CANDIDATE – PLEASE NOTE!

PRINT your name on the line below and return this booklet with your answer sheet. Failure to do so may result in disqualification.

TEST CODE **01216010**

FORM TP 2020058

MAY/JUNE 2020

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

1 hour 15 minutes

19 MAY 2020 (p.m.)

710

0058

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 60 items. You will have 1 hour and 15 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). Read each item you are about to answer and 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 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 (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 that item later.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

A005

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1. Which of the following rewards accrues to the factor of production called 'capital'?

(A) Rent
(B) Profit
(C) Wage
(D) Interest

2. An outward shift in the production possibility curve can be caused by an

(A) increase in wages
(B) increase in imports
(C) improvement in technology
(D) improvement in the standard of living

3. Which of the following is NOT a way in which governments influence the economic decisions of businesses?

(A) Increasing retirement benefits
(B) Passing minimum wage legislation
(C) Regulating the emissions of toxic waste
(D) Identifying areas where businesses should be located

4. An 'economy' is BEST described as

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

5. 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 the

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

6. Country X allows the foreign exchange market to determine the rate of its domestic currency based on the forces of demand and supply. This type of exchange rate is referred to as

(A) fixed
(B) pegged
(C) floating
(D) managed

7. Ayarna Ltd grows and harvests coconuts which are sold directly to customers without processing.

In which of the following sectors is Ayarna Ltd mainly operating?

(A) Mixed
(B) Tertiary
(C) Primary
(D) Secondary

8. A pure public good can be described as

(A) excludable
(B) zero-priced
(C) diminishable
(D) complimentary

GO ON TO THE NEXT PAGE

9. 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) there are higher unemployment levels
(D) demand and supply forces determine prices

10. Which of the following is a reward to a factor of production?

(A) Taxes paid to government
(B) Promotion to a higher grade in the workplace
(C) Profits declared by a company in its annual report
(D) The managerial skills of the managers of a business

11. Which of the following is LEAST likely to affect the efficiency of labour?

(A) Firm's profitability
(B) Worker motivation
(C) Level of technology
(D) Education and training

12. Choice is the MOST important issue in economics because

(A) incomes are not evenly distributed
(B) most countries have a low per capita income
(C) resources are scarce relative to consumers' wants
(D) money is scarce in relation to a country's resources

13. The term 'money supply' refers to the

(A) total stock of money in an economy at any moment
(B) amount of money traded in the foreign exchange market
(C) total amount of gold, silver and other precious metals in reserve
(D) total asset base of the institutions in the financial sector

14. The restriction of international trade through tariffs, embargoes, quotas and exchange controls is referred to as

(A) structural adjustment
(B) a bilateral agreement
(C) globalization
(D) protectionism

15. Bargain Supermarket increased the price of its name brand tissue by 65 per cent and sales fell by 115 per cent.

How should the price elasticity of demand for Bargain's tissue be described?

(A) Elastic
(B) Inelastic
(C) Perfectly elastic
(D) Perfectly inelastic

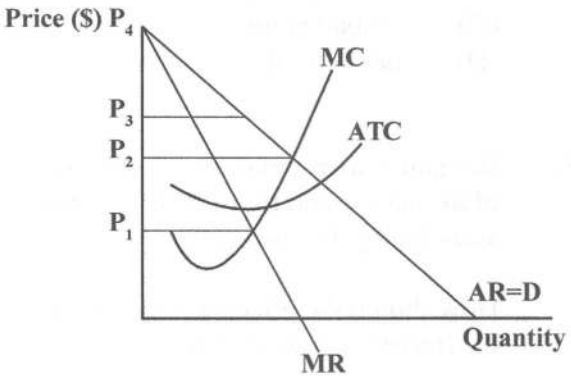
16. A government reduces tax on carrots. This causes the price of carrots to fall by 50 per cent. The quantity demanded then rises by 50 per cent. The price elasticity of demand for carrots in this case is

(A) 0
(B) 0.4
(C) 1
(D) 2.5

17. All things being equal, an increase in the supply of a good will result in

(A) a decrease in the price and quantity traded
(B) an increase in the price and quantity traded
(C) a rise in revenue and a fall in the quantity traded
(D) a fall in price and an increase in the quantity traded

