an opportunity to individualise a part of the curriculum to meet the needs of students. It facilitates feedback to the students at various stages of the experience. This helps to build the self confidence of the students as they proceed with their studies. *School-Based* Assessment further facilitates the development of essential research skills that allow the student to function more effectively in his or her chosen vocation. *School-Based* Assessment, therefore, makes a significant and unique contribution to the development of relevant skills of the students. It also provides an instrument for testing them and rewarding them for their achievements.

School-Based Assessment

The Project-Paper 031

Presentation of Project

In this subject, the *School-Based* Assessment for each Unit will be a project.

1. The Aims of the Project are to:

- (a) promote self-learning;
- (b) promote investigative skills;
- (c) enable the teacher to contribute to the evaluation;
- (d) develop in students improved attitudes and skills;
- (e) develop in students an ability to identify suitable resource material on their own; and to

- (f) develop a disposition for independent research.

2. Sources of Data and Information

The primary and secondary sources of data listed below, can be used by candidates in their research activities.

- (a) International news magazines such as Fortune, Business Week, Newsweek and Forbes.
- (b) The business section of local newspapers.
- (c) Statistical reports such as national income statistics, balance of payments statistics, survey of living conditions, household budgetary surveys, annual economic reports of Central Banks, Ministries of Finance and Planning units.
- (d) Annual reports of firms in the region.
- (e) The economic information available on the internet.
- (f) Budget speeches of Ministers of Finance.
- (g) Reviews of estimates of income and expenditure from Ministries of Finance.

3. Management of the Project

- (a) An early start to planning project work is highly recommended. Each candidate should know the requirements of the project and its assessment procedures as part of the orientation to the Unit.
- (b) Teachers should guide the candidates in choosing appropriate projects that relate to the candidates' interest and the specific objectives identified.
- (c) Candidates are required to prepare an outline of the project for approval by the teacher.
- (d) A schedule of the dates for submitting project work (agreed to by teachers and candidates) should be firmly established.
- (e) The teacher should offer guidance in the data collection process and the preparation of the report.

4. Project Reports

A candidate's report should be presented in a soft folder bearing the candidate's number, name of subject and the date submitted. The project document should comprise:

- (a) title;
- (b) table of contents;

- (c) aims and objectives;
- (d) methodology employed;
- (e) report (between 2000 - 2500 words);
- (f) *references*.

The report should include the following:

- (i) description;
- (ii) analysis;
- (iii) evaluation;
- (iv) recommendations.

Students and teachers must ensure that the report contains the required components and address the skills identified on Page 2 of the syllabus.

Candidates are expected to present the report using graphs, charts and tables, where applicable. In addition, the reports should display clarity of exposition and correctness of grammar.

5. Skills and Abilities to be tested

The research project is designed to test the candidate's ability to:

- (a) demonstrate thorough knowledge of relevant theories, concepts and models;
- (b) apply economic concepts and principles to actual problems;
- (c) exhibit consistency of argument, effective use of language and other tools of communication;
- (d) demonstrate effective use of reference materials and appropriate citation.

6. Objectives to be tested

The project may be derived from the objectives and content of one, two or all three modules in the Unit. Regardless of how many modules are chosen, the teacher should ensure that students present a coherent investigation rather than a disjointed piece of work. The project should be marked out of 60 then the marks should be divided equally among the three modules. If there is a remainder of 1 it should be allocated to Module 3. If there is a remainder of 2 marks, 1 should be allocated to Module 3 and the other to Module 2. The teacher is advised to mark holistically out of 60 and to divide the total marks by three in order to satisfy the requirements of the three columns used to enter the student's marks.

MARKING SCHEME FOR *SCHOOL-BASED* ASSESSMENT

Knowledge/Presentation/Methodology (14 marks)

(Includes marks for communicating information in a logical way using correct grammar) The student has:

1. demonstrated a grasp of the meaning of basic economic facts, concepts and principles;
2. explained familiar economic phenomena in terms of theories, models, laws and principles;
3. developed a research design that provides a sound and efficient basis for drawing reasonable conclusions.

Application/Analysis (20 marks)

(Includes marks for communicating information in a logical way using correct grammar) The student has:

1. used the major economic concepts, principles and procedures in unfamiliar situations, transformed economic data accurately and appropriately, used common characteristics as a basis for classification;
2. identified and recognised the component parts of an economic theory or concept and interpreted the relationships between these parts;
3. inferred, predicted and drawn conclusions using relevant economic data;
4. made relevant and accurate calculations and recognised the limitations of economic data;
5. selected appropriate economic theories – matched, compared and cited appropriate examples in familiar situations.

Evaluation Synthesis (17 marks)

(Includes marks for communicating information in a logical way using correct grammar) The student has:

1. combined component parts to form a new meaningful whole, made predictions and solved problems;
2. made reasoned judgements and recommendations based on the value of ideas and information.

Communication (9 marks)

Candidates will be awarded 9 marks, for communicating information in a logical way using correct grammar.

The student has:

1. presented arguments in a clear, concise, reasoned and objective manner using correct grammar;
2. used presentation aids such as graphs, charts and tables to communicate information in a logical way;
3. displayed logic and coherence in expressing economic arguments;
4. used proper referencing and citations of source materials. Using the example of the standard Chicago manual style is recommended. (See page 58 for example).

DETAILED CRITERIA AND MARK SCHEME

CRITERIA 1 Knowledge/Presentation/ Methodology Total 14 marks	The candidate should be able to select and present an investigation into a specific economic problem using appropriate economic concepts, principles, theories and methods. Further, the methodology employed should be appropriate for the study.	
Abilities	Descriptors	Marks
The candidate has:		
	(a) Presentation (4 marks)	
1. selected a relevant economic problem within the scope of the syllabus (maximum 2 marks)	<ul style="list-style-type: none"> ▪ Title of project is related to the objectives in the syllabus and to the investigation and is clearly stated ▪ Title of project is outside the scope of the syllabus or not clearly stated 	2 0-1
2. listed at least TWO aims of the project (maximum 2 marks)	<ul style="list-style-type: none"> ▪ Aims of the project are relevant, unambiguous and clearly stated ▪ Aims of the project are irrelevant, ambiguous or not clearly stated 	2 0-1
	(b) Methodology (6 marks)	
3. described the methodology and procedures employed in conducting the investigation (maximum 6 marks)	<ul style="list-style-type: none"> ▪ The research design is realistic in its scope, in that, the samples, measures and data work together to address the problem being investigated, so as to provide a sound and efficient basis for drawing reasonable conclusions ▪ The research design is limited in its scope, inappropriate for the study and provides an efficient basis for drawing reasonable conclusions 	4-6 0-3
	(c) Presentation of data (4 marks)	
4. presented economic data in an acceptable manner using tables, graphs and charts (maximum 4 marks)	<ul style="list-style-type: none"> ▪ Data presented are relevant to the aims of the project, clear, unambiguous and meaningful ▪ Data presented are relevant to the aims of the project, but lack clarity and efficiency ▪ Data presented are not quite relevant to the aims of the project and lack clarity 	4 2-3 0-1
	TOTAL	14 marks

CRITERIA 2 Application/Analysis Total 20 marks	The candidate should be able to analyze the economic problem being investigated by examining its constituent parts in detail and applying appropriate economic models and concepts to interpret and explain the problem.	
Abilities	Descriptors	Marks
The candidate has:		
	(a) Knowledge (10 marks)	
1. demonstrated knowledge and understanding of economic concepts and principles (maximum 10 marks)	<ul style="list-style-type: none"> ▪ excellent understanding of economic concepts, principles, theories and methods ▪ good understanding of economic concepts, principles theories and methods but with a few errors ▪ little or no understanding of economic concepts, principles, theories and methods 	8-10 5-7 0-4
	(b) Interpretation of relationships among variables (10 marks)	
2. used economic theories and concepts for interpretation and analysis (maximum 10 marks)	<ul style="list-style-type: none"> ▪ Accurate calculations, recognition of the limitations of economic data and excellent use of economic theories and concepts for interpretation and analysis ▪ Satisfactory use of economic theories and concepts for interpretation and analysis with some inaccuracies ▪ Unsatisfactory use of economic theories and concepts for interpretation and analysis 	8-10 5-7 0-4
	TOTAL	20 marks

CRITERIA 3 Evaluation/Synthesis Total 17 Marks	The candidate should be able to develop structured and reasoned expositions on economic policy based on the research and recommend solutions to a specific economic problem based on the findings	
Abilities	Descriptors	Marks
The candidate has:		
	(a) Coherence, Organization and problem solving capability (10 marks)	
1. presented a written report of 1500 - 2000 words (excluding appendices) required for the assignment (maximum 10 marks)	<ul style="list-style-type: none"> ▪ Report shows coherence, arguments are logically presented and there is evidence of the use of problem solving strategies ▪ The candidate's major accomplishments or findings (related to the project) are given ▪ The candidate's findings are the result of sound interpretation of the evidence derived from the research 	3 3 4
	(b) Judgments and Recommendations (7 marks)	
2. presented theoretically correct judgments based on the findings of the research (maximum 7 marks)	<ul style="list-style-type: none"> ▪ Judgments are theoretically sound, plausible and based on the findings of the research ▪ Judgments are theoretically sound but are not entirely supported by the findings of the research ▪ Judgments are theoretically flawed and not based on the findings of the research 	5-7 2-4 0-1
	TOTAL	17 marks

CRITERIA 4 Communication	The candidate should be able to observe international conventions of reporting by presenting information in a logical manner using correct grammar	
Total 9 marks		
Abilities	Descriptors	Marks
The candidate has:		
	(a) Reference and Citations (3 marks)	
1. prepared a bibliography acknowledging all sources of information in alphabetical order (maximum 3 marks)	<ul style="list-style-type: none"> ▪ For persons interviewed, list comprises date, place and job title ▪ For publications, list comprises the names of the author, publisher and year published ▪ For internet sites, list comprises the address of the website and names of authors and organizations 	1 1 1
2. presented information in a logical manner using correct grammar (maximum 6 marks)	<ul style="list-style-type: none"> ▪ Information is presented in an excellent and effective manner ▪ Information is presented in a very good and meaningful manner ▪ Information is fairly well organised and ideas are communicated satisfactorily ▪ Information is presented in an unsatisfactory manner showing weaknesses in syntax, spelling, punctuation and the sequencing of ideas 	6 4-5 2-3 0-1
	TOTAL	9 marks

Paper 032 (1 hour 30 minutes)

1. Number of Questions

This Paper consists of *THREE questions, on each Module*. The questions will be based on *the* topic identified for the examination year. *These are* listed below. The questions may be divided into *sub-* parts. The Paper tests skills similar to those listed in the Internal Assessment (Paper 031).

2. Question Type

Each question requires candidates to respond either in the form of an extended essay or a short paragraph.

3. Mark Allocation

The Paper is worth 60 marks (20 marks per question) and constitutes 20% towards the final assessment.

4. Award of Marks

Marks are awarded for expression, organisation and content.

◆ REGULATIONS FOR PRIVATE CANDIDATES

Private candidates will be required to write Papers 01, 02 and 031. Paper 032 takes the form of a written examination taken at the end of the academic year. The details of the examination are given below.

UNIT 1 Paper 032 (1 hour 30 minutes)

This paper consists of three *compulsory* questions; one on *each* Module. Each question will *take the form of a Case Study* worth 20 marks

◆ REGULATIONS FOR RESIT CANDIDATES

Re-sit candidates must rewrite Papers 01 and 02 of the examination for the year for which they re-register. Re-sit candidates may elect not to repeat the Internal Assessment component provided they rewrite the examination no later than two years following their first attempt.

Re-sit candidates must be entered through a school or approved educational institution.



◆ ASSESSMENT GRID

The Assessment Grid for each Unit showing marks assigned to each paper and to each Module, and the percentage contribution of each paper to the total scores.

PAPERS	MODULE 1	MODULE 2	MODULE 3	TOTAL	(%)
External Assessment					
Paper 01	30	30	30	90	(30)
Paper 02	50	50	50	150	(50)
Internal Assessment					
Paper 031 or 032	20	20	20	60	(20)
TOTAL	100	100	100	300	(100)

◆ RESOURCES

- Anderton, A. Economics, 4th Edition, Causeway Press, 2006.
- Baumol, W. and Blinder, A. *Economic Principles and Policy*, Florida: Harcourt Brace and Company, 1998.
- Begg, D., Fisher, S. and Economics, 8th Edition, London: McGraw-Hill International (UK) Limited, Dornbusch, R. 2005.
- Hosein, R., and Gookool, R. *Cape Economics Study Guide Unit 1*, Caribbean Examinations Council, 2007.
- Lipsey, R. and Chrystal, Principles of Economics, 13th Edition, New York: Oxford University K. Press Inc., 2006.
- McConnell, C. and Brue, S. *Economics: Principles, Problems and Policies*, New York: McGraw-Hill Inc., 1992.
- Slooman, J. Economics, 6th Edition, prentice Hall, 2006.
- Todaro, M. Economics for a Developing World, New York: Longman, 1986.

REPORTS AND BULLETINS

Central Bank Economic Reports, *Annual Economic Reports, Quarterly Economic Bulletins*, Statistical Digest from Central Banks such as ECCB, CBTT, BOJ, CBB, CBG.

Central Statistical Services. *Balance of Payments, and National Income Accounts, Survey of Living Conditions, Household Budgetary Surveys*.

Economic Planning Units *Economic Reviews, Sectoral Reports from Planning Units* such as PIOJ, and Ministries of Planning across the region.

UNDP Human Development Reports.

World Bank Reports, such as World Development Reports.

Periodicals such as Businessweek, Newsweek, Fortune, Economist, Forbes and the business pages of news papers such as Jamaica Gleaner, Trinidad Guardian or Express, Barbados Advocate.

Budget Speeches, Public Sector Investment Programmes, Ministry of Finance Review of the Economy, and estimates of Revenue and expenditures for various territories.

◆ GLOSSARY

WORD	DEFINITION/MEANING
<i>Account for</i>	<i>Explain the reasons for, giving an indication of all relevant circumstances. Very different from 'Give an account of', which asks only for a detailed description.</i>
<i>Analyse</i>	<i>Study in depth, identifying and describing in detail the main characteristics.</i>
<i>Assess</i>	<i>Examine closely, with a view to measuring or 'weighing up' a particular situation. Consider in a balanced way: strengths and weaknesses, points for and against. In conclusion, state your judgement clearly.</i>
<i>Comment</i>	<i>State clearly and in a moderate fashion your opinions on the material in question. Support your views with references to suitable evidence or with explanation as appropriate.</i>
<i>Compare</i>	<i>Look for qualities or characteristics that resemble each other. Emphasise similarities but be aware also of points of differences.</i>
<i>Contrast</i>	<i>Stress the dissimilarities and differences between the items in question, but do not ignore points of similarities.</i>
<i>Criticise</i>	<i>Express your balanced judgement about the merit or truth of the material in question. Give the results of your scrutiny, establishing both strengths and weaknesses. Be specific.</i>
<i>Define</i>	<i>Give, concise, clear and authoritative meanings. Do not give too many details, but be sure to state the limits of the definition. Show how the thing you are defining differs from things in other categories.</i>
<i>Describe</i>	<i>Recount, characterise, sketch or relate in sequence or story form.</i>
<i>Discuss</i>	<i>Examine and analyse carefully, giving reasons pro and con, advantages and disadvantages. Be complete, and give details. You must consider all sides of the issue and reach a balanced conclusion.</i>
<i>Enumerate</i>	<i>State in list or outline form, giving points concisely one by one.</i>
<i>Evaluate</i>	<i>Carefully appraise the matter in hand, citing both advantages and limitations. Emphasise the views of authorities as well as your personal estimation.</i>
<i>Explain</i>	<i>Clarify, interpret and spell out the material you present. Give reasons for important features or developments, and try to analyse causes.</i>

WORD	DEFINITION/MEANING
<i>How far...</i>	<i>Similar to questions based on the “To what extent...” approach. Here you are expected to make your case or present your material in the usual way.</i>
<i>Illustrate</i>	<i>Use specific examples, allusions, figures or diagrams to explain, demonstrate or clarify a problem, situation or view.</i>
<i>Interpret</i>	<i>Translate, give examples of, express in simple terms or comment on a subject, usually giving your judgement about it.</i>
<i>Justify</i>	<i>Prove, make out a case or give reasons for decisions or conclusions, taking pains to be convincing.</i>
<i>List</i>	<i>As in ‘enumerate’, write an itemised series of concise statements.</i>
<i>Outline</i>	<i>Provide a framework describing under main point and subordinate points, omitting minor details and stressing the arrangement or classification of the material.</i>
<i>Prove</i>	<i>Establish that something is true by citing factual evidence or giving clear reasons.</i>
<i>Relate</i>	<i>Show how things are related to or connected with each other, or how one causes another, correlates with another, or is like another.</i>
<i>Review</i>	<i>Examine a subject critically, analyzing and commenting on the important points and stages of development.</i>
<i>State</i>	<i>Present the main points in brief, clear sequences.</i>
<i>Summarise</i>	<i>Give the main points or facts in condensed form, omitting details and illustrations.</i>
<i>Trace</i>	<i>Describe in narrative form, progress, development or sequence of events from some point of origin.</i>

Western Zone Office
June 2016

CARIBBEAN EXAMINATIONS COUNCIL

**Caribbean Advanced Proficiency Examination®
CAPE®**



ECONOMICS

**Specimen Papers and
Mark Schemes/Keys**

Specimen Papers:

Unit 1 Paper 01
Unit 1 Paper 02
Unit 1 Paper 032
Unit 2 Paper 01
Unit 2 Paper 02
Unit 2 Paper 032

Mark Schemes and Keys:

Unit 1 Paper 01
Unit 1 Paper 02
Unit 1 Paper 032
Unit 2 Paper 01
Unit 2 Paper 02
Unit 2 Paper 032

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

**ECONOMICS
UNIT 1**

90 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.

