CANDIDATE – PLEASE NOTE!

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

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TEST CODE **01216010**

FORM TP 2016059

MAY/JUNE 2016

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

1 hour 15 minutes

01 JUNE 2016 (p.m.)

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 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 (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.

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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. Which of the following is a component of a country's balance of payments account?

(A) The value of imports and exports
(B) The value of government expenditure
(C) The country from which goods are imported
(D) The number of commercial banks in the country

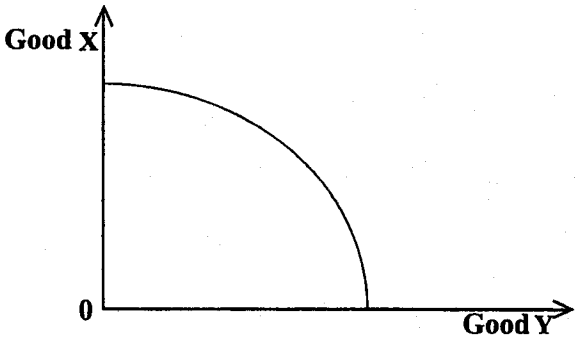
3. Trade liberalization can be defined as

(A) an increase in trade deficit
(B) an increase in trade surplus
(C) the removal of trade barriers
(D) trading between many countries

4. Which of the following strategies is NOT used by governments to influence 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

Item 5 refers to the following diagram which shows the relationship between the production of Good X and Good Y by a certain country using all its resources.



5. What name is given to the curve represented above?

(A) Demand curve
(B) Market supply curve
(C) Individual supply curve
(D) Production possibility curve

6. Some Caribbean countries are experiencing a lack of industrialization, a low standard of living and a high population growth rate. Which of the following terms BEST describes the economies of these countries?

(A) Advanced
(B) Developed
(C) Developing
(D) Agricultural

7. 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

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

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

9. 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

10. 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

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

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

12. Which of the following accounts is NOT included in the balance of payments account?

(A) Asset account
(B) Capital account
(C) Current account
(D) Official financing account

13. 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 policy on taxation, borrowing and expenditure
(D) import more consumer goods to satisfy the needs of the people

14. Jamaica buys motor cars from Japan while Japan buys coffee from Jamaica. This has resulted in a balance of payments deficit for Jamaica. Which of the following statements BEST describes Jamaica's situation?

I. Jamaica has to pay Japan more money.
II. Japan has to pay Jamaica more money.
III. Jamaica needs to export more to Japan.

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

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

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

Item 16 refers to the following table which shows the amount of money associated with various items.

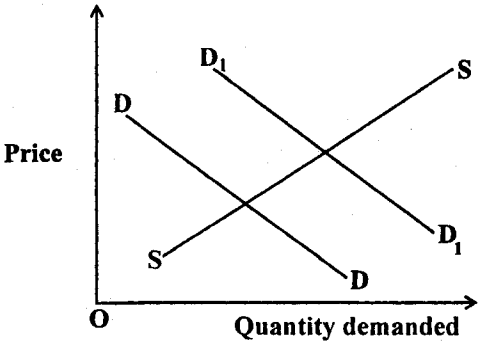
Item	Amount ($)
Consumer consumption	800
Government spending	300
Gross investment	100
Export of goods	80
Import of goods	50

16. Based on the information in the table, the gross domestic product (GDP) is

(A) $1 200
(B) $1 230
(C) $1 280
(D) $2 200

C + I + G + (X − M)

Item 17 refers to the following diagram which shows the price and quantity demanded for Good X.



17. The movement of the demand curve of Good X from D to D_1 results from an increase in

(A) consumer income
(B) the price of Good X
(C) the price of a complement
(D) the cost of inputs used to produce Good X

18. 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

Item 19 refers to the following table which shows units of labour and total output of labour.

Units of Labour	Total Output
6	372
7	455
8	496
9	531
10	580

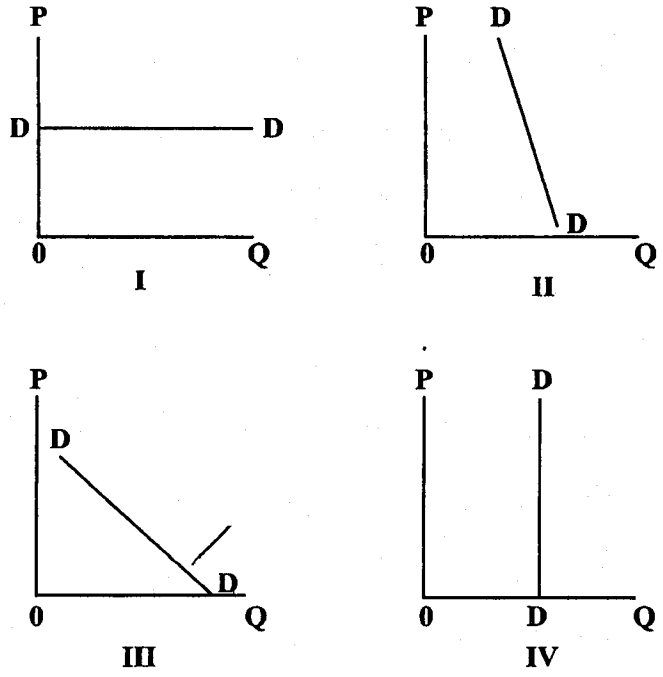
19. What is the number of labour units that produces the HIGHEST average product of labour?