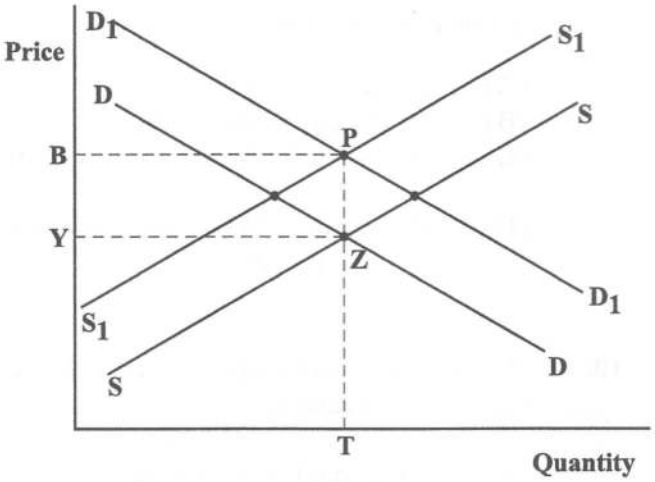
Item **18** refers to the following diagram which represents a firm maximizing profits.



18. Which of the following statements best describes what the diagram is illustrating?

(A) The firm is making losses.
(B) The firm is making excess profits.
(C) The firm is making normal profits.
(D) The firm is making zero economic profit.

Item **19** refers to the following diagram which shows the relationship between the demand for and supply of shirts.



19. There is a shift in the demand curve from DD to D_1D_1. There is a simultaneous shift in the supply curve from SS to S_1S_1. What is the effect on the equilibrium price after these shifts?

(A) It increases from Y to B.
(B) It decreases from P to Z.
(C) It remains unchanged at Y.
(D) It remains unchanged at Z.

20. The supply curve will shift to the left if

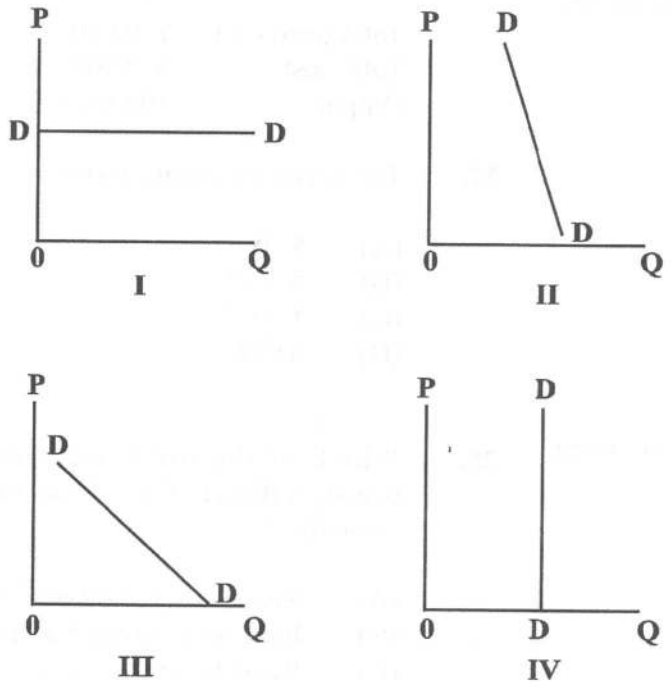
(A) incomes fall
(B) costs of production rise
(C) costs of production fall
(D) technology is introduced

21. A normal supply curve for farm produce will slope upwards from left to right if farmers

(A) pass on increased costs to customers
(B) are willing to produce more as price increases
(C) increase their profit margins as price increases
(D) are willing to increase supply as demand increases

GO ON TO THE NEXT PAGE

Item 22 refers to the following curves which show the demand for some products.



22. Which of the curves above indicates that demand for the product is perfectly elastic?

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

23. The relationship between price and quantity demanded of a normal good is described as

(A) direct
(B) a shift
(C) inverse
(D) non-existent

Item **24** refers to the following table which shows the prices of a product, the quantites demanded (QD) and quantities supplied (QS).

Price ($)	QD (Units)	QS (Units)
10	8	20
8	12	16
6	14	14
4	16	12
2	29	8

24. At which of the following prices are there shortages in the market?

(A) $2 and $4
(B) $4 and $6
(C) $6 and $8
(D) $8 and $10

25. Governments often put measures in place to control monopolies because monopolies

(A) set fair prices
(B) restrict supply
(C) earn normal profit
(D) promote consumer sovereignty

26. Price elasticity of supply refers to the responsiveness of the quantity supplied to a change in

(A) income
(B) demand
(C) price of the good
(D) prices of substitutes

Item **27** refers to the following information which relates to a manufacturing company.