Sample Item

Prime cost is calculated by adding direct factory expenses to the

- (A) cost of goods sold
- (B) sale of fixed assets
- (C) sale of finished goods
- (D) cost of materials used

Sample Answer



The best answer to this item is “cost of materials used”, so answer space (D) has been shaded.

1. In one day Peter can produce EITHER ten kites OR five spinning tops. Each kite is sold for \$25.00 while each spinning top is sold for \$20.00. The opportunity cost of Peter not working, for three days is

- (A) \$ 225.00
- (B) \$ 300.00
- (C) \$ 750.00
- (D) \$1050.00

2. Which of the following is considered a limitation of marginal utility theory?

- (A) Satisfaction cannot be quantified.
- (B) Satisfaction increases as more of a good is consumed.
- (C) Marginal utility falls as consumption increases.
- (D) Total utility increases then decreases.

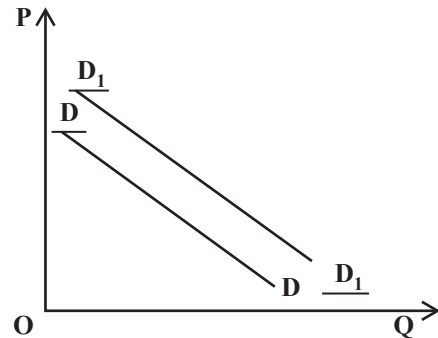
3. If a government wishes to regulate the housing market by preventing rents from rising, what action should it take?

- (A) Set a price ceiling above the equilibrium price.
- (B) Set a price ceiling below the equilibrium price.
- (C) Impose a direct tax on landlords.
- (D) Grant a subsidy to landlords.

4. Which of the following is a normative statement?

- (A) Caribbean territories should be members of CSME.
- (B) Free trade would increase standards of living.
- (C) The CSME could increase wages and salaries.
- (D) The CSME could stabilise exchange rates.

Item 5 refers to the diagram below showing two demand curves representing ladies' trousers.



5. With reference to the diagram above, which of the following is MOST likely to have caused a shift of the demand curve from D to D₁?

- (A) An increase in population
- (B) An increase in price of trousers
- (C) A fall in sewing factory workers productivity
- (D) An increased preference for skirts by women

Item 6 refers to the following table showing a demand schedule before and after changes.

Good	Before		After	
	P\$	Qd	P\$	Qd
chicken sandwiches	3.00	60	2.00	80
hot dogs	1.00	30	1.00	25

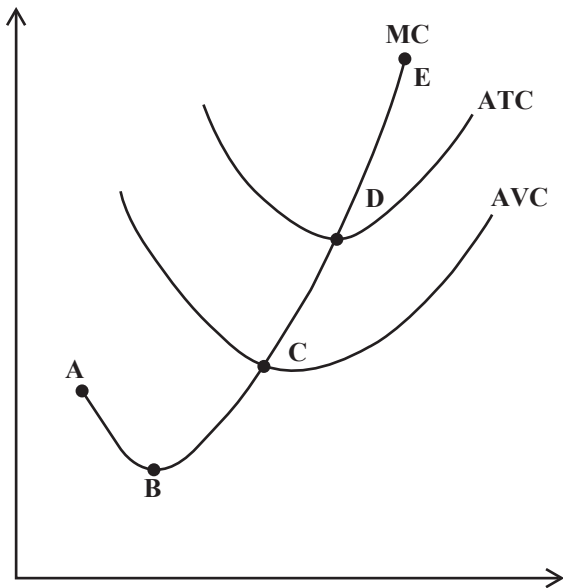
6. Based on the table above, what is the cross elasticity of demand for hot dogs with respect to a change in the price of chicken sandwiches?

- (A) -2
- (B) +2
- (C) -1/2
- (D) +1/2

7. The BEST factor combination for a firm operating at least cost would be

- (A) $\frac{MPP_a}{P_b} = \frac{MPP_b}{P_a}$
- (B) $\frac{P_a}{MRP_b} = \frac{P_b}{MRP_a}$
- (C) $\frac{MPP_a}{P_a} = \frac{MPP_b}{P_b}$
- (D) $\frac{MRP_a}{P_a} = \frac{MRP_b}{P_b}$

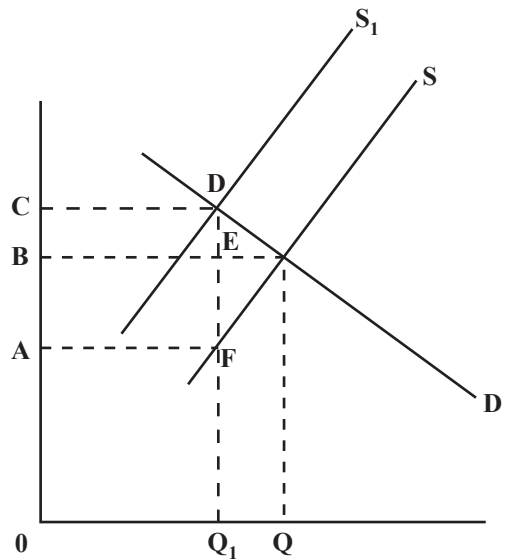
Item 8 refers to the diagram below which represents a firm operating under perfect competition.



8. Which of the following segments represents the short run supply of the firm?

- (A) DE
- (B) CE
- (C) BE
- (D) AE

Items 9 - 10 refer to the following diagram showing a change in supply after a fixed tax was imposed.



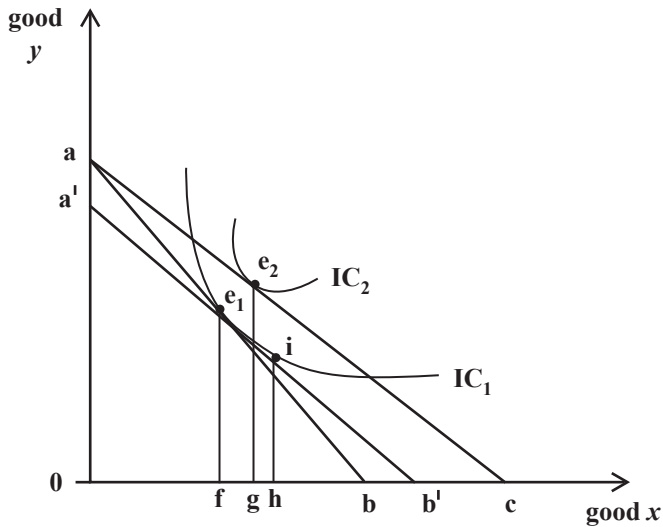
9. The portion of the tax paid by the seller of the commodity is given as

- (A) ABEF
- (B) ACDE
- (C) ACDF
- (D) BCDE

10. The portion of the tax paid by the buyer of the commodity is given as

- (A) BCDE
- (B) ACDF
- (C) ACDE
- (D) ABEF

Items 11 - 13 refer to the diagram below.



11. In the above diagram ab is the consumer initial budget line. The price of x falls and the budget line pivots to ac . What is the income effect of this price change?

- (A) fg
- (B) fh
- (C) hb
- (D) hg

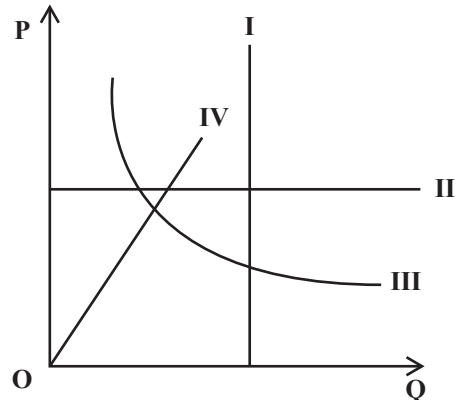
12. What kind of good is x ?

- (A) A normal good
- (B) An ostentatious good
- (C) An inferior and giffen good
- (D) An inferior but not a giffen good

13. Which of the following statements is TRUE about the diagram above?

- (A) The negative income effect outweighs the negative substitution effect.
- (B) The negative substitution effect outweighs the negative income effect.
- (C) The income effect is positive.
- (D) The substitution effect is positive.

Item 14 refers to the diagram below showing four supply curves.



14. Which of the supply curves in the diagram above shows a price elasticity of supply of unity?

- (A) I
- (B) II
- (C) III
- (D) IV

15. Elasticity of supply tends to be

- (A) less elastic in the long run
- (B) more elastic in the long run
- (C) less inelastic in the short run
- (D) more inelastic in the long run

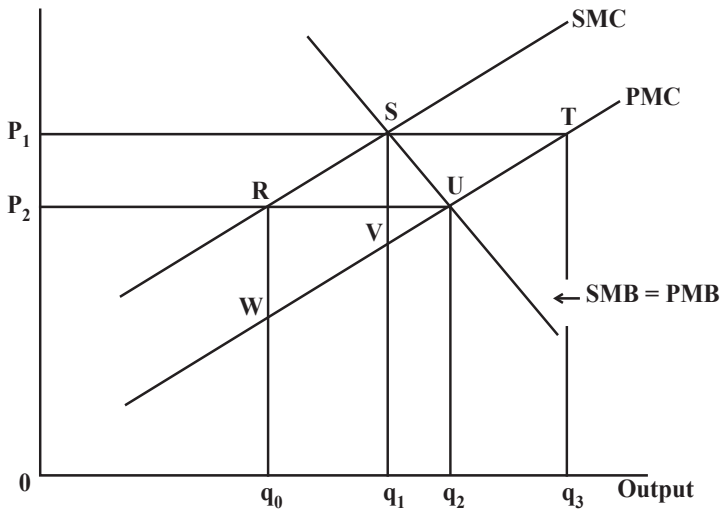
16. The horizontal demand curve of the firm is found under conditions of

- (A) oligopoly
- (B) monopoly
- (C) perfect competition
- (D) monopolistic competition

17. The demand curve for firms in oligopolistic markets can be described as 'kinked'. This suggests that firms will

- (A) sell their output in two different markets
- (B) face elastic demand above and inelastic demand below the current market price
- (C) ignore price cuts initiated by rival firms but follow price increases
- (D) face inelastic demand above and elastic demand below the current market price

Items 18 - 19 refer to the diagram below which shows private and social costs of a firm.



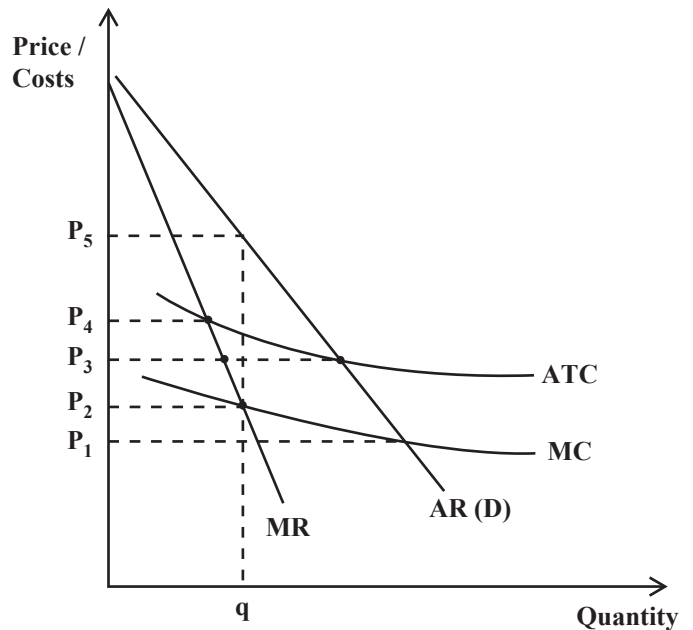
18. The competitive output of the firm is

- (A) oq_0
- (B) oq_1
- (C) oq_2
- (D) oq_3

19. In the diagram above, the external marginal cost is

- (A) RU
- (B) ST
- (C) SV
- (D) UT

Item 20 refers to the diagram below which illustrates the cost and revenue curves of a monopoly.



20. If the aim of the government is to achieve allocative efficiency, then the regulatory commission can impose the legal price of

- (A) P_1
- (B) P_3
- (C) P_4
- (D) P_5

21. A government grants a subsidy with the aim of encouraging consumption of Good X. At the same time the government taxes Good Y to discourage consumption. Goods X and Y can be categorised as

	Good X	Good Y
(A)	public	merit
(B)	merit	demerit
(C)	demerit	merit
(D)	public	demerit

GO ON TO THE NEXT PAGE

22. With Deregulation what role does Government play in resource allocation?
- (A) Lesser role
 - (B) Greater role
 - (C) Does not change
 - (D) Performs all function
23. Regulation has affected the efficient running of an industry by
- (A) allowing the free flow of market forces to determine price
 - (B) forcing prices to be either higher or lower than a free market
 - (C) creating motivating incentives for greater productivity and efficiency
 - (D) allowing management to freely determine factor prices
24. If government regulation takes place, what will be the effect on price and output of a monopoly?
- (A) Both price and output will fall.
 - (B) Both price and output will rise.
 - (C) Price will fall and output will rise.
 - (D) Price will rise and output will fall.
25. The oligopoly firm faces a kinked demand curve because firms
- (A) do not respond to price increases but follow price cuts of other firms in the industry
 - (B) respond to price increases but do not follow price cuts of other firms in the industry
 - (C) determine price by following the prices set by the dominant firm
 - (D) collude to set prices and limit competition
26. The MAIN drawback of regulating a monopoly is that the firm
- (A) becomes inefficient
 - (B) ceases to be a monopoly
 - (C) ceases production immediately
 - (D) can make losses in the short run
27. One MAJOR cause of privatization is the failure of
- (A) the public service to produce goods and services
 - (B) the private sector to achieve productive and allocative efficiencies
 - (C) nationalised industries to achieve productive and allocative efficiencies
 - (D) businesses to produce goods and services
28. The concept of ‘adverse selection’ implies that
- (A) those who have insurance may tend to be less cautious and thus increase risk
 - (B) those who take out insurance are those who have the highest risk
 - (C) those who sell insurance policies are better informed than those who buy them
 - (D) those who refuse insurance policies are often the ones who really need them

GO ON TO THE NEXT PAGE

29. Harry drives to and from work daily. He is usually a very safe driver. Because of his accident free record, he was offered a life insurance policy with a reputable insurance company, which he accepted. Subsequently, Harry began to drive recklessly. What problem did the insurance company encounter?

- (A) Moral hazard
- (B) Market failure
- (C) Adverse selection
- (D) Asymmetric information

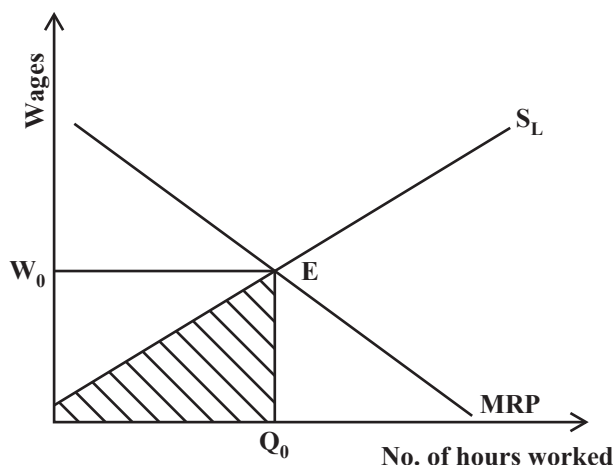
30. The current output of a perfectly competitive firm is where marginal cost is less than marginal revenue. In order to maximize profit this firm must

- (A) increase output and price
- (B) decrease output and increase price
- (C) decrease output and maintain price
- (D) increase output and maintain price

31. Which of the following is explained by the Theory of Income Distribution?

- (A) How wages and salaries are distributed among income earners
- (B) How factor rewards are allocated to the factors of production
- (C) Government's attempt to address the problem of income inequalities
- (D) Income earner's efforts to increase their incomes

Item 32 refers to the following graph which depicts the demand for and supply of labour.



32. The shaded area in the graph above represents

- (A) economic rent
- (B) transfer earnings
- (C) producers' surplus
- (D) marginal revenue product

33. A country's labour supply can be measured by the number of

- (A) hours workers work at a given wage
- (B) workers willing and able to work at a given wage
- (C) workers entering the potential labour force at a given wage
- (D) workers employed at a given wage

34. The 'minimum level of income required to satisfy basic needs' refers to

- (A) general poverty
- (B) relative poverty
- (C) the poverty line
- (D) absolute poverty

35. Rent and wages are alike in that they are both

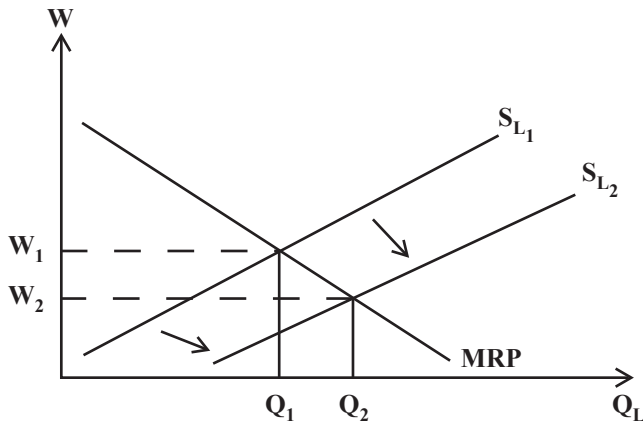
- (A) factor inputs
- (B) factor outputs
- (C) factor rewards
- (D) factors of production

36. Which of the following measures can be used by government to reduce poverty?

- I. Transfer payments to the vulnerable
- II. A depreciation of the country's currency
- III. Subsidies to producers in the country
- IV. The introduction of VAT on selected items

- (A) I and II only
- (B) I and III only
- (C) I and IV only
- (D) I, II and III only

Item 37 refers to the graph below depicting the situation in the labour market of HappyLand.