(A) 6
(B) 7
(C) 8
(D) 9

20. 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

Item 21 refers to the following curves which show the demand for some products.



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

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

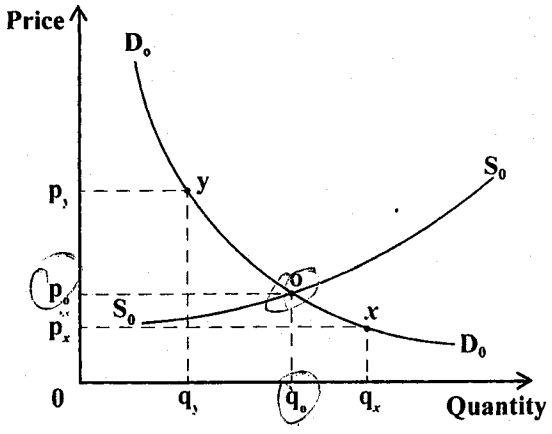
22. The MAIN objective of a credit union is to

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

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

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

Item 24 refers to the following diagram which shows the demand for and supply of grapes.



24. What is the equilibrium price and quantity demanded?

(A) p_o and q_o
(B) p_o and q_y
(C) p_y and q_y
(D) p_y and q_o

25. 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 prices increase
(C) increase their profit margins as prices increase
(D) are willing to increase supply as demand increases

26. In 2013, the government's fiscal budget showed that total estimated revenue was GREATER than total estimated expenditure. The difference is known as

(A) a budget surplus
(B) a budget deficit
(C) a balanced budget
(D) an accumulated budget

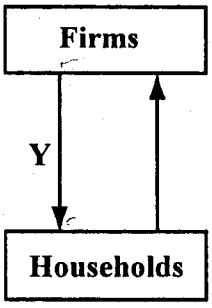
Item 27 refers to the following information which relates to a manufacturing company.

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

27. The average variable cost is

(A) \$ 100
(B) \$ 400
(C) \$1 000
(D) \$4 000

Item 28 refers to the following diagram which shows the simple circular flow of income for an economy.



28. The nominal flow labelled Y refers to

(A) savings
(B) investment
(C) factor incomes
(D) factors of production

29. The term 'money supply' refers to the

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

Item 30 refers to the following table which shows the price of a product, the quantity demanded (QD) and quantity supplied (QS).

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

30. 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

Item 31 refers to the following table which shows production costs of three units of a product.

Units	Total Fixed Cost ($)	Marginal Cost ($)	Total Cost ($)
1	100	25	125
2			130
3		60	190

31. What is the total cost when three units are produced?

(A) $125
(B) $130
(C) $155
(D) $190

Item 32 refers to the following information which relates to the cost of output of a product.

Output Level	Total Cost
100	10 000
101	10 500

32. The marginal cost is

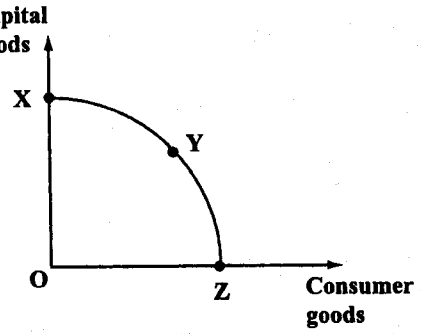
(A) $ 500
(B) $10 000
(C) $10 100
(D) $10 500

33. A country faces the following production combinations:

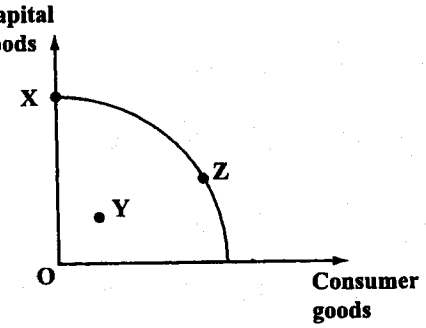
X = production with unemployed resources
Y = unattainable production combination
Z = efficient production combination

Which of the following production possibility curves (PPCs) correctly illustrates the information above?