Total fixed cost	$10 000
Total cost	$50 000
Output	100 units

27. The average variable cost is

(A) $ 100
(B) $ 400
(C) $1000
(D) $4000

28. Which of the following outcomes is usually a **direct** effect of retrenchment in a country?

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

29. Which of the following statements BEST defines the term 'tariff'?

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

GO ON TO THE NEXT PAGE

30. Which of the following situations is LEAST likely to occur when there is market failure?

(A) A decline in social welfare
(B) An increase in poverty throughout the economy
(C) An increase in the level of unemployment among skilled and unskilled labour
(D) An adequate amount of goods and services for consumers

Item 31 refers to the following statement.

Money is long-lasting, easy to carry around and can be changed into smaller denominations.

31, Which of the following characteristics of money are being described in the statement above?

(A) Durability, portability, liquidity
(B) Durability, scarcity, uniformity
(C) Durability, portability, divisibility
(D) Portability, uniformity, divisibility

32. Which of the following financial instruments are issued by the central bank on behalf of the government?

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

33. The central bank has requested an increase in the reserve requirements of commercial banks. What would be the effect on 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.

34. The MAIN objective of a credit union is to

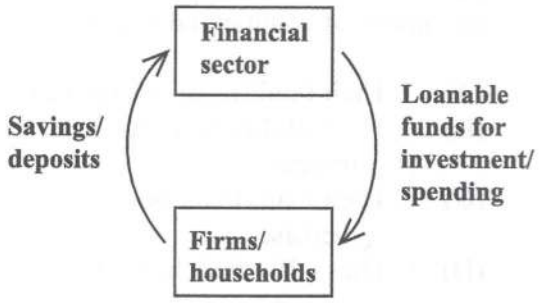
(A) provide scholarships to students
(B) encourage thrift among its members
(C) provide credit to government agencies
(D) provide investment funds for companies

35. Which of the following is NOT a characteristic of Caribbean countries?

(A) High debt burden
(B) High levels of unemployment
(C) Low level of capital formation
(D) Major producers of manufactured goods

GO ON TO THE NEXT PAGE

Item **36** refers to the following diagram.



36. The diagram BEST describes the

(A) functions of the central bank
(B) flow of deposits into the financial sector
(C) flow of funds into the household sector
(D) role that the financial sector performs for customers

37. In seeking to stabilize the economy of a Caribbean territory, the role of the government should be to

(A) increase its taxes, borrow more and forecast revenues
(B) encourage skilled labourers to stay within the territory
(C) review its policies on taxation, borrowing and expenditure
(D) import more consumer goods to satisfy the needs of the people

38. A group of workers who agree to negotiate with employers as one collective unit rather than individually is referred to as a

(A) trade union
(B) lobby group
(C) credit union
(D) financial group

39. The term 'recession' refers to a period of

(A) increased economic activity
(B) temporary economic decline
(C) gradual increase in the GDP of a country
(D) national economic prosperity in a country

40. The type of unemployment which is usually experienced by workers in the hotel industry in the Caribbean is known as

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

41. The amount of net exports in an economy is given as −$10 M. This indicates that the value of exports is

(A) zero
(B) equal to imports
(C) less than imports
(D) greater than imports

Item **42** refers to the following table which shows manufacturing output as a share of gross domestic product (GDP) for four countries, A, B, C and D.

Year	Country			
	A	B	C	D
2016	28 %	40 %	29 %	29 %
2017	23 %	34 %	26 %	28 %
2018	19 %	31 %	21 %	23 %

42. The table shows that ALL countries experienced

(A) a decline in the gross domestic product
(B) a decline in the sale of manufactured products
(C) an increase in employment in the manufacturing sector
(D) a decline in manufacturing output as a share of gross domestic product

Item **43** refers to the following economic measures.

I. Reducing bank rates
II. Increasing interest rates
III. Decreasing money supply

43. Which of the measures above can be used to reduce inflation?

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

44. Which of the following factors cause(s) money to lose value and become less effective as a medium of exchange?

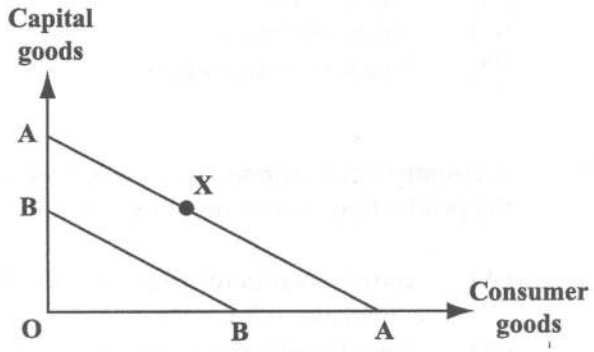
(A) Inflation
(B) Market failure
(C) Unemployment
(D) Negative externalities