37. Which of the following situations could have caused the changes in the labour market?

- (A) A fall in living standard in HappyLand
- (B) Political instability in nearby countries
- (C) An increase in wages in nearby countries
- (D) A worsening crime situation in HappyLand

38. When examining the Lorenz Curve, a Gini coefficient of 100% refers to complete

- (A) employment in the country
- (B) equality of income distribution
- (C) inequality of income distribution
- (D) separation of the rich and the poor

39. Social welfare is maximized when society's resources are allocated so that social marginal cost

- (A) equals social marginal benefit
- (B) equals private marginal benefit
- (C) is less than social marginal benefit
- (D) is greater than social marginal benefit

Item 40 refers to the following table which shows how income is distributed in a Caribbean territory.

Rent	25%
Wages	50%
Interest	15%
Profit	10%

40. What type of income distribution is depicted in the table?

- (A) Size
- (B) Unequal
- (C) Personal
- (D) Functional

Items 41 - 43 refer to the information below.

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

41. For the factor of production, labour, how much did Jack's Inc. pay?

- (A) \$ 1 500
- (B) \$ 2 000
- (C) \$ 5 000
- (D) \$ 20 000

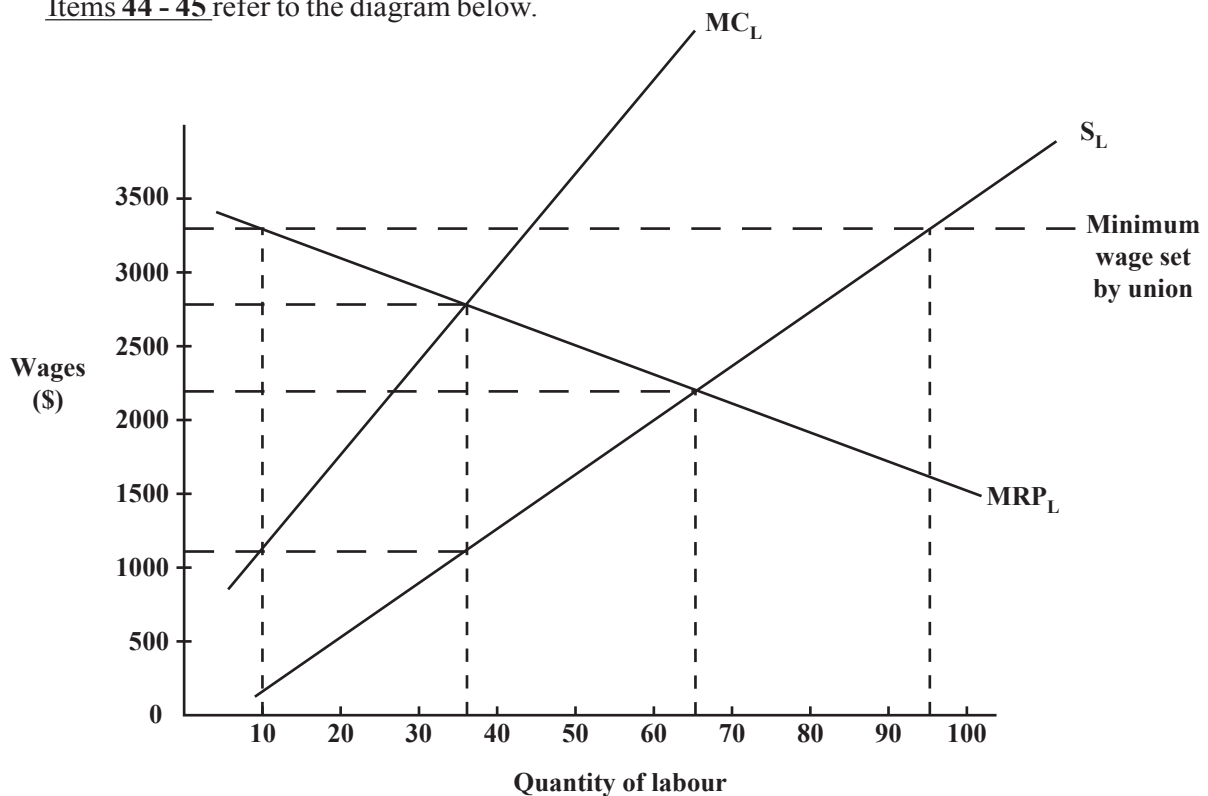
42. For the factor of production, capital, how much did Jack's Inc. pay?

- (A) \$ 1 500
- (B) \$ 2 000
- (C) \$ 5 000
- (D) \$20 000

43. For the factor of production, entrepreneurship, how much did Jack's Inc. pay?

- (A) \$ 1 500
- (B) \$ 2 000
- (C) \$ 5 000
- (D) \$ 20 000

Items 44 - 45 refer to the diagram below.



44. How many workers will the perfectly competitive firm employ?

- (A) 10 workers
- (B) 35 workers
- (C) 66 workers
- (D) 95 workers

45. Assume the union intervenes in the market and sets a minimum wage of \$3 300. How many workers will the perfectly competitive firm employ?

- (A) 10 workers
- (B) 35 workers
- (C) 66 workers
- (D) 95 workers

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

/CAPE/SPEC/MS/2010

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

SPECIMEN PAPER

UNIT 1 - PAPER 1

MARK SCHEME

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**SECONDARY EDUCATION CERTIFICATE
EXAMINATION**

ECONOMICS-UNIT 1

SPECIMEN PAPER 2008

Item No.	Key
1	C
2	A
3	B
4	A
5	A
6	D
7	C
8	B
9	A
10	A
11	D
12	D
13	B
14	D
15	B
16	C
17	B
18	C
19	C
20	A
21	B
22	A
23	B

Item No.	Key
24	C
25	A
26	D
27	C
28	B
29	A
30	D
31	B
32	B
33	B
34	C
35	C
36	B
37	B
38	C
39	A
40	D
41	D
42	A
43	C
44	C
45	A

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SUBJECT ECONOMICS – UNIT 1 – Paper 02

PROFICIENCY ADVANCED

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NAME OF SCHOOL/CENTRE

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CANDIDATE’S FULL NAME (FIRST, MIDDLE, LAST)

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DATE OF BIRTH

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MAY/JUNE 2017

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ECONOMICS

SPECIMEN PAPER

UNIT 1 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Write your answers in the spaces provided in this answer booklet.
3. Do NOT write in the margins.
4. Take some time before you start writing to read through the papers and plan your answers.
5. EACH question is worth 25 marks.
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.**
7. **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.**

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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) Complete Table 1 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:

Total utility

.....
.....

[2 marks]

Marginal utility

.....
.....

[2 marks]

Law of diminishing marginal utility

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.....

[2 marks]

- (iii) State the point at which Romain begins to lose satisfaction from his consumption of each additional chocolate bar

.....
[1 mark]

maximizes his satisfaction from consuming chocolate bars.

.....
[1 mark]

- (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'.

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.....
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[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]

GO ON TO THE NEXT PAGE

- (c) With reference to marginal utility theory, justify the shape of Romain's demand curve for chocolate bars.

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[4 marks]

Total 25 marks

DO NOT WRITE IN THIS AREA

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

(i) Market failure

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[2 marks]

(ii) Pareto efficiency

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[2 marks]

(iii) Productive efficiency

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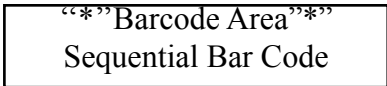
[2 marks]

(b) (i) State THREE reasons why the competition or regulatory authorities may prevent a merger of TWO major companies in an industry.

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[3 marks]

GO ON TO THE NEXT PAGE



- (ii) Explain how EACH of the following types of goods contributes to market failure, stating an example of EACH.

Public

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[4 marks]

Merit

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[4 marks]

- (c) Discuss TWO measures used by governments to correct market failure.

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[8 marks]

Total 25 marks

GO ON TO THE NEXT PAGE

3. (a) (i) Explain the concept of 'income inequality'.

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[3 marks]

(ii) Identify THREE measures used to reduce income inequality.

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[3 marks]

(b) (i) List TWO ways of measuring poverty.

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[2 marks]

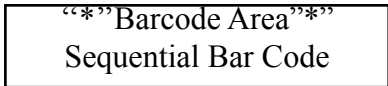
(ii) Explain THREE economic costs of poverty.

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[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.

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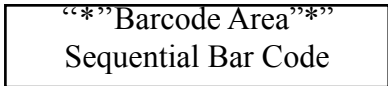
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[8 marks]

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.



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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE:

1. **Fill in all the information requested clearly in capital letters.**

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SUBJECT: ECONOMICS – UNIT 1 – Paper 02

PROFICIENCY: ADVANCED

REGISTRATION NUMBER:

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FULL NAME: _____
(BLOCK LETTERS)

Signature: _____

Date: _____

2. **Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.**
3. **Keep it in a safe place until you have received your results.**
-

INSTRUCTION TO SUPERVISOR/INVIGILATOR:

Sign the declaration below, detach this slip and hand it to the candidate as his/her receipt for this booklet collected by you.

I hereby acknowledge receipt of the candidate's booklet for the examination stated above.

Signature: _____
Supervisor/Invigilator

Date: _____

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ECONOMICS

SPECIMEN PAPER

UNIT 1 - PAPER 02

ANSWER KEY
AND
MARK SCHEME

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 1

- (a) Differentiate between normal good and inferior good. (4 marks)

Indicating that a normal good has:

OR

- A positive relationship between income and quantity demanded.
K/C (1 mark)

Indicating that inferior good has:

OR

- A negative relationship between income and quantity demanded.
K/C (1 mark)

Indicating that the differences are:

- For inferior good relationship between price and quantity demanded can be positive or negative while for normal goods it is only negative.

OR

- Relationship between income and quantity demanded is positive for normal and negative for inferior goods.
K/C (2 mark)

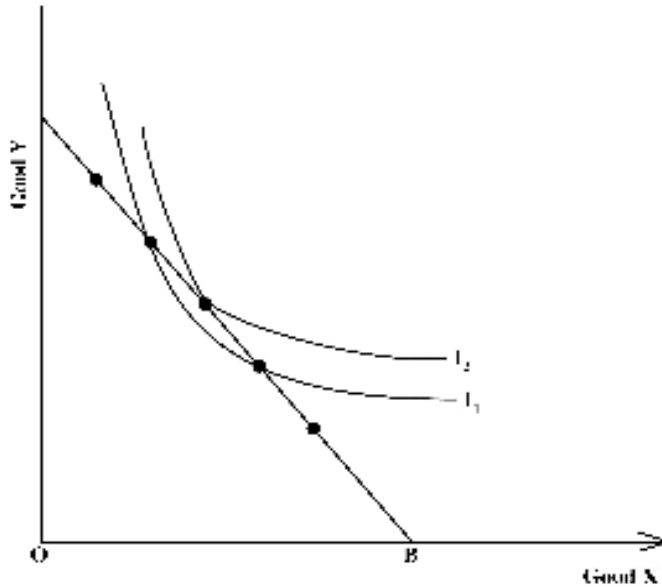
ECONOMICS

UNIT 1

Key/Mark Scheme

(b) Use the indifference curve approach to explain consumer equilibrium.

(12 marks)



Labeling of axes: K/C 2 marks

Drawing MP curve: A/A 2 mark

Drawing budget line: A/A 1 mark

Identifying point of tangency: A/A 1 mark

- Stating that a budget line shows the combination of two goods a consumer can purchase if he spends his income.
K/C (1 mark)
- Stating that an indifference curve shows all possible combinations of two goods that give consumer equal level of satisfaction or utility.
K/C (1 mark)
- Indicating that the budget line shows combination of two goods a consumer can purchase while indifference curve shows combinations that yield the same level of satisfaction or utility.
A/A (2 marks)
- Stating that consumer equilibrium is the point of tangency between the budget line and indifference curve.
A/A (2 marks)

OR

- Indicating that at the point of tangency the consumer achieves maximum utility with given income.
A/A (2 marks)

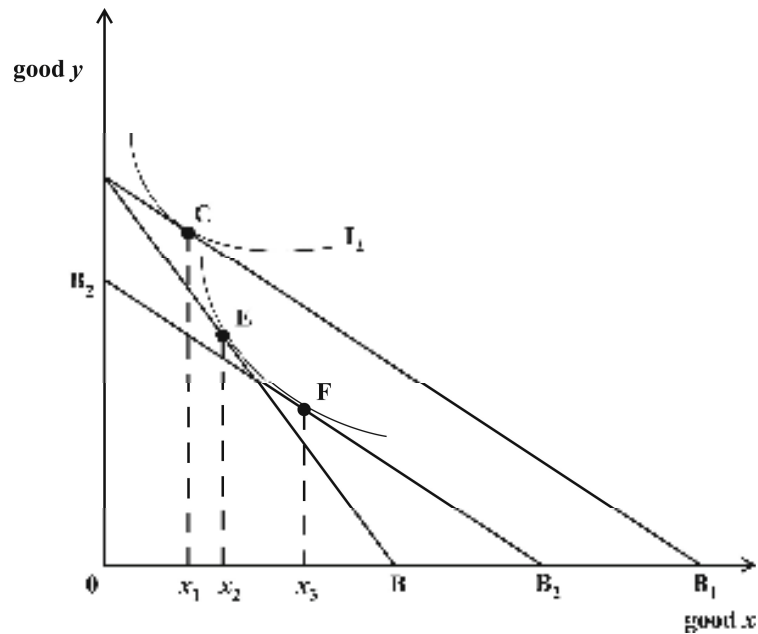
ECONOMICS

UNIT 1

Key/Mark Scheme

- (c) With the aid of a diagram, show, the income and substitution of a fall in price

(9 marks)



- Showing original equal (point E) **A/A (1 mark)**
- Showing equilibrium because of price change (point C) **A/A (1 mark)**
- Pivoting of the budget line (B to B_1) **A/A (1 mark)**
- Showing parallel downward shift from B_1 to B_2) **A/A (1 mark)**
- Isolating and explaining the income and substitution effects.
 x_2 to x_3 is the substitution effect as good is relatively cheaper, therefore increasing the quantity demanded.
 x_3 to x_1 is the income effect as a fall in price increases real income resulting in a reduction in quantity demanded.

E/S (3 marks)

Is the substitution effect as good is relatively cheaper, therefore increasing quantity demanded.

Is the income effect as a fall in price increased real income resulting in a reduction in quantity demanded.

- Categorizing the good as Giffen based on the negative income outweighing the negative substitution effect.

S/E (2 marks)**Total 25 marks**

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 2

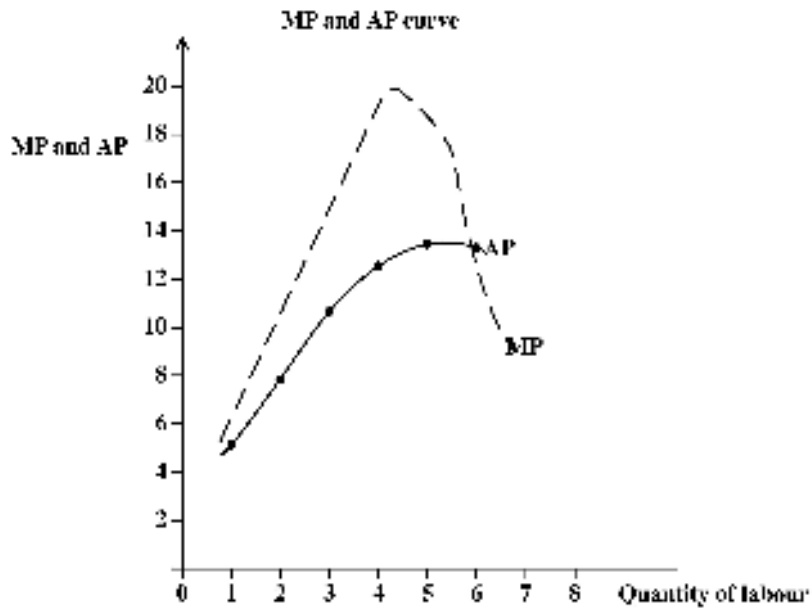
(a) (i) Complete the Table

Units of Labour	T.P	A.P.	M.P.
1	5	5	5
2	15	7.5	(10)
3	(30)	10	15
4	(50)	12.5	(20)
5	68	(13.6)	18
6	78	(13)	10

1-2 correct: A/A 1 mark
 3-4 correct: A/A 2 marks
 5-6 correct: A/A 3 marks

Total 3 marks

(ii) Use the completed table to construct a graph showing the Average Product (AP) and Marginal Product (MP) curves.



Labeling of axes: K/C 2 marks
 Drawing MP curve: A/A 1 mark
 Drawing AP curve: A/A 1 mark
 Intersection of MP at highest AP: A/A 1 mark

Total 5 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

- (b) For indicating that:
 Marginal Product is the change in Total Output as a result of
 employment of an additional unit of Variable factor.

