JUNE 2011.

ECONOMICS

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 60 items. You will have 75 minutes to answer them.
2. In addition to this test booklet, you should have an answer sheet.
3. Each item in this test has four suggested answers lettered (A), (B), (C), (D). After reading each item you are about to answer, decide which choice is best.
4. On your answer sheet, find the number which corresponds to your item and shade the space having the same letter as the answer you have chosen. Look at how it is done in the sample item below.

   Sample Item

   Economics may be described as a 'Social Science' because it deals with

   (A) the economy
   (B) the environment
   (C) human behaviour
   (D) production and consumption

   Sample Answer

   The best answer to this item is "human behaviour", so answer space (C) has been shaded.

5. If you want to change your answer, erase it completely before you fill in your new choice.
6. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item, go on to the next one. You may return to the omitted item later. Your score will be the total number of correct answers.
7. The use of silent electronic calculators is allowed.

1. Which of the following is the MAJOR problem facing all economies?

(A) Allocating scarce resources among competing users
(B) Achieving an equal distribution of income
(C) Preventing the depletion of natural resources
(D) Achieving a fair distribution of wealth

2. An 'economy' is BEST described as a system where

(A) suppliers produce all the goods and services needed by the consumers
(B) resources are used by manufacturers to produce goods and maximize profits
(C) all the goods and services used by citizens of a country are provided by the government
(D) resources are used to produce goods and services to meet the needs and wants of society

3. Sita and Peter are planning to buy a new house. Which of the following factors should NOT affect the couple's decision?

(A) Their joint monthly income
(B) The possibility of a job promotion for Peter
(C) The high cost of renting their current home
(D) The acquisition of a new home by Sita's best friend

4. A student has a daily allowance of $20 with which he can purchase chicken and chips or a burger, but NOT both. If he purchases the chicken and chips, the opportunity cost of his decision will be

(A) the burger he gave up
(B) the satisfaction he gets from burgers
(C) the price of the chicken and chips
(D) the satisfaction he gets from the chicken and chips

5. A 'free good' is BEST described as a good

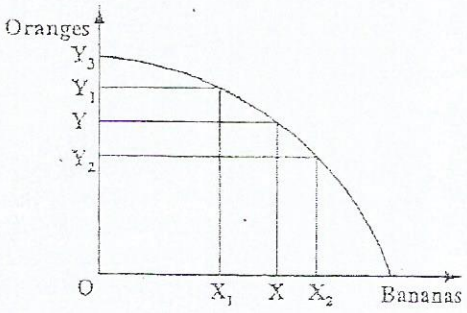
(A) that is given away by a retailer to promote the sale of another good
(B) which gives no satisfaction to consumers
(C) which has an infinite elasticity of supply
(D) whose opportunity cost is zero

6. Which of the following is NOT a primary product?

(A) Bauxite
(B) Banana
(C) Furniture
(D) Petroleum

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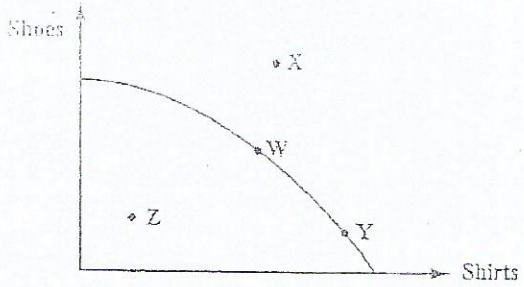
Item 7 refers to the diagram below which shows the production possibility curve for an economy that produces bananas (X) and oranges (Y).



7. If OX is the amount of bananas produced, what is the greatest amount of oranges that can be produced?

(A) OY
(B) OY_1
(C) OY_2
(D) OY_3

Item 8 refers to the diagram below which shows the production possibility curve for two goods: shirts and shoes.



8. At what point in the diagram are resources underemployed?

(A) W
(B) X
(C) Y
(D) Z

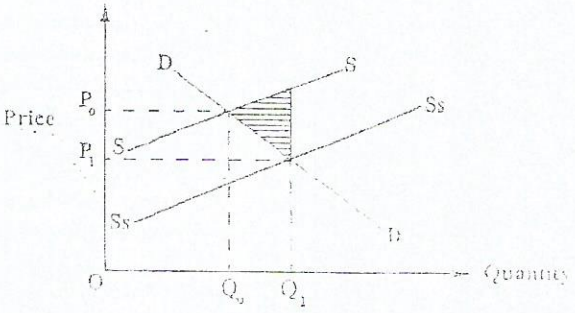
9. An outward shift in a production possibility curve can be caused by an

(A) increase in wages
(B) increase in prices
(C) increase in imports
(D) improvement in technology

10. Unemployment that results from a change in technology and the resulting re-training and re-hiring of staff is an example of

(A) structural unemployment
(B) cyclical unemployment
(C) frictional unemployment
(D) seasonal unemployment

Item 11 refers to the diagram below. Ss is the supply curve before a subsidy is given.