45. A country has a comparative advantage in the production of a commodity when it

(A) can produce more of that commodity than any other country
(B) has a larger share of the market for that commodity than any other country
(C) can produce that commodity at a lower opportunity cost than any other country
(D) accounts for a greater percentage of global sales of that commodity than any other country

GO ON TO THE NEXT PAGE

Item **46** refers to the following diagram which illustrates the production possibility frontier for an economy in Year 1 (AA) and Year 2 (BB).



46. From the diagram above, it can be deduced that

(A) Point X was unattainable in Year 2
(B) Point X was efficient in Year 1 and Year 2
(C) there was decreasing opportunity cost in Year 2
(D) there was economic growth between Year 1 and Year 2

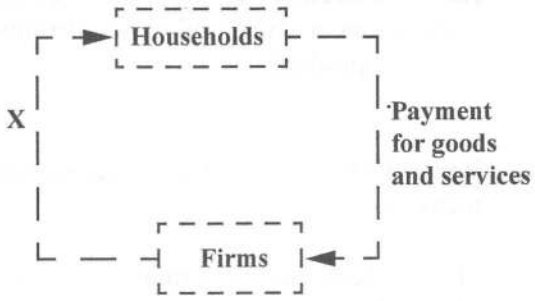
47. In theory, open competition on a world scale facilitates

(A) high levels of dependency on tourism
(B) increases in trade unions' negotiating power
(C) government manipulation of market outcomes
(D) the development of a competitive advantage based on price

48. A transfer as recorded in the balance of payments is

(A) a maternity benefit received at home by the local government agency
(B) an unemployment benefit received by citizens in their country by their government
(C) a subsidy for a local firm to encourage increased production for the export market
(D) a donation by a foreign government of relief supplies to a country following the passage of a hurricane

Item **49** refers to the following diagram which shows the circular flow of income.



49. Line X represents payment

(A) for goods taken on credit
(B) to the factors of production
(C) of taxes to the government
(D) to financial institutions for loans

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

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

GO ON TO THE NEXT PAGE

Item **51** refers to the following scenario.

Between 2008 and 2018, Country X imported 500 000 cars from the United States. This represented an increase of 100 per cent over the previous ten-year period. As a result, the demand for US dollars increased significantly while exports to the US increased by 2 per cent.

51. The scenario described above is MOST likely to result in

(A) the value of the US dollar falling
(B) the value of the US dollar remaining constant
(C) Country X's dollar appreciating against the US dollar
(D) Country X's dollar depreciating against the US dollar

Item **52** refers to the following table which shows the current account section of a country's balance of payments for the year 2016.

Item	($M)
Invisible imports	50
Invisible exports	80
Visible imports	70
Visible exports	32

52. What is the value of this country's balance of merchandise trade?

(A) –$38 M
(B) $20 M
(C) $38 M
(D) $48 M

53. The economic system where major economic decisions are made by private individuals and businesses is known as a

(A) free market
(B) planned economy
(C) controlled economy
(D) subsistence economy

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

(A) Reduce the volume of exports
(B) Increase the importation of goods
(C) Introduce policies to reduce the level of imports
(D) Engage in trade with other low-cost producers of goods

55. The acronym FDI, in economics, means

(A) foreign direct income
(B) foreign direct investment
(C) fixed domestic investment
(D) floating domestic investment

56. Which of the following products is NOT considered to be primary?

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

57. The term 'e-commerce' refers to

(A) ecotourism
(B) export businesses
(C) economies of scale
(D) electronic businesses

GO ON TO THE NEXT PAGE

58. Which of the following is NOT a benefit of economic integration?

(A) Higher cost of living
(B) Increased productivity
(C) Improved competitiveness of products
(D) Mutual benefits among member countries

59. Which of the following occurrences is NOT a benefit of trade liberalization to consumers?

(A) A decline in the prices of goods and services
(B) An increase in the prices of goods and services
(C) Greater access to a variety of goods and services
(D) A reduction in the cost of providing goods and services

60. One important objective of CARICOM is to

(A) maximize multinational efficiency through globalization
(B) encourage the economic development of its members
(C) improve standards of living beginning with smaller states
(D) provide strategic guidance to countries to ensure financial stability

END OF TEST

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