OR

$$\text{MP} = \frac{\text{Change in Total Product}}{\text{Change in Quantity of valuable factor}}$$

(K/C 2 marks)

For indicating that Average Product is the output per unit of the
 variable factor

OR

$$\text{Average Product} = \frac{\text{Total Product}}{\text{Quantity of Variable factor}}$$

K/C (2 Marks)

For establishing that:

Once $\text{MP} > \text{AP}$, AP is rising

A/A 1 mark

Once $\text{MP} < \text{AP}$, AP is falling

A/A 1 mark

$\text{MP} = \text{AP}$ when AP is at its maximum

A/A 1 mark

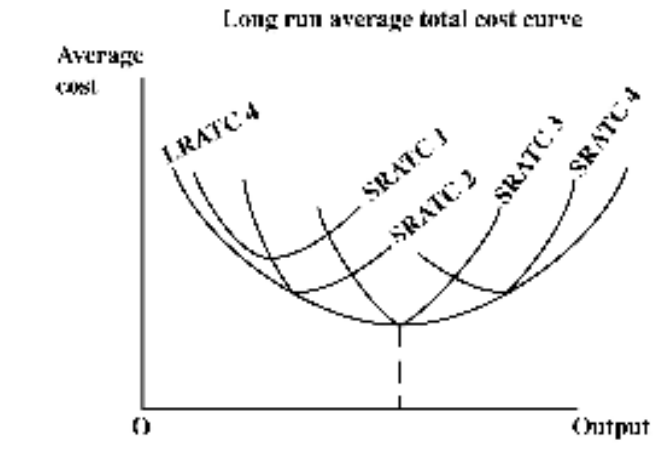
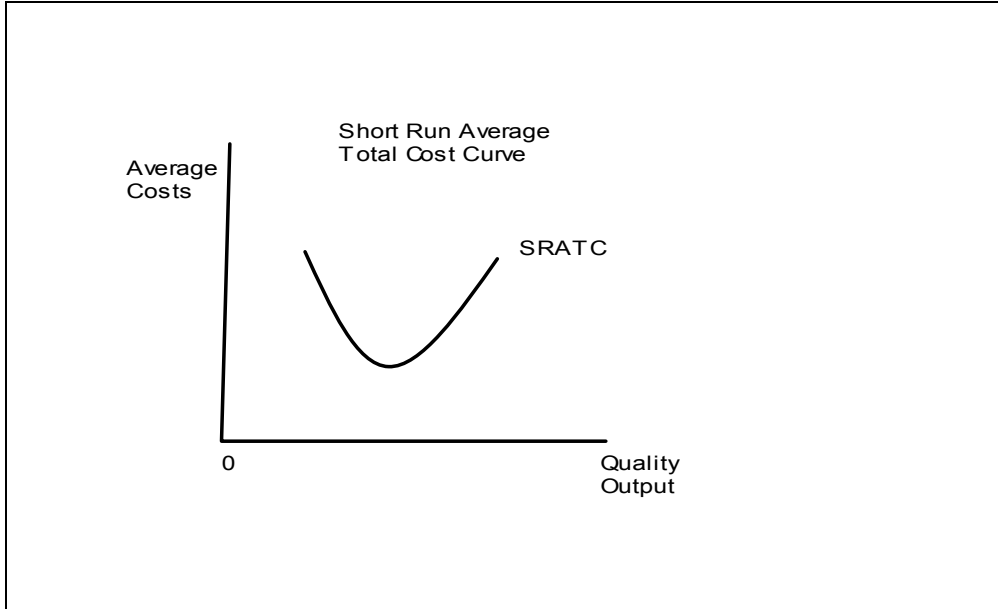
ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 2 cont'd

- (c) Use the SRATC and the LRATC to distinguish between the law of Diminishing Returns and Returns to scale.



ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 2 cont'd

For labeling axes of each graph correctly	K/C 2 marks
For drawing U-shaped SRATC curve	A/A 1 mark
For drawing at least 3 SRATC curves	A/A 1 mark
For drawing the LRATC Curve that envelopes the SRATC curves	A/A 1 mark
For establishing that Law of Diminishing Returns is reflected on SRATC curve while the Returns to scale is reflected on LRATC curve	S/E 2 marks
For indicating that the output levels above minimum SRATC curve are showing diminishing returns	S/E 1 mark
For indicating that output levels below minimum LRATC curve, are showing increasing returns to scale	S/E 1 mark
For indicating that output levels above minimum LRATC curve are showing decreasing returns to scale	S/E 1 mark
	(10 marks)

Total 25 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 3

- (a) (i)
- Define the term externality.**

Externality refers to spillover effects of an economic activity on third parties.

K/C (2 marks)

- (ii) Example of a positive externality

Immunization for a contagious disease - if one occupant installs a smoke detector in an apartment complex

K/C (1 mark)

- (iii) Example of a negative externality

pollution, traffic congestion.

K/C (1 mark)

- (b) (i)
- What is meant by market failure?**

Market failure refers to the output where Social Marginal Benefit (SMB) is not equal to Social Marginal Cost (SMC)

OR

There is underproduction or over production of a good and/or a service.

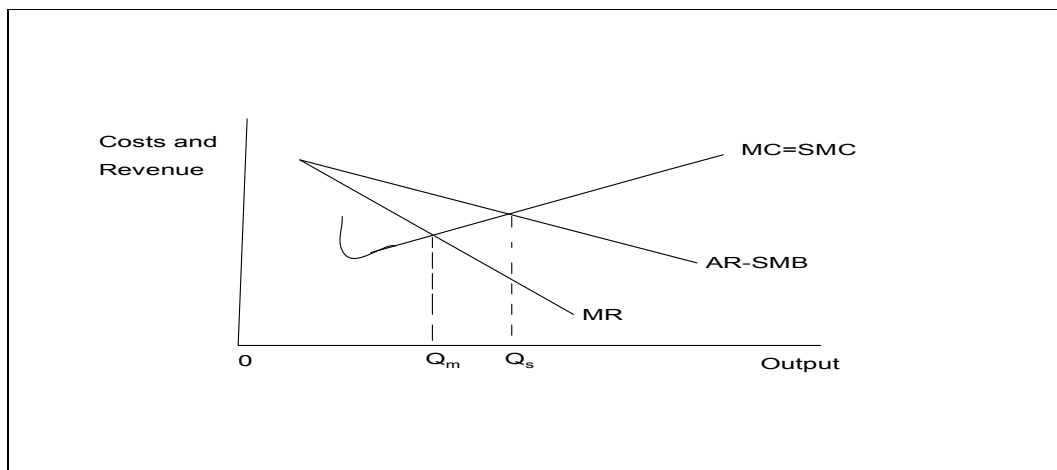
K/C (2 marks)

- (ii)
- How a monopoly and merit goods contribute to market failure.**

For drawing the following diagram

Revenue curves: A/A (1 mark)

Cost curve: A/A (1 mark)



ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 3 cont'd

- For indicating that monopoly profit maximizing output is where $MR=MC$ at Q_m .

A/A (1 mark)

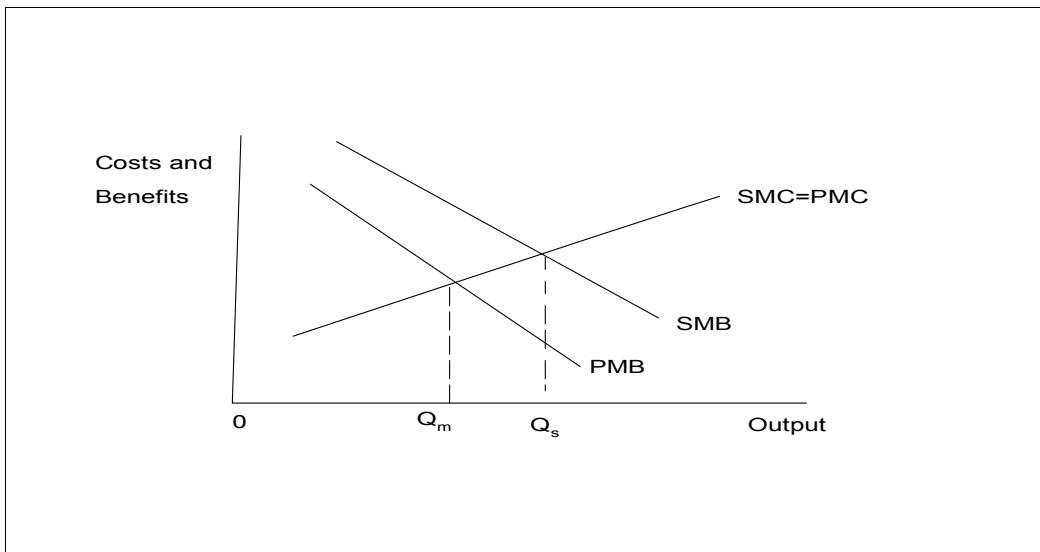
- For indicating that socially efficient output is where $SMC=SMB$ at Q_s .

A/A (1 mark)

- For stating that monopoly output is less than socially efficient level of output.

A/A (1 mark)

Total 5 marks



- For Cost curves A/A (1 mark)
- For benefit curves A/A (1 mark)
- For indicating that production of merit goods will be where $PMB=PMC$ at output Q_m A/A (1 mark)
- For indicating that socially efficient output is where $SMC=SMB$ at output Q_s A/A (1 mark)
- For stating that merit good is under-produced by $Q_s - Q_m$. A/A (1 mark)

Total 10 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 3 cont'd

(c) **Measures that the government can use to correct market failure caused by monopoly**

- Substitution
- Legislation
- Regulation

- Identifying the effect of the measure on monopoly output

K/C(2 marks)

Discussion

Subsidy will cause marginal cost to fall and shift downwards

A/A 2 marks)

Legislation and regulation such as marginal cost pricing would also cause the marginal cost curve to shift downwards

Fall in marginal cost should result in profit maximizing output coinciding with the socially efficient output but it is difficult to determine the amount of subsidy for eliminating welfare loss

S/E (5 marks)

N.B. Same analysis can be used for merit goods.

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 4

(a) **Distinguish between 'normal profit' and 'abnormal profit'.**

- For stating that normal profit is the minimum earnings necessary to keep a firm\entrepreneur in its current economic activity.

OR

Average price = Average Total Cost **K/C (1 mark)**

OR

Total Revenue = Total cost

- For stating that abnormal profit is the earnings in excess of normal profit

OR

Average Revenue or price is greater than Average Total Cost or Total Revenue is greater than total cost. **K/C (1 mark)**

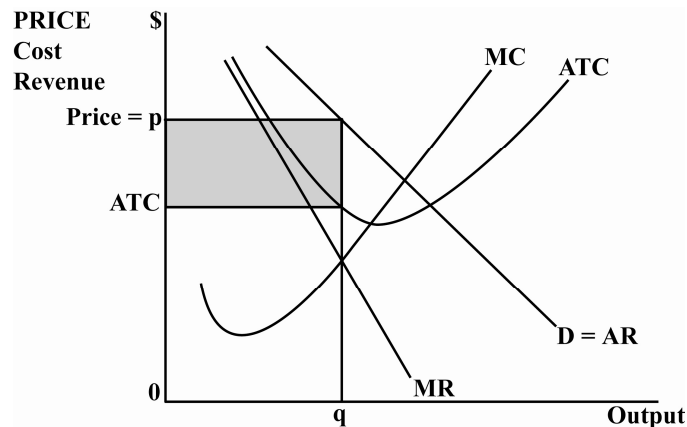
- For indicating that abnormal profit is more than normal profit or normal profit is less than abnormal profit. **K/C (2 marks)**

Total 4 marks

(b) (i) For stating any two characteristics of a monopolistic competition market structure such as downward sloping average revenue curve, product differentiation, no barriers to entry, price maker, many buyers and sellers.

K/C (2 marks)

(ii) For drawing the following diagram



ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 4 cont'd

- For correctly drawing cost curves **K/C (1 mark)**
- For correctly drawing Revenue curves **K/C (1 mark)**
- For identifying profit maximization output Q **A/A (1 mark)**
- For identifying market price P **A/A (1 mark)**
- For identifying the Average cost for the profit maximising output **A/A (1 mark)**
- For shading area of abnormal profit **A/A (1 mark)**

Total 6 marks

- (iii) For indicating that abnormal profits are competed away in the long run so a firm will either earn only normal profit or incur losses.

A/A (2 marks)

For stating that entry of new firms compete away profits

S/E (1 mark)

And

Average revenue curve shifts downwards to the left

S/E (1 mark)

And

Market share of each firm falls.

S/E (1 mark)

- (c) For indicating that firms in both monopolistic competition and perfect competition earn only normal profits in the long run.

A/A (2 marks)

For indicating that the characteristic of no barriers to entry, allows new firms to enter both types of market structures.

A/A (2 marks)

For indicating that the firm in monopolistic competition does not achieve productive efficiency but the firm under perfect competition is productively efficient or achievable optimum level of production

A/A (2 marks)

For indicating that firms in monopolistic competition and perfect competition are similar with respect to types of profits earned and entry of firms but not with achieving productive efficiency in the long run.

S/E (2 marks)

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 5

- (a) For indicating that the least cost rule is

$$\frac{\text{Marginal Physical Product of Labour}}{\text{Price of Labour}} = \frac{\text{Marginal Physical Product of Capital}}{\text{Price of Capital}}$$

K/C (2 marks)

- For illustrating the example that applies to the rule -

E.g. Given $MPP_L \equiv 20$ $P_L \equiv \$5$ and $MPP_C \equiv 40$ $P_C \equiv \$10$

Then $\frac{MPP_L}{P_L} \equiv \frac{MPP_C}{P_C}$ would be $\frac{20}{5} = \frac{40}{10}$

K/C (4 marks)

- (b) (i) For stating that Marginal Revenue Product is equal to Marginal Physical Product of the factor multiplied by the Price or Marginal Revenue of the final product. **A/A (2 marks)**

K/C (2 marks)**Total 6 marks**

- (ii) Complete the table.

Quantity of Labour	Total Product of Labour	Marginal Revenue Product of Labour	Quantity of Capital	Total Product of Capital	Marginal Revenue Product of Revenue
0	0	0	0	0	$0 \times 0 = 0$
1	10	20	1	12	$12 \times 2 = 24$
2	24	28	2	20	$8 \times 2 = 16$
3	38	28	3	27	$7 \times 2 = 14$
4	46	16	4	32	$5 \times 2 = 10$
5	49	06	5	36	$4 \times 2 = 08$

A/A: 1 to 2 correct (1 mark)
 3 to 4 correct (2 marks)
 5 to 6 correct (3 marks)
 7 to 8 correct (4 marks)
 9 to 10 correct (5 marks)
 11 to 12 correct (6 marks)

Total 6 marks

- (ii) For correctly stating the rule for profit maximization in the employment of factors of production, i.e. Marginal Revenue Product of Factor = Marginal Resource Cost of Factor.

K/C (2 marks)

For using the information calculated in the table to identify quantity of labour as 4 units and quantity of capital as 5 units.

A/A (2 marks)

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 5 cont'd

By explaining that each quality above equates MRP with MRC.

A/A (2 marks)

Total 4 marks

(c) **Discuss one limitation of the Marginal Productivity Theory to maximize profit.**

- In real world producers do not always aim to maximize profit, may have other objectives such as sales maximization, increased market share, etc. as a result the theory is not applicable.

OR

- Producers may have other objectives such as sales maximization, increased market share, etc. as a result the theory is applicable.

S/E (5 marks)

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 6

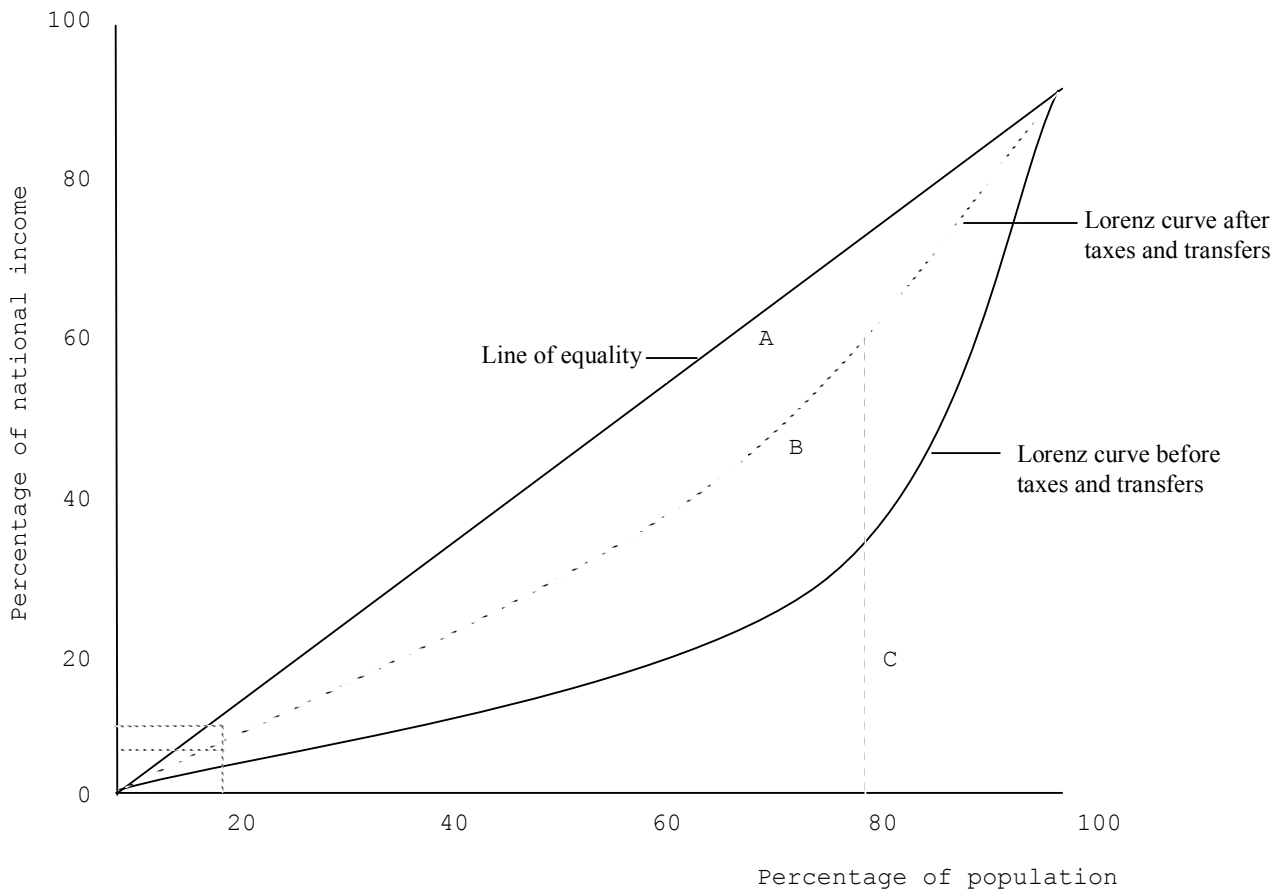
- (a) (i) **Distinguish between size distribution of income and functional distribution of income.**

For stating that size distribution of income is how income earned throughout the economy is distributed among the population of the economy. **K/C (1 mark)**

For stating that functional distribution of income is the proportion of income going to owners of the factors of production. **K/C (1 mark)**

For indicating that size refers to how the country's income is distributed among the population while functional distribution refers to distribution to owners of factors of production. **K/C (2 marks)**

- (ii) **Use a suitable diagram to explain how income inequity is measured.**



ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 6 cont'd

For drawing diagram of Lorenz Curve award 1 mark for correct labels and 1 mark for correctly drawn curves.