11. As a result of the granting of the subsidy it is expected that

(A) supply will increase
(B) supply will decrease
(C) demand will decrease
(D) price will increase

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Item 12 refers to the table below which provides information on three similar goods, X, Y and Z. Consumers buy more of Good Z because of its lower price.

Good	Price ($)
X	10
Y	8
Z	3

12 Which of the following factors will cause consumers to buy less of Good Z?

(A) An increase in the supply of Good Z
(B) An imposition of a 100 per cent tax on Good Z
(C) The placement of a 100 per cent subsidy on Good Z
(D) The advertisement of Good Z as an impressional good

13. In an attempt to increase the efficiency of its staff, management assigns specific tasks to each worker. This is an example of

(A) progress
(B) productivity
(C) specialisation
(D) entrepreneurial ability

14. In a commercial bank, wages and salaries are NOT paid to

(A) shareholders of the bank
(B) bank tellers and supervisors
(C) investment managers of the bank
(D) maintenance workers employed by the bank

15. Which of the following is an advantage of a market economy?

(A) There is equality of income.
(B) It provides an incentive to produce.
(C) It reduces pollution and congestion.
(D) Price control measures can be effected.

16. Prices of goods in market economies fluctuate while prices of goods in planned economies tend to be fixed. The MOST likely reason for this difference is that, in the market economy,

(A) profits are lower
(B) producers are never efficient
(C) buyers and sellers determine prices
(D) there are higher unemployment levels

17. Which of the following are NOT considered factors of production in the bauxite industry?

(A) Companies that use bauxite
(B) Lands on which mines are located
(C) Workers employed to work on the mines
(D) Persons who invest their capital to carry out mining operations

18. Sam and Su started a catering business. They organised the factors of production and pooled their financial resources to produce the goods and services. Which factors of production should Sam and Su be classified as?

(A) Workers
(B) Investors
(C) Managers
(D) Entrepreneurs

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19. Which of the following is NOT an example of a factor of production in a commercial bank?

(A) The building
(B) The bank's vault
(C) Shareholders of the bank
(D) Special savings accounts for students

20. Many developing countries have changed from command economies to market-based economies in order to increase

(A) subsidies
(B) efficiency
(C) price control
(D) government control

21. An economy in which ALL of the resources EXCEPT labour are owned by the state can be described as a

(A) free economy
(B) mixed economy
(C) capitalist economy
(D) command economy

22. In which of the following situations will a normal supply curve for farm produce slope upwards from left to right?

(A) Farmers pass on increased cost to consumers.
(B) Farmers' profit margins increase as price increases.
(C) Farmers are willing to produce more as price increases.
(D) Farmers are willing to increase supply as demand increases.

23. Which of the following features is NOT a characteristic of perfect competition?

(A) Freedom of entry and exit
(B) Selling of homogeneous products
(C) Many buyers and one seller
(D) Knowledge of market conditions

24. According to economic theory, second-hand cigarette smoke is an example of a

(A) merit good
(B) private good
(C) positive externality
(D) negative externality

25. Which of the following is MOST likely to occur if there is an increase in the demand for cameras?

(A) The price of cameras will fall.
(B) The price of cameras will rise.
(C) The supply of cameras will fall.
(D) The price and supply of cameras will remain the same.

Item 26 refers to the following table.

Price of potatoes ($)	Market demand (000 kg)	Market supply (000 kg)
4	700	100
8	500	200
12	350	350
16	200	530
20	100	700

26. What is the equilibrium price?

(A) $ 4
(B) $ 8
(C) $12
(D) $16

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27. An increase in the price of flour is MOST likely to be followed by an immediate

(A) rise in the quantity demanded for bread
(B) fall in the quantity supplied of flour
(C) rise in the quantity supplied of flour
(D) rise in the quantity demanded for flour

28. Which of the following will NOT occur when there is market failure?

(A) A decline in social welfare
(B) An increase in poverty throughout the economy
(C) Increasing levels of unemployment among skilled and unskilled labour
(D) Adequate amounts of all goods and services for consumers