K/C (2marks)

For showing how inequality, perfect equality and perfect inequality are represented by making reference to the Lorenz curve.

A/A (3 marks)

(iii) **Measures that government can use to reduce income inequity.**

Identify any two of the following:

- Taxes
- Subsidies
- Transfers

A/A (2 marks)

For clearly outlining how each of two measures redistribute income e.g. Taxes take a larger percentage of income from higher income earners than from lower income owners.

A/A (2 marks)

(b) (i) **Identify TWO categories of persons who are more susceptible to poverty.**

- elderly
- physically challenged

K/C (2 marks)

(ii) Outline one reason why each category is susceptible to poverty.

For identifying one reason for each of the two categories of persons being susceptible to poverty. Physically challenged persons have limited access to employment.

A/A (2 marks)

For comparing each stated category of persons with persons less susceptible to poverty e.g. physically challenged with those who are not physically challenged so the latter have greater access to employment.

S/E (2 marks)

Total 6 marks

(iii) **Assess the economic benefit of two strategies used by government to alleviate poverty.**

For correctly identifying two strategies used by government to alleviate poverty e.g. transfer payments, free education, minimum wage legislation.

A/A (3 marks)

For explaining how each strategy can impact positively on the economy e.g. development of human capital, improved well being.

S/E (3 marks)

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SUBJECT ECONOMICS – UNIT 1 – Paper 032

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SCHOOL/CENTRE NUMBER

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NAME OF SCHOOL/CENTRE

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CANDIDATE’S FULL NAME (FIRST, MIDDLE, LAST)

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DATE OF BIRTH

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SPEC 2016/02116032



TEST CODE 02116032/SPEC

MAY/JUNE 2017

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 032

1 hour 30 minutes

SPECIMEN PAPER

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of a case study and 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.

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02116032/CAPE/SPEC 2016

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INSTRUCTIONS: Read the case and answer all the questions.

CASE STUDY

Health and Wellness Tourism

The Caribbean's proximity to North America makes it a convenient destination for North American health travellers. Health tourism is the act of travelling to another country to obtain medical treatment, cosmetic treatments, dental treatment or any other wellness treatment. The white sand beaches, laid back lifestyle and great hospitality due to the service culture, along with good sanitation in most territories, make for easy and quick recovery. It is no surprise that over the years, Tourism Ministries in the region have been investigating the viability of this sector.

The increasing demand for health and wellness services within the CARICOM Single market and Economy (CSME) is largely the consequence of expensive medical services in the developed countries, which is amplified by the market-based health insurance system that exists, particularly in the United States. Health care is inaccessible to many persons do not have insurance. Lobbyists in the United States, however, have been lobbying for a revision of the current health care law, which would allow more persons access to health insurance and health care at a lower cost. Despite the competitive prices in the Caribbean, a large market for medical, treatment and cosmetic surgery is rapidly developing in the United States, Canada and Europe.

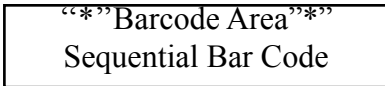
The growing health tourism business sector has created many opportunities for investors. There are, however, some supply-side factors that must be taken into consideration. Despite high demand, interest groups may not be able to tap into the gains if there are obstacles to supply. Some obstacles common to Caribbean countries include: access to finance, work permit fees and mobility of labour. In addition to supply-side concerns, other issues must be considered. Many Caribbean countries provide free or subsidised health care which is paid for by local taxpayers. This can place a heavy burden on taxpayers, in addition to other externalities. Also, income from the sector might be distributed unevenly, since the benefits are unlikely to ripple throughout the economy. Needless to say, private health care providers stand to benefit since they charge the market price for the services they provide.

1. (a) Define the term 'effective demand'.

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[2 marks]


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- (b) Explain, with the aid of a diagram, the likely impact of a revised health care law in the United States of America on the market for health and wellness tourism in the Caribbean.

Draw your diagram in the box below.



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[5 marks]

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2. (a) Health Centre A performs only major cardiac surgeries. It has a yearly total fixed cost of \$300 000, and the cost to the centre for treating one patient is \$5 600. On average, 1 200 health tourists visit the facilities yearly.

Calculate Health Centre A's:

- (i) Total variable cost

[2 marks]

- (ii) Total cost

[2 marks]

- (iii) Total revenue

[2 marks]

- (ii) Total profits

[2 marks]

GO ON TO THE NEXT PAGE

- (b) Discuss THREE positive externalities that could result from health and wellness tourism.

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[12 marks]

Total 20 marks

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3. (a) Define the term ‘derived demand’.

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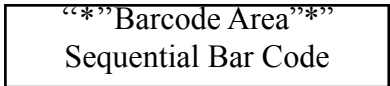
[2 marks]

(b) Describe THREE measures that the government can use to reduce the inequality that might result from the growth in health and wellness tourism.

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[6 marks]

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(c) Discuss THREE economic costs of poverty that may exist despite the growth in health and wellness tourism.

Dotted lines for writing.

[12 marks]

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

02116032/CAPE/SPEC 2016

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Question No.

A series of horizontal dotted lines providing space for writing the answer to the question.

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THIS PAGE**

CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE:

1. Fill in all the information requested clearly in capital letters.

TEST CODE:

0	2	1	1	6	0	3	2
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SUBJECT: ECONOMICS – UNIT 1 – Paper 032

PROFICIENCY: ADVANCED

REGISTRATION NUMBER:

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FULL NAME: _____
(BLOCK LETTERS)

Signature: _____

Date: _____

2. Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.
3. Keep it in a safe place until you have received your results.
-

INSTRUCTION TO SUPERVISOR/INVIGILATOR:

Sign the declaration below, detach this slip and hand it to the candidate as his/her receipt for this booklet collected by you.

I hereby acknowledge receipt of the candidate's booklet for the examination stated above.

Signature: _____
Supervisor/Invigilator

Date: _____

/CAPE/SPEC/K/MS/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

A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N

E C O N O M I C S

S P E C I M E N P A P E R

U N I T 1 - P A P E R 0 3 / 2

K E Y S A N D M A R K S C H E M E S

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 1

- (a) **State how small-scale and large-scale farmers differ. (4 marks)**

Identifying factor- 1 mark

Stating difference- 1 mark

Farmers, like other producers, use four major factors of production; land, labour, capital and entrepreneurship. Small farmers encounter greater restrictions in accessing resources than large farmers.

Land

Large farmers do not only have more land, but they have more fertile lands than small farmers. **K/C (1 mark) A/A (1 mark)**

Capital

Large farmers also have more capital and more modern capital than smaller farmers. This also results in large farmers using more advanced and modern technology than small farmers.

K/C (1 mark) A/A (1 mark)

Labour

Large farmers can afford to hire more skilled labour than small farmers who, if assisted, use unpaid family labour.

K/C (1 mark) A/A (1 mark)

Entrepreneurship

The entrepreneurial skills of large farmers are usually greater than those of small farmers.

The combined advantage of large farmers makes them more productive than small farmers. **K/C (1 mark) A/A (1 mark)**

- (b) **Factors that influence the demand for ground provisions. (6 marks)**

Identifying factor -1 mark

Outlining - 1 mark

- The price of ground provision
The higher (lower) the price of ground provisions the lower (higher) the quantity that will be demanded. An inverse relationship exists between the price of ground provisions and the quantity bought. **K/C (1 mark) A/A (1 mark)**
- The price of other goods
There is an inverse (direct) relationship between the price of a complement (substitute) of ground provision and the demand for ground provision. **K/C (1 mark) A/A (1 mark)**

ECONOMICS

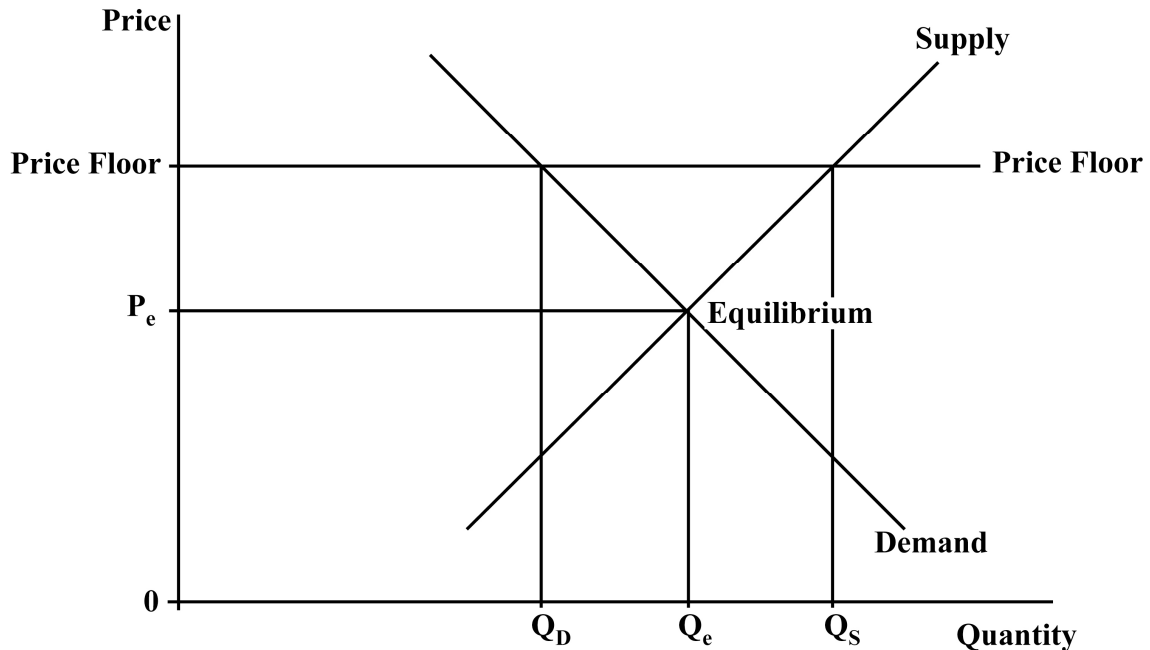
UNIT 1

Key/Mark Scheme

QUESTION 1 cont'd

- The income of buyers
There is a direct relationship between consumers' income and the demand for ground provision when it is a normal good; or an inverse relationship when it is an inferior good
K/C (1 mark) A/A (1 mark)
- The size of the population
The size of the population and the demand for ground provision are directly related; when the population rises demand rises and when it falls demand falls.
K/C (1 mark) A/A (1 mark)
- The taste and preference of buyers
Tastes and preferences are directly related to demand. If consumers acquire a greater taste for ground provision the demand for it will increase, and vice versa. K/C (1 mark) A/A (1 mark)

(c) The diagram shows the likely effects of an effective price floor.



- | | |
|--|--------------|
| Correct axes and labeling | K/C (1 mark) |
| Showing equilibrium price and quantity | A/A (1 mark) |
| Indicating market demand and supply | A/A (1 mark) |
| Indicating price floor | A/A (1 mark) |

Total 4 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 1 cont'd

Before the price floor is imposed the price of ground provision is P_e and the quantity sold is Q_e . After the imposition of a price floor the quantity demanded is less than that supplied. Buyers are now willing to buy a smaller quantity than the former equilibrium quantity while sellers are willing to sell a larger quantity than the former equilibrium quantity. There is therefore a glut on the market.

If the government buys the excess supply, the quantity traded will be Q_s , otherwise it will be Q_D .

S/E [6 marks]

Total 20 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 2

Stating any three characteristics of Perfect competition. K/C (3 marks)

Perfect Competition is characterized by the following:

- Many buyers and sellers
- The goods are homogeneous
- There is perfect knowledge
- There is free entry and exit
- There is no transportation cost

The good is therefore sold at the same price throughout the market.

Stating any three characteristics of Monopolistic competition. K/C (3 marks)

Monopolistic Competition is characterized by the following:

- A large number of firms
- Each firm has a different product
- There is freedom of movement into and exit from the industry

Relating characteristics identified to the market for eggs. A/A (8 marks)

The market for eggs may approach this ideal. There are usually many buyers and sellers of eggs. [2] There is also free entry and exit since the cost of entering is low. Knowledge is near perfect if not perfect. Eggs are usually similar but not necessarily identical. They vary in shape, size and colour. [2]

Transportation costs are usually similar. The market structure therefore more closely approximates perfect competition.

Monopolistic competition approaches perfect competition with many buyers and sellers and no barriers to entry and exit. There are however similar but non-identical products. [2] This corresponds somewhat to the market for eggs, since in monopolistic competition the goods are differentiated even if similar. Buyers and sellers make a distinction between small and large eggs, brown and white eggs. There is therefore some power over price as sorting is practised. The market for eggs may therefore be closer to monopolistic competition. [2]

Making conclusion on which market structure better describes the market for eggs compared with others and using supporting arguments S/E (6 marks)

Candidates must draw their conclusion based on their argument put forward. This must be supported by well reasoned examples and illustrations. This may be influenced by candidates' experiential background as well as research.

Total 20 marks

ECONOMICS

UNIT 1

Key/Mark Scheme

QUESTION 3

- (a) Explain why the demand for agricultural workers is derived demand.

The demand for farm workers is a derived demand because it arises from the demand for the products that farm workers produce.

K/C (2 marks)

For illustrating example of derived demand. Derived demand for workers are employed in the sugar industry because of the demand for sugar.

K/C (2 marks)

Total 4 marks

- (b) For identifying two factors that contribute to low wage rate e.g.

Low demand and high supply for agricultural workers
Low marginal product.

K/C (2 marks)

Analyzing how factors mentioned result in wage rate e.g.
For factor low demand and high supply for agricultural workers, the result is lower equilibrium wage rate than if demand was high and or supply was low.

A/A (2 marks)

For low marginal product, MRP is low as a result of either low MPP due to limited technology and skills and or low product price. Hence, when MRP is calculated by $MPP \times PP$, Product Price, or MR and equated with MRC for profit maximization, a low wage rate results.

A/A (2 marks)

Total 6 marks

- (c) For identifying the type of poverty as absolute poverty **K/C (2 marks)**

For indicating two cost of poverty which may include:

Unemployed human resources
Lower potential output
Social and environmental costs

Any two A/A (4 marks)

Discussing the effects of the costs mentioned on the country:

Unemployed human resources result in low levels of income and low living standards and HDI.

S/E (3 marks)

Poverty sometimes contribute to squatting in unsustainable areas contributing to poor sanitation and environmental damage and socioeconomic problems

S/E (3 marks)

Total 20 marks

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

**ECONOMICS
UNIT 2**

90 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.

Sample Item

Prime cost is calculated by adding direct factory expenses to the

- (A) cost of goods sold
- (B) sale of fixed assets
- (C) sale of finished goods
- (D) cost of materials used

Sample Answer

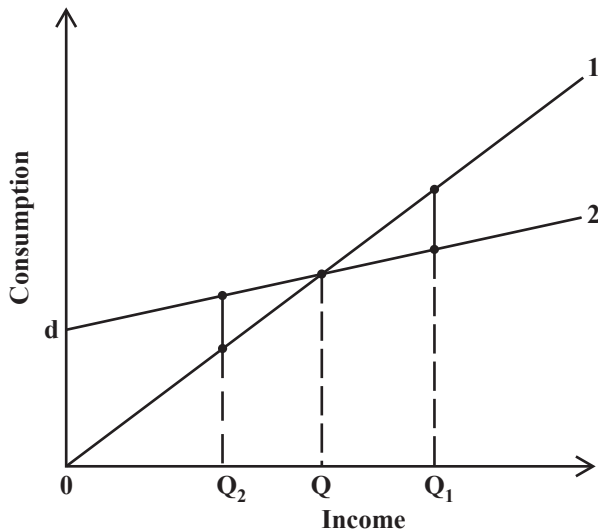


The best answer to this item is “cost of materials used”, so answer space (D) has been shaded.

1. In Keynesian analysis, if the economy is at full employment then an increase in aggregate expenditure will lead to

- (A) a fall in economic growth
- (B) an increase in the price level
- (C) a fall in government spending
- (D) an increase in the exchange rate

Items 2 - 3 refer to the following diagram showing consumption and income.



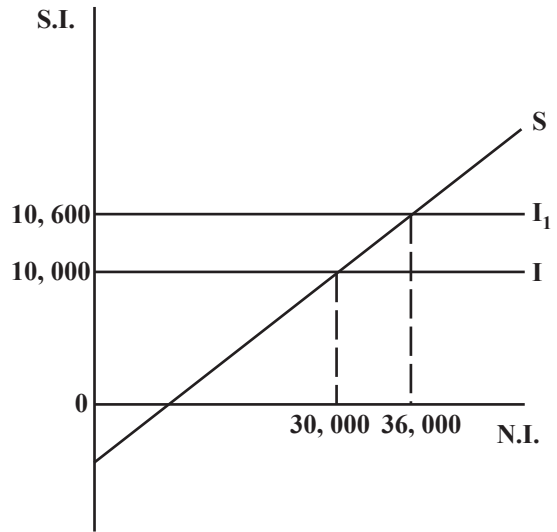
2. What function does line 2 represents?

- (A) Savings
- (B) Investment
- (C) Consumption
- (D) Government expenditure

3. What does line 1 represent?

- (A) The 45° line
- (B) National income
- (C) Investment spending
- (D) Autonomous savings

Item 4 refers to the following diagram showing the relationship between National Income (NI) and Saving/Investment (SI).



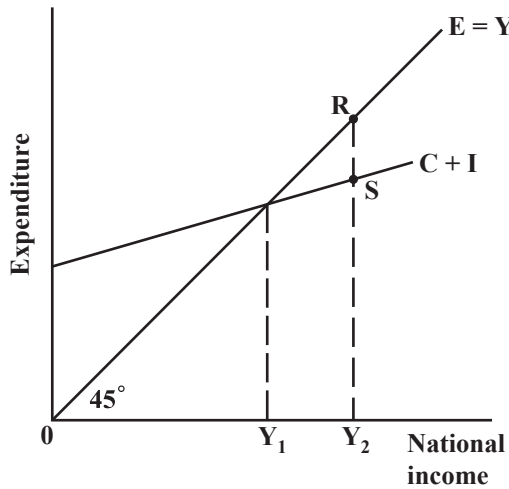
4. The diagram shows that national income has increased from \$30 000 million to \$36 000 million. What is the marginal propensity to consume?

- (A) 0.1
- (B) 0.9
- (C) 0.29
- (D) 10

5. If consumption increases by 0.6% of the change in national income, then the multiplier is

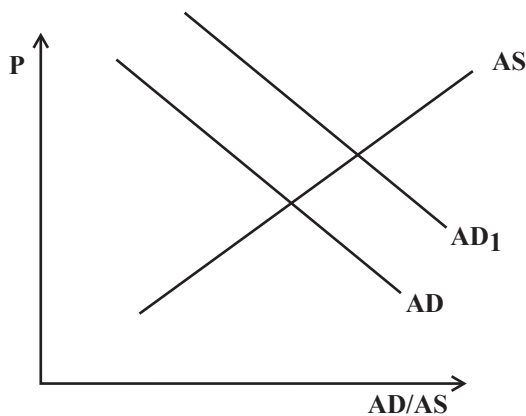
- (A) 0.4
- (B) 0.6
- (C) 1.6
- (D) 2.5

Item 6 refers to the following diagram of a two-sector closed economy.



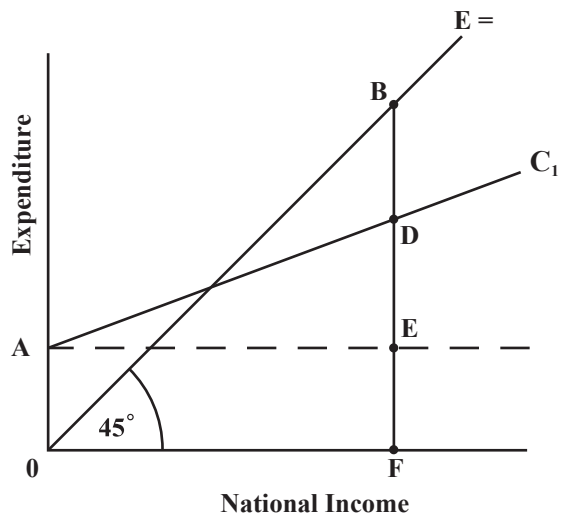
6. In the diagram, RS represents
- (A) an inflationary gap
 - (B) a deflationary gap
 - (C) money saved by firms in the banks
 - (D) interest payments on investment loans

Item 7 refers to the following demand and supply curve.



7. Which of the following factors may cause AD to shift to AD₁?
- (A) Government imposing taxes on citizens
 - (B) The Central Bank increasing interest rates
 - (C) An increase in government expenditure
 - (D) Increased speculation in the stock market

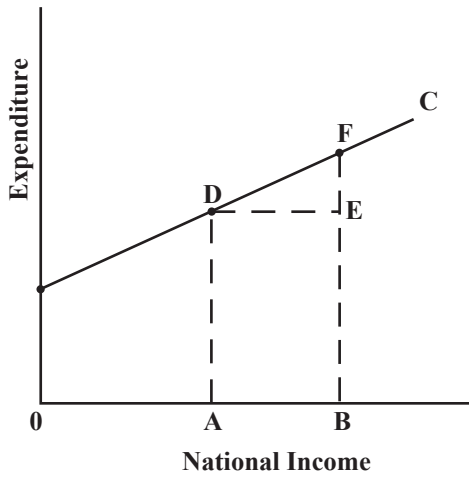
Item 8 - 9 refer to the diagram below showing a consumption function AC₁.



8. What does $\frac{DF}{BF}$ represent?
- (A) Autonomous consumption
 - (B) Total induced consumption
 - (C) Marginal propensity to consume
 - (D) Average propensity to consumers
9. When national income is at OF, what does DE represent?
- (A) Induced consumption
 - (B) Autonomous consumption
 - (C) Consumption minus savings
 - (D) Average propensity to consumer

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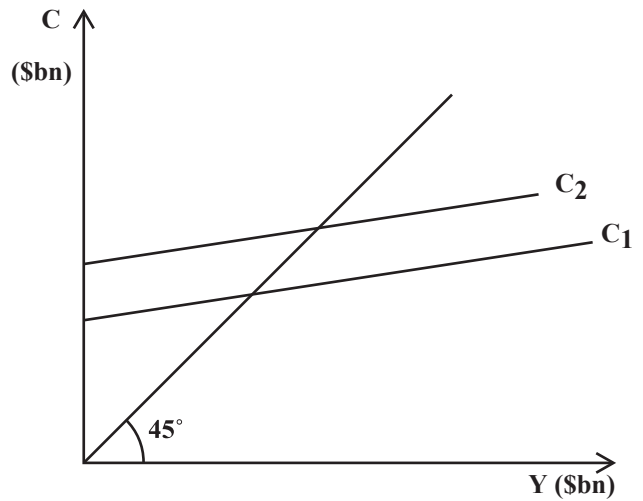
Item 10 refers to the diagram below showing a consumption function.



10. Which of the following represents the marginal propensity to consume?

- (A) $\frac{FE}{AB}$
- (B) $\frac{DE}{AB}$
- (C) $OB - AB$
- (D) $DE + EF$

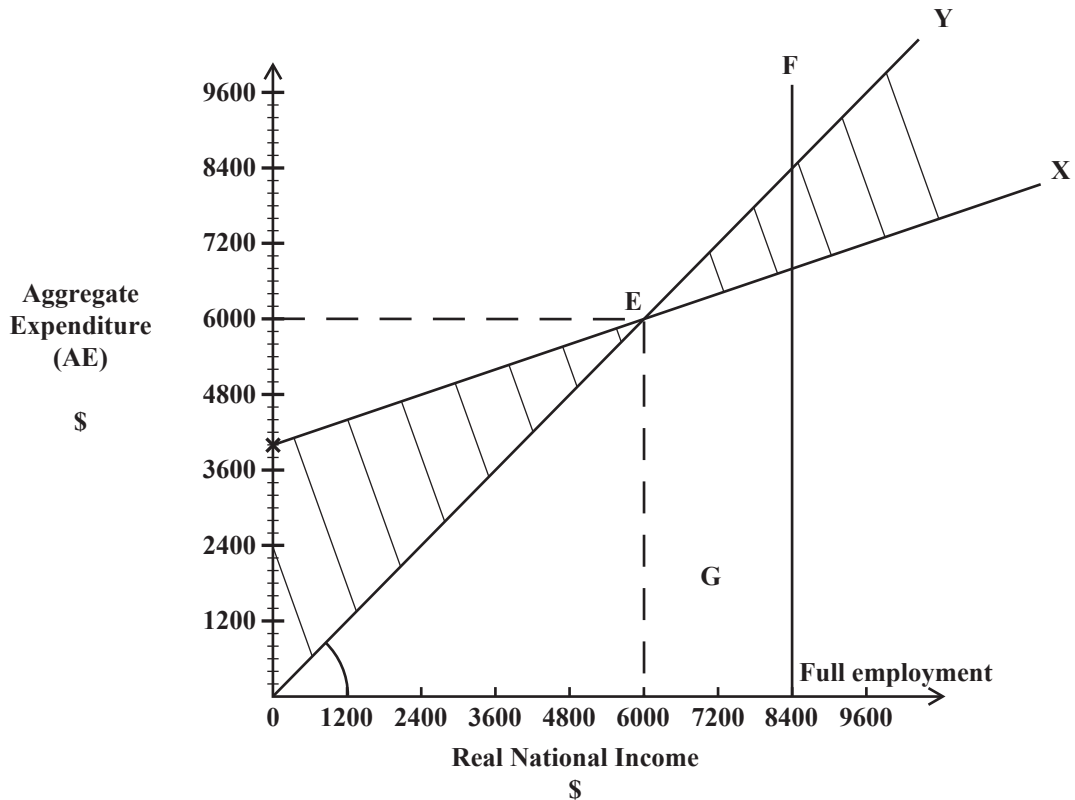
Item 11 refers to the following diagram showing the consumption function C_1 in country X.



11. What causes the consumption function to shift upwards from C_1 to C_2 ?

- (A) An increase in direct taxation
- (B) An increase in interest rates
- (C) The anticipated increase in the proportion of income saved by households
- (D) The expectation of an increase in the rate of value added tax

Items 12 - 15 refer to the diagram below showing equilibrium level of national income.



- | | |
|---|---|
| <p>12. What is the equilibrium level of income?</p> <p>(A) \$3 600
 (B) \$4 000
 (C) \$6 000
 (D) \$8 400</p> | <p>14. How much is autonomous expenditure?</p> <p>(A) \$1 200
 (B) \$2 400
 (C) \$3 600
 (D) \$3 800</p> |
| <p>13. Which of the following responses correctly identifies the lines labelled Y and X respectively?</p> <p>(A) Income line and 45° line
 (B) 45° line and consumption function
 (C) Income line and consumption function
 (D) 45° line and aggregate expenditure line</p> | <p>15. By how much would aggregate desired expenditure have to be increased to close the output gap?</p> <p>(A) \$ 0
 (B) \$1 200
 (C) \$2 400
 (D) \$6 000</p> |

GO ON TO THE NEXT PAGE

16. A worker uses money to pay cash for a dress which costs \$200.
- Which of the following functions of money are being addressed in the above statement?
- (A) A medium of exchange and a store of value
 - (B) A unit of account and a standard for deferred payments
 - (C) A standard for deferred payments and a store of value
 - (D) A medium of exchange and a unit of account
17. Which of the following is a monetary policy measure?
- (A) Fall in taxation
 - (B) Fall in government spending
 - (C) Rise in government spending
 - (D) An increase in the reserve ratio
18. Which of the following activities undertaken by the Central Bank BEST defines 'open market operations'?
- (A) Issues long-term securities and fewer short-term securities, thereby reducing the banks' liquid assets
 - (B) Sells government securities, reducing the banks' liquid assets and raising interest rates
 - (C) Sets an upper limit on the volume of bank lending, reducing banks' liquid assets and raising interest rates
 - (D) Issues compulsory loans that are demanded from the banks thereby reducing their liquid assets
19. The Central Bank sells government securities using open market operations. What effect will this have on the interest rate and the money supply?
- (A) Interest rate falls, money supply rises.
 - (B) Interest rate falls, money supply falls.
 - (C) Interest rate rises, money supply falls.
 - (D) Interest rate rises, money supply rises.
20. Which of the following fiscal prescriptions would Keynes MOST likely have increased to alleviate unemployment?
- (A) Taxes
 - (B) Interest rates
 - (C) Aggregate supply
 - (D) Government expenditure
21. What is the role of automatic stabilizers in economic development?
- (A) Reduce inflation in a country
 - (B) Protect and insulate the economy from internal shocks
 - (C) Boost and develop the economy as it so needs
 - (D) Help to stabilise a country's balance of payments
22. If a government borrows to finance the budget deficit by selling treasury bills, what is the likely effect on the economy?
- (A) Inhibits private sector investment
 - (B) Exchange rate will depreciate
 - (C) Money supply will expand
 - (D) Interest rates will fall
23. The national debt will be a burden to a country if it is
- (A) owed to foreigners
 - (B) held in domestic currency
 - (C) owed to citizens of the country
 - (D) rescheduled to repay at a later period

GO ON TO THE NEXT PAGE

24. According to the monetarists, inflation is caused by an increase in
- (A) taxes
 - (B) the money supply
 - (C) aggregate demand
 - (D) the cost of production
25. If there is a positive change in real GDP *ceterus paribus*, what would be the effect on money demand, interest rates and money supply?
- (A) The demand for money falls, interest rates fall, money supply falls.
 - (B) The demand for money remain the same, interest rates fall, money supply rises.
 - (C) The demand for money rises, interest rates rise, money supply remains the same.
 - (D) The demand for money rises, interest rates remain the same, money supply remains the same.
26. Using the quantity theory of money, what is the velocity of circulation if the money supply is \$50 000, the average price is \$200 and the number of transactions in the economy for a given year is 10 000?
- (A) 25
 - (B) 40
 - (C) 50
 - (D) 100
27. Which of the following is an example of qualitative controls that a Central Bank may use in executing its monetary policy?
- (A) Moral suasion
 - (B) Adjusting the bank rate
 - (C) Open market operations
 - (D) Variation of the liquidity ratio
28. If a government wishes to reduce unemployment by increasing demand, what type of monetary policy should it adopt?
- (A) Lower the interest rate
 - (B) Sell fewer treasury bills
 - (C) Increase the interest rate
 - (D) Sell more government securities
29. The money multiplier is the
- (A) number of times money changes hands in an economy
 - (B) change in money supply multiplied by the change in deposit that brought it about
 - (C) change in money supply divided by the change in deposit that brought it about
 - (D) amount by which a currency has to be multiplied to find the value of another currency
30. Which of the following BEST defines the government's budget?
- (A) The spending plans of government in an economy in a year
 - (B) The annual report of the allocation of government spending among sectors
 - (C) A yearly statement of government's plans for spending and tax revenues
 - (D) The amount of income government has to spend in a year
31. Which of the following changes is the BEST indicator of sustained economic growth in a developing country?
- (A) A decrease in unemployment
 - (B) An increase in the use of capital
 - (C) A movement within the production possibility frontier
 - (D) An outward shift in the production possibility frontier

GO ON TO THE NEXT PAGE

32. The table below shows the ability of two countries to produce two commodities.

Country	Production of tiles per person	Production of drums per person
Barbados	500	1000
Trinidad	750	1000

Which of the following statements correctly represents the information in the table?

- (A) Barbados has a comparative advantage in drums and Trinidad has an absolute advantage in tiles.
- (B) Barbados has an absolute advantage in drums and Trinidad has an absolute advantage in tiles.
- (C) Barbados has an absolute advantage in drums and Trinidad has a comparative advantage in tiles.
- (D) Barbados has a comparative advantage in tiles and Trinidad has an absolute advantage in drums.

33. Which of the following are structural characteristics of Caribbean economies?

- I. Economic independence
- II. The chronic shortage of capital
- III. The lack of a diversified production base
- IV. The lack of openness in the economy

- (A) I and II only
- (B) I and IV only
- (C) II and III only
- (D) III and IV only

34. Developing countries may attempt to increase their levels of exports by setting up

- I. Trade Barriers
- II. Custom Unions
- III. Common Markets
- IV. Free Trade Areas

- (A) I, II and III only
- (B) I, II and IV only
- (C) I, III and IV only
- (D) II, III and IV only

35. The data in the table below refer to the balance of payments of a country.

Item	\$ Millions
Import of goods	10,000
Export of goods	8,000
Invisible balance	+600
Investment and other capital flows	+100

What is the Current Account Balance?

- (A) \$2 700 m
- (B) \$2 600 m
- (C) -\$1 400 m
- (D) -\$1 300 m

36. Which of the following measures would BEST rectify a deficit on a country's Balance of Payments Account?

- (A) Revaluing the currency
- (B) Lowering tariff barriers
- (C) Deflationary fiscal policy
- (D) Relaxing exchange controls

37. One MAJOR advantage of a floating exchange rate over a fixed exchange system is that it

- (A) is determined by the Central Bank
- (B) helps to reduce inflation in a country
- (C) can lead to unstable currency value
- (D) provides certainty in international trade

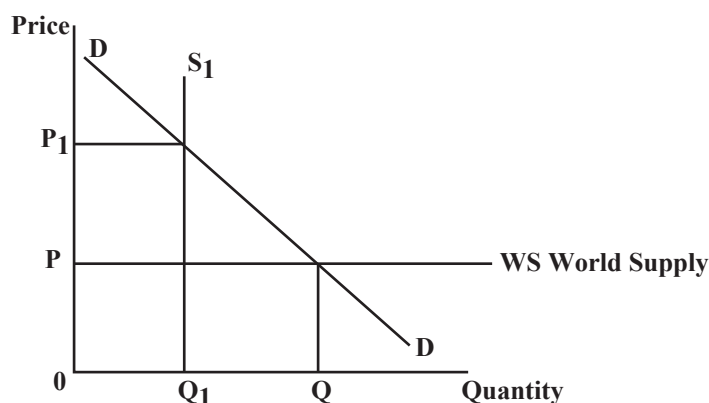
38. What is the MAIN function of the World Trade Organisation?

- (A) To promote trade with the large countries of the world
- (B) To set maritime boundaries for member countries
- (C) To settle disputes amongst members
- (D) To set rules for the global trading system

39. Which of the following policies may frustrate a government's attempt to stimulate growth in an economy?

- (A) Increasing Government spending
- (B) Reducing direct and indirect taxes
- (C) Increasing the rate of interest
- (D) Increasing the money supply

Item 40 refers to the following diagram representing the demand for imports of Good A into Country B.



40. Assuming a perfectly elastic world supply. What are the effects on price and quantity imported should government impose a quota at S_1 ?

- (A) Price decreases; quantity demanded decreases.
- (B) Price decreases; quantity demanded increases.
- (C) Price increases; quantity demanded increases.
- (D) Price increases; quantity demanded decreases.