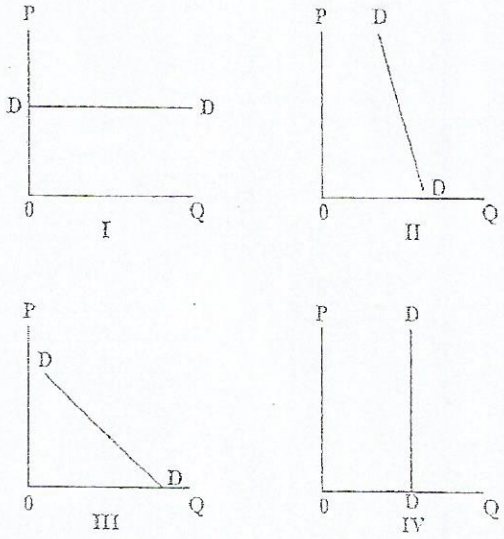
29. Which of the following is an example of fixed capital?

(A) Cash
(B) Machinery
(C) Bank balance
(D) Raw material

30. Which of the following is NOT TRUE of perfect competition?

(A) Firms are price takers.
(B) Products are homogenous.
(C) There are no barriers to entry.
(D) Firms engage in price discrimination.

Item 31 refers to the following diagrams, I, II, III and IV.



31. Which diagram above indicates that demand is perfectly elastic?

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

32. Large firms achieve savings in unit costs from advertising or packaging. This is a result of which of the following economies of scale?

(A) Financial
(B) Technical
(C) Marketing
(D) Managerial

33. Joe Brown sells his produce at the market and saves his money until he has enough to buy a tractor. Which of the following functions is money performing in this case?

(A) Store of value
(B) Unit of account
(C) Medium of exchange
(D) Standard of deferred payment

34. Divisibility is an important function of money because it

(A) encourages the process of specialisation
(B) removes the problems associated with barter
(C) enables small transactions to take place
(D) assists individuals to allocate wealth in a profitable manner

35. To which of the following does the term 'legal tender' refer?

(A) Money that has no direct backing of gold
(B) Money that government declares must be accepted if offered as settlement of debt
(C) Assets that perform only the function of a store of wealth
(D) Assets that can be converted immediately into a known amount of money

36. Which of the following is NOT a financial institution in an economy?

(A) Development Bank
(B) Share market
(C) Credit union
(D) Trade union

37. Which of the following financial instruments are issued by the Government?

(A) Treasury bonds
(B) Corporate bonds
(C) Equity securities
(D) Shares on the stock exchange

38. Which of the following is referred to as the banker's bank?

(A) The World Bank
(B) The Central Bank
(C) A commercial bank
(D) An investment bank

39. One of the functions of a commercial bank is to

(A) issue notes and coins
(B) provide loans to the public
(C) determine the foreign exchange rate
(D) keep the accounts of government departments

40. The Central Bank calls for an increase in the reserve requirements of commercial banks. How will this affect the operations of commercial banks?

(A) Their liquid assets will be reduced.
(B) Their ability to create credit will increase.
(C) Their loans to money markets will increase.
(D) They will attract less deposits from the public.

41. A treasury bill is an instrument for short-term borrowing by

(A) importers
(B) governments
(C) public companies
(D) insurance companies

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Item 42 refers to the table below which shows the rate of inflation and the average percentage increase in wages over a four-year period.

YEAR	RATE OF INFLATION (%)	WAGE INCREASES (%)
2006	5	20
2007	10	20
2008	10	5
2009	15	5

42. In which year was the increase in real wages GREATEST?

(A) 2006
(B) 2007
(C) 2008
(D) 2009

Items 43 - 44 refer to the following table which shows Government revenue and Government expenditure for four countries, A, B, C and D.

Country	Government Revenue $ (Million)	Government Expenditure $ (Million)
(A)	3.2	3.2
(B)	3.2	2.2
(C)	2.2	3.2
(D)	0	0

43. Which country has a fiscal deficit?

44. Which country has a budget surplus?

45. Which of the following is usually a direct effect of retrenchment in a country?

(A) Increased standards of living
(B) Reduced standards of living
(C) Reduction in crime and violence
(D) Equality in the distribution of wealth

46. Which of the following measures is MOST likely to reduce inflation?

(A) Increasing bank lending
(B) Increasing import duties
(C) Reducing direct taxation
(D) Reducing government expenditure

Item 47 refers to the table below which shows manufacturing output as a share of Gross Domestic Product for four countries A, B, C and D.