41. Which of the following BEST describes a Customs Union?

- (A) Member countries act as a single market with free movement of labour and capital.
- (B) Member countries face no trade barriers between themselves while external tariffs and quotas are common.
- (C) Member countries face no trade barriers between themselves and try to implement a common language.
- (D) Member countries have similar trading patterns and attempts are made to have similar trade unions.

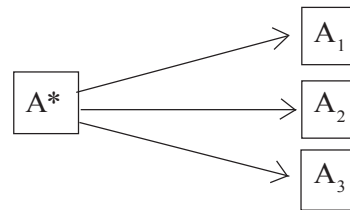
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42. Which of the following is MOST likely to cause a Balance of Payments Surplus in a country?
- (A) A decrease in the domestic inflation rate relative to other trading countries
 - (B) Increased confidence in the particular economy by the international community
 - (C) An increase in the domestic inflation rate relative to other trading countries
 - (D) Lack of confidence in the particular economy by the international community

43. The foreign exchange market refers to the market in which
- (A) one good can be exchanged for another
 - (B) the rate of interest is determined
 - (C) buyers determine the price of goods
 - (D) one currency can be traded for another

44. Which of the following BEST describes the term 'globalisation'?
- (A) The free movement of goods and services across national borders
 - (B) The free movement of capital and labour across national borders
 - (C) The increase in trade, communication, travel and information flows across countries
 - (D) The independence of countries to produce goods and services and trade freely

Item 45 refers to the diagram below



45. A* is a large firm producing cars in Metro Pole. The managers of A* have set up plants A₁, A₂ and A₃ in three foreign countries. The operations of A* can BEST be described as that of
- (A) globalisation
 - (B) economic integration
 - (C) a multinational company
 - (D) an internal financial organization

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

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ECONOMICS

SPECIMEN PAPER

UNIT 2 - PAPER 1

MARK SCHEME

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EXAMINATION**

ECONOMICS-UNIT 2

SPECIMEN PAPER 2008

Item No.	Key
1	B
2	C
3	A
4	A
5	D
6	C
7	C
8	D
9	A
10	B
11	D
12	C
13	D
14	D
15	C
16	D
17	D
18	B
19	C
20	D
21	B
22	A
23	A

Item No.	Key
24	B
25	C
26	B
27	A
28	A
29	C
30	C
31	D
32	A
33	C
34	D
35	C
36	C
37	B
38	D
39	C
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41	B
42	A
43	D
44	C
45	C

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SUBJECT ECONOMICS – UNIT 2 – Paper 02

PROFICIENCY ADVANCED

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NAME OF SCHOOL/CENTRE

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ECONOMICS

SPECIMEN PAPER

UNIT 2 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Write your answers in the spaces provided in this answer booklet.
3. Do NOT write in the margins.
4. Take some time before you start writing to read through the papers and plan your answers.
5. EACH question is worth 25 marks.
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.**
7. **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.**

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Answer ALL question.

1. (a) (i) Identify the **most** important determinant of consumer spending and personal saving.

.....
[1 mark]

- (ii) Define EACH of the following terms:

Marginal propensity to consume (MPC)

.....
.....
[2 marks]

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
the average propensity to consume (APC)

[2 marks]

the average propensity to save (APS).

[3 marks]

- (ii) Calculate the multiplier and interpret its value.

[4 marks]

GO ON TO THE NEXT PAGE

- (c) Distinguish between the ‘investment demand curve’ and the ‘investment curve’.

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[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.

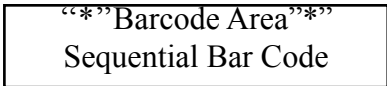
[3 marks]

- (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

GO ON TO THE NEXT PAGE



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

National budget deficit

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[2 marks]

National debt

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[2 marks]

(ii) State FOUR causes of national debt.

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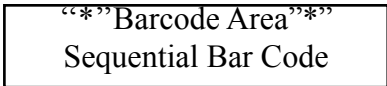
[4 marks]

(b) (i) Explain why the size of national debt is commonly expressed as a ratio to GDP.

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[3 marks]

GO ON TO THE NEXT PAGE



- (ii) Evaluate the statement “public debt is a burden on future generations”.

.....

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[4 marks]

- (c) Table 1 shows government spending and tax revenue for a hypothetical economy over a four-year period. All figures are in millions.

TABLE 1

Year	Government Spending	Tax Revenue	Budget Balance	Deficit/Surplus/Neither
1	\$800	\$825		
2	\$850	\$850		
3	\$900	\$875		
4	\$950	\$900		

- (i) Complete Table 1 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

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3. (a) (i) Identify THREE factors which may affect the levels of imports and exports of a country.

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[3 marks]

(ii) Explain EACH of the following concepts:

Comparative advantage

.....
.....
.....

[3 marks]

The effects of foreign exchange earnings on small open economies

.....
.....
.....

[3 marks]

(b) (i) Define the term 'protectionism'.

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[2 marks]

GO ON TO THE NEXT PAGE

(ii) Discuss the infant industry's argument for protection.

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[4 marks]

(c) (i) Define 'trade liberalization'.

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[2 marks]

(ii) Discuss TWO benefits of trade liberalization.

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[8 marks]

Total 25 marks

END OF TEST

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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE:

- 1. Fill in all the information requested clearly in capital letters.**

TEST CODE:

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SUBJECT: ECONOMICS – UNIT 2 – Paper 02

PROFICIENCY: ADVANCED

REGISTRATION NUMBER:

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FULL NAME: _____
(BLOCK LETTERS)

Signature: _____

Date: _____

- 2. Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.**
- 3. Keep it in a safe place until you have received your results.**
-

INSTRUCTION TO SUPERVISOR/INVIGILATOR:

Sign the declaration below, detach this slip and hand it to the candidate as his/her receipt for this booklet collected by you.

I hereby acknowledge receipt of the candidate's booklet for the examination stated above.

Signature: _____
Supervisor/Invigilator

Date: _____

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ECONOMICS

SPECIMEN PAPER

UNIT 2 - PAPER 02

ANSWER KEY
AND
MARK SCHEME

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 1****(a) (i) Distinguish between GDP and GNP**

Indicating that GDP is the total market value of all final goods and services produced annually within the boundaries of a country. **K/C (1 mark)**

Indicating that GNP is the total market value of final output produced by the citizens of a country. **K/C (1 mark)**

Indicating that GNP is GDP plus net factor income from abroad.

OR

GDP is domestically produced output, while GNP is output produced both domestically and internationally but owned by locals. **K/C (2 marks)**

(ii) Distinguishing between Nominal GDP and Real GDP

Indicating that nominal GDP is the total output produced measured at current prices. **K/C (1 mark)**

Indicating that real GDP is the total output produced measured at constant price. **K/C (1 mark)**

Indicating that nominal GDP is not adjusted for inflation while Real GDP is adjusted for inflation. **K/C (2 marks)**

(b) Evaluate the negative effects of a growth in GDP standard of living. (12 marks)

- Sectoral growth can be caused by an increase in the production of military goods (Government spending) which leads to an increase in GDP. However, citizens do not benefit from these goods. **A/A (3 marks)**
- Increases in output can lead to externalities. (Dirty air, polluted water, destruction of forest, gullies and natural water ways). The standard of living on citizens is negatively impacted because of health problems (asthma) and other problems like flooding and reduced water supply. **A/A (3 marks)**
- Growth in GDP can be caused by productivity and longer working hours. Longer working hours lead to reduced leisure time. Persons may have stress related illnesses and divorce rates go up. The standard of living is reduced. **A/A (3 marks)**
- Growth realized does not impact positively on all citizens. Those citizens who are unable to work may not experience an improved standard of living, while their neighbours may. To address this situation, some persons may resort to crime. **A/A (3 marks)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 1 cont'd**

- (c) **Justify whether GDP is an adequate measure of the standard of living of a country.** **S/E (5 marks)**

Response must include the following:

- The fact that GDP as a measure of standard of living is questionable.
- Standard of living is a broad concept and cannot be measured strictly in terms of output increases.

Clearly stated conclusion, good supportive examples. **(4-5 marks)**

Conclusion stated, satisfactory argument, reasonable support. **(2-3 marks)**

Weak conclusion **(0-1 mark)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 2**

- (a)
- Define the term 'injections'.**

An injection represents payments received by
Firms or households that are not passed on through their spending.

K/C (2 marks)

- (b)
- Outline THREE reasons why injections would exceed withdrawals.**

(6 marks)

Candidates must develop the following points

- There has been an increase in exports. **K/C (2 marks)**
- There has been a rise in business confidence so investment has risen. **K/C (2 marks)**
- There has been a reduction in taxes. **K/C (2 marks)**

- (c)
- Four factors that would restore equilibrium**
- (12 marks)**

Household would not spend more on domestic goods. **A/A (3 marks)**

They would save more **A/A (3 marks)**

They would pay more taxes **A/A (3 marks)**

They would buy more imports **A/A (3 marks)**

This combination would continue raising withdrawals until they restore National Income Level.

- (d)
- Explain what happens when equilibrium is restored**
- S/E (5 marks)**

Indicate that withdrawals would have to increase (increase in saving, taxes and imports). More income would be circulating in the economy and aggregate expenditure would increase. **S/E (2 marks)**

Identifying the increase in aggregate expenditure on the diagram.

S/E (1 mark)

Showing inverse relationship between rate of inflation and the rate of unemployment.

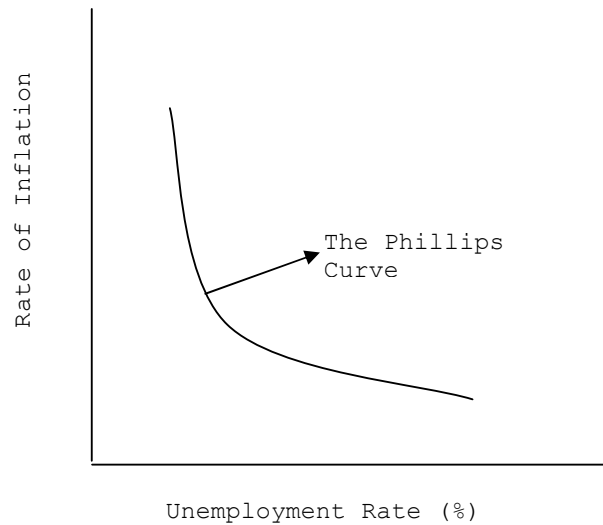
OR

Indicating how lower unemployment rates are associated with higher rates of inflation. **S/E (2 marks)**

Total 25 marks

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 3**

(a) The Phillips Curve



Labeling axes	K/C (2 marks)
Drawing curve	K/C (1 mark)
Labeling curves	K/C (1 mark)

The Phillips Curve shows the relationship between the unemployment rate and the rate of inflation, indicating a trade-off between the two.

K/C (2 marks)

Any point on the curve relates to particular level of unemployment to a particular change of money wages.

K/C (2 marks)

(b) (i) Rising unemployment: This is of concern to the government because with rising unemployment

- potential output is not achieved, the demand will not be met
A/A (2 marks)

- greater burden on the state and on tax payers since those unemployed persons will be given welfare at the expense of the government.
A/A (2 marks)

- non-economic costs, such as increased crime as some seek to address their situation by stealing
A/A (2 marks)

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 3 cont'd**

(ii) High and rising inflation is of concern to the government because

- domestically this would lead to citizens increasing their demand for imports and foreign consumers of locally produced goods reducing demand for local exports which leads to balance of payment deficit **A/A (2 marks)**

- the increased price of commodities would result in decreased demand with citizens' standard of living being affected. **A/A (2 marks)**

- rising price levels might increase production cost which might cause firms to retrench workers resulting in unemployment and cut back aggregate supply. **A/A (2 marks)**

(c) **Justify whether Phillips curve is applicable to your country**
S/E (5 marks)

Discussion must include the fact that Phillips curve can assist government in selecting the preferred combination of unemployment and inflation.

It can also assist in making decisions regarding the reduction of unemployment if the country is prepared to pay the price for higher inflation

Discussion well developed and include appropriate illustration/examples. **S/E (4-5 marks)**

Discussion fairly well developed and include illustrations / examples **(2-3 marks)**

Weak conclusion **(0-1 mark)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 4****(a) (i) Distinguish between fiscal policy and monetary policy**

Indicating that monetary policy is the use of banking system to control the money supply and influence interest rates to influence economic activity. **K/C (1 mark)**

Indicating that fiscal policy is the use of government spending and taxation to influence economic activity. **K/C (1 mark)**

Indicating that monetary policy is controlling the money supply by manipulating rate while fiscal policy is the ability to influence spending by taxation. **K/C (2 mark)**

(ii) Distinguish between expansionary and contractionary monetary policy

Indicating that expansionary monetary policy increases the money supply by lowering interest rate, it increases real GDP and employment. **K/C (1 mark)**

Indicating that contractionary monetary policy decreases the money supply by increasing interest rates, it reduces real GDP and employment. **K/C (1 mark)**

Indicating expansionary monetary policy is used during periods of recession and unemployment while contractionary monetary policy is used during periods of inflation. **K/C (2 marks)**

(b) Explain how the rate of inflation can be controlled

Stating that open market operations via the sale of government securities will reduce excess reserves and lead to a multiple contraction of the money supply.

Interest rates increase, investment spending decrease, aggregate demand decrease as well as inflation. **A/A (3 marks)**

Stating that increases in the reserve ratio leads to reduction in excess reserves, decrease leads to reduction in excess reserves, decreases the money supply. This will reduce the banks' ability to lend, and this reduces aggregate demand as well as inflation. **A/A (3 marks)**

Indicating that increasing the discount rates discourages banks from borrowing from the Central Bank and reduces the ability to lend. The money supply is reduced, aggregate demand is reduced and inflation is reduced. **A/A (3 marks)**

Stating that by using moral suasion, the Central Bank administration asks banks to restrict their lending. If banks agree, the money supply is reduced, investment spending is reduced, aggregate demand is reduced and inflation is reduced. **A/A (3 marks)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 4 cont'd**

- (c) **Discuss the effectiveness of using monetary policy to control inflation** **S/E (5 marks)**

Discussion should be developed on ONE of the following:

- Moral suasion is not compelling
- The money supply of foreign-owned commercial banks is difficult to control
- Difficulty in eliminating lags in monetary policy
- Monetary policy is weakened by fiscal indiscipline
- Excess liquidity makes monetary policy ineffective

Discussion is coherent and generally well supported by a coherent example **S/E (4-5 marks)**

Discussion is satisfactory and partially supported by an example **S/E (2-3 marks)**

Discussion is weak and without a supportive example **S/E (0-1 mark)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 5**

- (a) **Outline TWO main components of sustainable development. (4 marks)**

Sustainable development refers to economic development that takes into consideration the well-being of the present as well as future generations, thus ensuring that adequate resources are made available including a safe environment and natural wealth. **K/C (2 marks)**

- (b) **Identify FOUR structural characteristics of the Caribbean K/C (4 marks)**

Smallness
Openness
Composition of exports
Resource base
Poverty
Economic dependence

- (c) **Evaluate the impact of the region's structural characteristics on sustainable economic development (17 marks)**

Candidates should develop the points identified in (b) above

Smallness
Being small means that government is in a weak negotiating position. This is usually the case with small states, and its firms need foreign sources of supply and foreign exchange, more than they themselves are needed. **A/A (3 marks)**

Openness
The open nature of most small states has resulted in the presence of multinationals relocating to them. This sometimes results in these states experiencing an injection of foreign direct investment. **A/A (3 marks)**

Narrow export base
Most of the exports of small states are usually primarily agricultural products. This makes the export base narrow. That is, the export is made up of a small range of goods and services. **A/A (3 marks)**

Narrow resource base
Low levels of labour productivity may be experienced because of lack of capital due to inefficient savings to finance investment and as a result production is highly labour intensive. There is inefficient technology and poor quality labour due to low skill and educational levels. **A/A (3 marks)**

Conclusion
Candidates should discuss the pros and cons of the aforementioned factors.

Clear and coherent, well reasoned conclusion **(4-5 marks)**
Reasonable but inconclusive discussion **(2-3 marks)**
Weak discussion **(0-1 marks)**

ECONOMICS**UNIT 2****Key/Mark Scheme****QUESTION 6**

- (a) **Four forms of economic integration** (8 marks)

Economic integration refers to economic cooperation among economies and harmonization of their economic policies.

Free trade area - a trading arrangement where member countries remove tariffs and quotas between themselves but retain restriction with non-member countries. **K/C (2 marks)**

Customs Union - a free trade area within member countries adopting common external tariffs and quotas with non-member countries. **K/C (2 marks)**

Common Market - a customs union with free movement of the factors of production between countries. **K/C (2 marks)**

Economic Union - a common market with convergence of macro-economies among members as well as a single currency. **K/C (2 marks)**

- (b) **Evaluate the costs and benefits of economic integration**

Candidates should discuss the four forms of integration attained by the Caribbean in a coherent manner.

The process of integration in the Caribbean has gone from a free trade area, CARIFTA, to a Customs Union, CARICOM. There is currently a Common External Tariff (CET) on export from non-members. The final stage of integration will be seen with the CARICOM Single Market and Economy. There will be free movement of labour and resources throughout the CSME. **A/A (6 marks)**

Candidates should discuss the costs and benefits of economic integration in the Caribbean. That is, Trade creation - countries switch trade from high cost to low cost producers. There will be greater specialization because of comparative advantage. Lower cost leads to greater surplus.

Trade diversion - Most countries trade with non-members (US, UK, Europe) whose cost of production would be cheaper than those countries inside the Caribbean region. Trade diversion may be limited since trade among CARICOM members states is limited in volume and value. **A/A (6 marks)**

Candidates should conclude that economic integration movement in the Caribbean has challenges but there was movement from the lower form (Free Trade Area) to a high form (Economic Union). Here, the benefits exceed the costs. **S/E (5 marks)**

Clear and coherent, well reasoned conclusion (4-5 marks)
Reasonable but inconclusive discussion (2-3 marks)
Weak discussion (0-1 marks)

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SUBJECT ECONOMICS – UNIT 2 – Paper 032

PROFICIENCY ADVANCED

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SCHOOL/CENTRE NUMBER

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NAME OF SCHOOL/CENTRE

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CANDIDATE’S FULL NAME (FIRST, MIDDLE, LAST)

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MAY/JUNE 2016

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ECONOMICS

SPECIMEN PAPER

UNIT 2 – Paper 032

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of a case study and 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.**

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INSTRUCTIONS: Read the case and answer all the questions.

CASE STUDY

The International Monetary Fund – The Evolution of Ideology

The International Monetary Fund (IMF) had its beginning in 1944, with intellectual founding fathers John Maynard Keynes and Harry Dexter White at the helm. The aim was to create a post-war economic institution that would maintain exchange rate stability by lending to countries experiencing temporary balance of payments problems. Over the years, in response to global developments the function of the fund has expanded but has in general remained the same. In the early years, the IMF adopted Keynesian thought, with the major thrust of macroeconomic policies being the maintenance of high levels of employment and real income.

The theory that Keynes developed has promoted the thought that inadequate overall demand could lead to prolonged periods of high unemployment. The key to that problem would be to increase aggregate demand through any one of its four components: consumption, investment, government purchases, and net exports (the difference between what a country sells to and buys from foreign countries). In the event that demand is dampened to the point where both consumer and investor confidence is severely eroded, the job of increasing output rests on the shoulders of the government. The popularity of Keynesianism diminished by the 1970s because it had no suitable policy response for stagflation. This gap was filled by the Monetarist economists who questioned the ability of governments to regulate the business cycle with fiscal policy and argued that prudent use of monetary policy would be more effective in alleviating the problem of stagflation.

As time passed the IMF shifted away from Keynesianism and gravitated towards the laissez-faire Chicago School (new classical school), which advocates liberalism and monetarism. The main tenets of the Chicago school are that free markets best allocate resources in an economy, and that minimal government intervention is best. Conditionalities such as austerity and liberalism, in particular free trade, has characterized the loans offered to countries who seek the IMF's assistance. Since the 1970s when rich countries no longer needed to turn to the IMF, the institution has turned its attention to struggling developing countries including countries in the Caribbean region.

Caribbean countries facing balance of payments difficulties have sought and received assistance from the IMF by way of the stand-by arrangements and the extended fund facility (EFF) that are offered by the IMF. Since 1979, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica and Trinidad and Tobago have accessed the IMF's financing facilities at various times. The success of the IMF facilities in the Caribbean has been mixed. For most countries, except for the case of Jamaica and Guyana, the effect on GDP has been contractionary in the short term, but Caribbean countries have managed to restore their economies on a path to sustained growth – despite the inherent structural characteristics like small size.

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1. (a) Outline TWO determinants of aggregate demand.

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[4 marks]

(b) Explain how the following schools might respond to a recession.

(i) Keynesian

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[3 marks]

(ii) Monetarist

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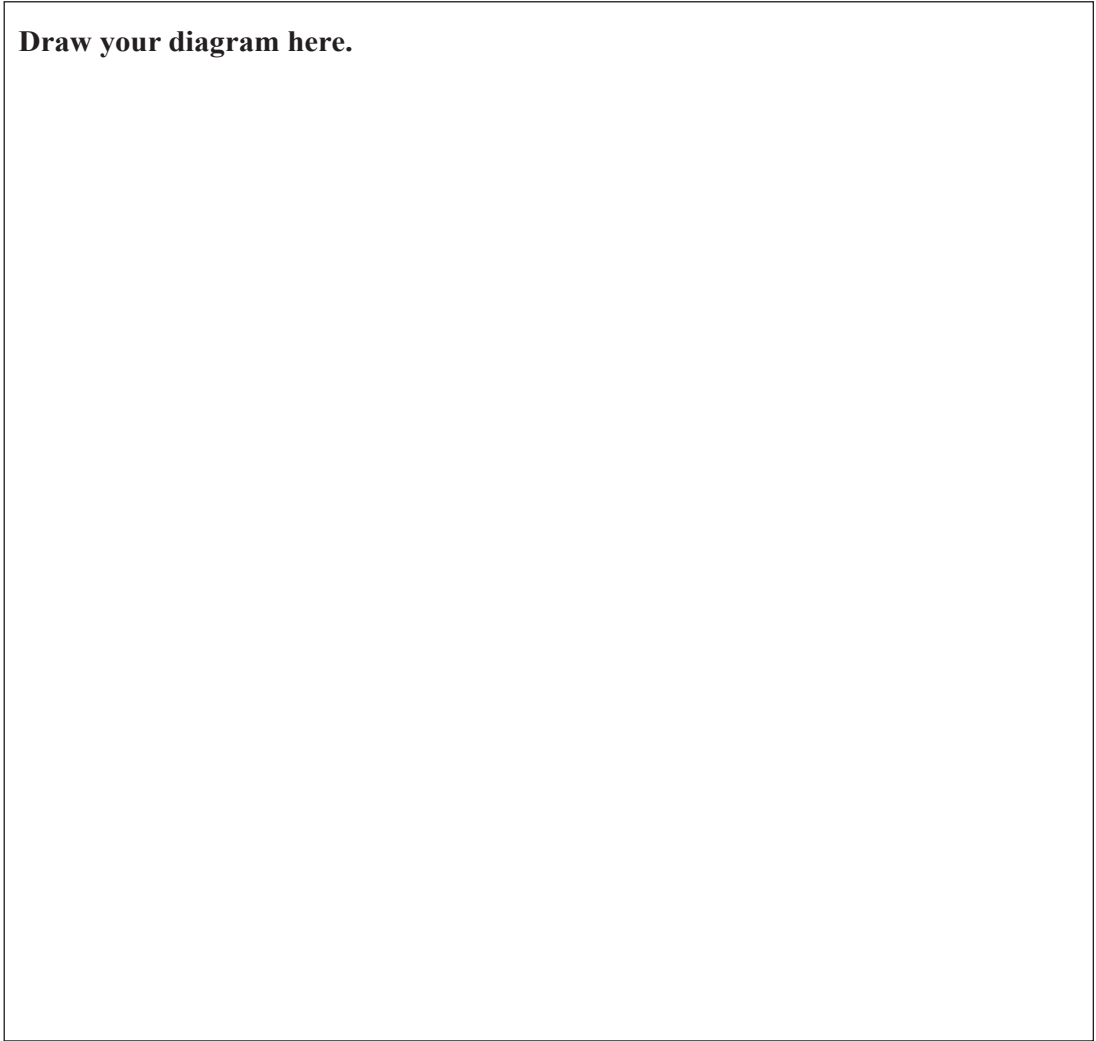
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[3 marks]

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- (c) With the aid of the Keynesian cross diagram, discuss the impact of an increase in government expenditure on national income.

Draw your diagram here.



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Total 20 marks

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2. (a) (i) State TWO goals of fiscal policy.

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[2 marks]

(ii) Distinguish between 'fiscal policy' and 'monetary policy'.

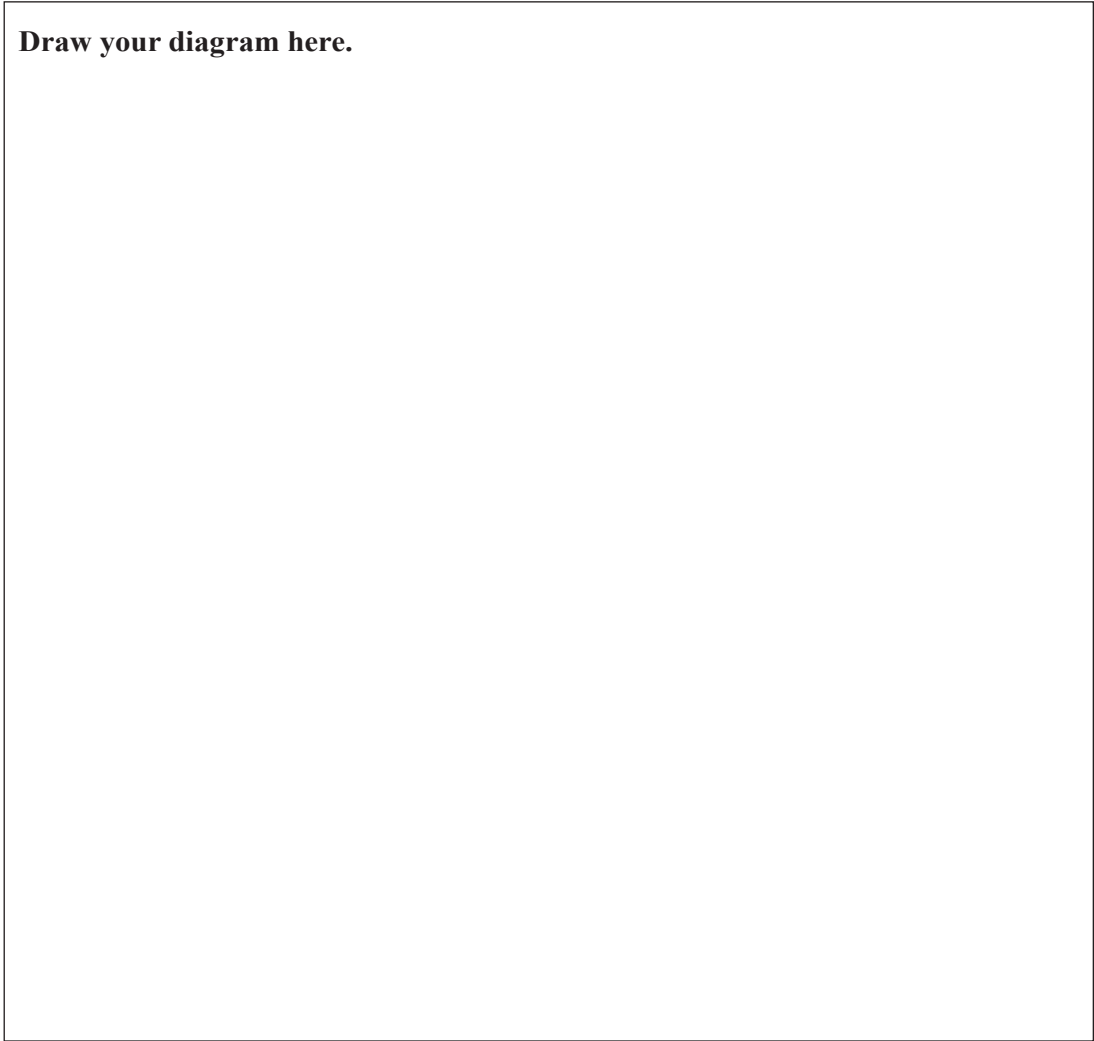
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- (b) With the aid of a diagram, explain the concept of stagflation.

Draw your diagram here.



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3. (a) List FOUR structural characteristics of Caribbean economies.

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[4 marks]

(b) Distinguish between the role of the International Monetary Fund (IMF) and the World Bank.

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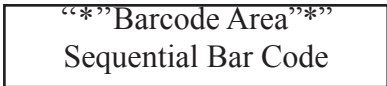
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CANDIDATE'S RECEIPT

INSTRUCTIONS TO CANDIDATE:

1. **Fill in all the information requested clearly in capital letters.**

TEST CODE:

0	2	2	1	6	0	3	2
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SUBJECT: ECONOMICS – UNIT 2 – Paper 032

PROFICIENCY: ADVANCED

REGISTRATION NUMBER:

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FULL NAME: _____
(BLOCK LETTERS)

Signature: _____

Date: _____

2. **Ensure that this slip is detached by the Supervisor or Invigilator and given to you when you hand in this booklet.**
3. **Keep it in a safe place until you have received your results.**
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INSTRUCTION TO SUPERVISOR/INVIGILATOR:

Sign the declaration below, detach this slip and hand it to the candidate as his/her receipt for this booklet collected by you.

I hereby acknowledge receipt of the candidate's booklet for the examination stated above.

Signature: _____
Supervisor/Invigilator

Date: _____

CAPE/K/MS/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
HEADQUARTERS

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

QUESTION 1

- (a) **State THREE reasons why Foreign Direct Investment companies invest abroad. Any three of the following**

- To gain access to raw materials and market **K/C (2 marks)**
- To avoid trade barriers **K/C (2 marks)**
- To take advantage of lower labour costs **K/C (2 marks)**
- to exploit their technological and organizational advantages (such as superior managerial skills) over local firms **K/C (2 marks)**
- because their main domestic rivals have already undertaken overseas investment or about to do so **K/C (2 marks)**

Total 6 marks

- (b) **Explain THREE ways in which the presence of Foreign Direct Investment impacts on the aggregate expenditure and equilibrium of a country.**

Foreign direct investment is considered as gross private domestic investment. An increase in foreign direct investment will lead to an increase in aggregate expenditure **A/A (2 marks)**

since $AE = C + I_g + G + X_n$ of the same amount. **A/A (2 marks)**

The equilibrium level or national income/GDP will increase by an amount that is greater than the initial increase in foreign direct investment because of the multiplier effect. **A/A (2 marks)**

Total 6 marks

- (c) **Discuss, using Classical theory, unemployment in the Caribbean.**

Classical theory view all unemployment as being voluntary. They assumes that prices and wages are flexible and that they adjust quickly so the market will always be in equilibrium. Anyone who is without employment chooses to be unemployed. If unemployment exist for a brief moment, the forces of supply and demand will adjust quickly to bring the labour market back into equilibrium, therefore anyone who wants to work will find work.

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

QUESTION 1 cont'd

In the Caribbean there are persons who have graduated from schools and colleges and are unemployed because they refuse to take a job at a lower level than what they think they qualify for. For instance, an individual who graduates with 6 CXC subjects may refuse to take a job as a store clerk, hence, according to the theory of unemployment, that person may choose to be unemployed.

Outlining theory

A/A (2 marks)

Applying theory to the Caribbean

S/E (4 marks)

Use of appropriate examples

S/E (2 marks)

Total 20 marks

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

QUESTION 2(a) (i) **Definition of National Debt**

National Debt refers to the total of all past borrowings by the state. **K/C (2 marks)**

(ii) **Outline TWO ways by which FDI flows by MNCs may have a positive impact on a country's National Debt.**

- The government can utilize its ability to give tax breaks and incentives to firms that may wish to invest locally hence foreign exchange is provided **K/C (2 marks)**
- More employment is provided and this generates more tax revenue **K/C (2 marks)**

Total 6 marks

(b) **Explain THREE ways in which fiscal policy in your country may discourage the presence of multinational companies (MNCs) and foreign direct investment (FDI).**

- If taxes to the firms are too high. **A/A (2 marks)**
- If insufficient expenditure is spent on the country's infrastructure such as roads, water and electricity. **A/A (2 marks)**
- If there is no incentive to MNC in the form of tax holidays. **A/A (2 marks)**

Total 6 marks

(c) **Evaluate the impact of MNCs on employment in your country.**

Candidates' discussion should include at least TWO of the following points

- the training of employees
- the hiring of citizens
- the technological experience gained by workers

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

QUESTION 2 cont'd

While MNCs provide employment for citizens, more often than not employment is at the lower level. [2] Most of the executive positions are held by foreign individuals. [1] There is usually little opportunity for training as the skills required is usually at the lower level. [2] This is quite evident in the construction industry [1] where locals are usually masons, carpenters and labourers while positions such as architect and engineer are held by foreign persons. [2]

Outline benefits and drawbacks	A/A (2 marks)
Discussion focuses on benefits and drawbacks and uses illustrative examples	S/E (5-6 marks)
Discussion focuses on benefits and drawbacks	S/E (3-4 marks)
Discussion focus on one side of the argument	S/E (1-2 marks)
	(8 marks)
	Total 20 marks

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

QUESTION 3(a) (i) **Define 'Current Account'**

Current Account are records of exports and imports of goods and services, net investments and net transfers.

K/C (2 marks)

Examples of Current Account Transaction

K/C (1 mark)

Merchandise Trade Balance
 Services Balance
 Net Property Income Balance
 Current Transfers Balance

Define 'Capital Account'

Capital Account are records of the transfers of capital to and from abroad. They are addition to the capital stock of a country.

K/C (2 marks)

Examples of Capital Account Transactions

K/C (1 mark)

Official Capital flows
 Private Capital flows
 Errors and Omissions

Total 6 marks

(b) **Explain THREE ways in which FDI flows by MNCs impact negatively on the Caribbean.****Candidates must elaborate on Any three for 2 marks each**

- Profit may be repatriated - Multinationals can deprive Caribbean countries of foreign exchange. They have the ability to move capital and profits around the world and avoid tax and exchange control regulations through policy or inter-company pricing. Also, while goods produced by these companies are sold abroad thus creating exports for Caribbean countries, much of the equipment, parts etc, which goes into the finished goods have to be imported.

ECONOMICS

UNIT 2 - PAPER 03/2

KEYS AND MARK SCHEME

- Cultural penetration may influence the citizens - Multinationals may change the culture of Caribbean countries in such a way that people's priorities change and they become more selfish, greedy and rapacious and less concerned with their fellow human beings in pursuit of wealth.
- There may be transfer pricing
- Tax holidays may result in country's losing out on valuable revenue

(c) **Justify why FDI inflows are classified as Capital Account Transactions in the Balance Sheet.**

FDI inflows are classified as Capital Account transactions since they represent additions to the stock of capital. It is recorded under Private Capital flows. The income earned on such investment by a MNC is however classified as a Capital Account Transaction.

For example, if funds From Barbados are exported to purchase Unites States bonds, the capital transaction involves the purchase and hence the import of the United States bonds and this has the same effect on the balance of payment as the purchase and hence the import of a united States Good. Both items involve payment to foreigners and both use foreign exchange. They are thus debit items in the Barbados balance of payment.

Show a clear understanding of the transaction **A/A (2 marks)**

Discuss concept with the use of valid illustrative examples
S/E (6 marks)

(8 marks)

Total 20 marks