YEAR	COUNTRY A	COUNTRY B	COUNTRY C	COUNTRY D
1970	28%	40%	29%	29%
1990	23%	34%	26%	28%
2000	19%	31%	21%	23%

47. What trend is common to ALL countries shown in the table?

(A) There was a decline in the Gross Domestic Product.
(B) There was a decline in the sale of manufactured products.
(C) There was an increase in employment in the manufacturing sector.
(D) There was a decline in manufacturing output as a share of Gross Domestic Product.

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48. Which of the following is LEAST likely to be used as a measure to control inflation?

(A) Increase in taxation
(B) Reduction in government expenditure
(C) Reduction in the rate of interest on loans
(D) Restrictions on lending by commercial banks

49. Some developing countries try to achieve economic growth with less governmental participation. This is MOST likely to be achieved through increased

(A) trade barriers
(B) state planning
(C) private investment
(D) public expenditure

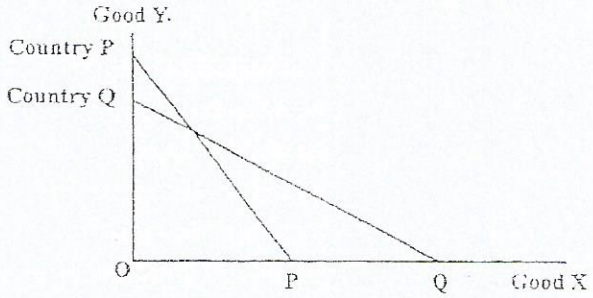
50. Which of the following BEST explains the term 'tariff'?

(A) The amount of subsidies received by local exporters
(B) The level of tax that is levied on imports entering a country
(C) The amount of goods that can be imported into a country
(D) The common tax levied by countries on member countries within a region

51. Which of the following will result in a surplus on the balance of trade of a country?

(A) Value of imports is greater than the value of exports.
(B) Value of exports is greater than the value of imports.
(C) Volume of exports is greater than the volume of imports.
(D) Volume of imports is greater than the volume of exports.

Item 52 refers to the following information, which provides data on two countries P and Q, and two goods, X and Y.



52. With reference to the diagram above, which of the following is TRUE?

(A) Country P has an absolute advantage in Good Y only.
(B) Country P has an absolute advantage in Good Y and Good X.
(C) Country Q has an absolute advantage in Good Y only.
(D) Country Q has an absolute advantage in Good Y and Good X.

Items 53 - 54 refer to the following table which illustrates the Balance of Payments of Caribe Island.

	$ (billion)	
Merchandise exports	500	
Merchandise imports	-555	
Balance of Trade		
Export of Services	100	
Imports of Services	-200	
Balance of goods and services		
Net investment income	4	
Net transfers	12	
Balance on current account		
Capital inflows	100	
Capital outflows	-20	
Balance of capital account		
Current and Capital account balance		-59
Official Reserves		0

53. The balance of trade in $ (billion) is

(A) 55
(B) -55
(C) 1355
(D) -1355

54. The capital account in $ (billion) is

(A) 80
(B) -80
(C) 120
(D) -120

55. Country A is experiencing a balance of payments deficit. Which of the following measures should it take to reduce the deficit in the short-term?

(A) Reduce the volume of exports to other countries.
(B) Engage in trade with other low-cost producers of goods.
(C) Increase the importation of goods from other countries.
(D) Impose restrictions on goods imported from other countries.

56. Which of the following is LIKELY to lead to greater international investment flows to the Caribbean region?

(A) Globalisation
(B) Specialisation
(C) The World Bank
(D) The International Monetary Fund

57. Which of the following statements BEST describes globalisation?

(A) International trade of goods and services including skilled workers
(B) Movement in technology and financial markets worldwide
(C) The integration of financial services, technology and commodities markets worldwide
(D) Movement of tangible and intangible goods enhanced by growth in the computer industry

58. Which of the following BEST defines the term 'protectionism'?

(A) Restriction of imports into a country
(B) Dependency on a primary product for export
(C) Free movement of goods and services among countries
(D) Establishment of a trading bloc among a group of countries

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59. Country X has a very low unemployment rate as most of its citizens work overseas for 6 - 8 months during the year.

This type of unemployment can be classified as

(A) cyclical
(B) real wage
(C) seasonal
(D) structural

60. Trade liberalisation should result in several benefits to consumers. Which of the following is NOT a benefit to consumers?

(A) Prices of goods and services will increase.
(B) Prices of goods and services will be reduced.
(C) Cost of providing goods and services will be lower.
(D) There will be greater access to a variety of goods and services.

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