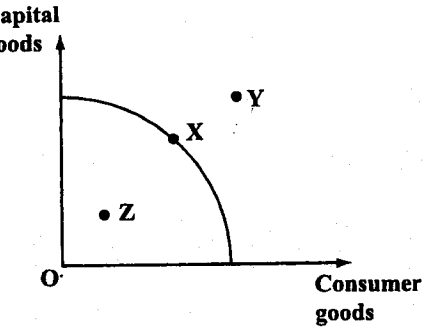
(A)



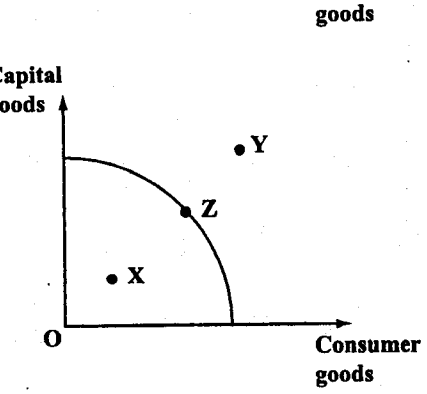
(B)



(C)



(D)



34. The functions of a central bank do NOT include

(A) issuing of notes and coins
(B) providing loans to the public
(C) managing foreign exchange rates
(D) maintaining the foreign currency accounts of the government

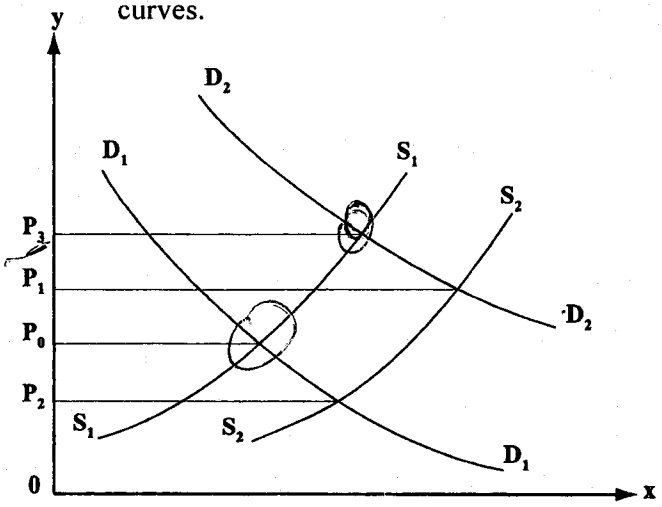
Item 35 refers to the following table which shows the market demand and supply at given prices.

Price of Potato per Kg ($)	Market Demand (000 kg)	Market Supply (000 kg)
4	700	100
8	500	200
12	350	350
16	200	530
20	100	700

35. The equilibrium price is

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

Items 36–37 refer to the following diagram which shows the demand and supply curves for Good X. D_1 and S_1 represent the original respective demand and supply curves.



36. What is the ORIGINAL equilibrium price?

(A) P_0
(B) P_1
(C) P_2
(D) P_3

37. Holding the supply curves fixed, a shift in the demand curve ONLY from D_1D_1 to D_2D_2 will cause the original equilibrium price to

(A) fall from P_3 to P_0
(B) fall from P_0 to P_1
(C) rise from P_1 to P_2
(D) rise from P_0 to P_3

38. 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) satisfaction he gets from burger
(C) price of the chicken and chips
(D) satisfaction he gets from the chicken and chips

39. A government reduces tax on carrots. This causes the price of carrots to fall by 50%. Quantity demanded then rises by 50%. The price elasticity of demand for carrots in this case is

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

40. The measure that is MOST likely to reduce inflation is

(A) an increase in bank lending
(B) an increase in import duties
(C) a reduction in direct taxation
(D) a reduction in government expenditure

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

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

42. In economics, the excess of human wants over existing resources is known as

(A) greed
(B) scarcity
(C) opportunity cost
(D) economic decline

43. Large firms can achieve savings in unit costs as a result of advertising and packaging. These kinds of economies of scale can be classified as

(A) financial
(B) technical
(C) marketing
(D) managerial

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

(A) direct
(B) a shift
(C) inverse
(D) indirect

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

46. A firm produces 29 pairs of high quality leather shoes at a fixed cost of $20 000 and a variable cost of $9 000. On producing the 30th pair, the new total cost rises to $30 000.

What is the marginal cost of the 30th pair?

(A) $ 1 000
(B) $ 9 000
(C) $20 000
(D) $29 000

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. Which of the following is NOT a determinant of a shift in demand for laptop computers?

(A) Income
(B) Price of laptop computers
(C) A preference for desktop computers
(D) A rise in the price of desktop computers

49. Which of the following factors will contribute to a surplus on the balance of trade of a country?

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

50. The currency of a country may appreciate in value if there is an increase in

(A) the demand for its imports
(B) the demand for its exports
(C) its balance of trade deficit
(D) its balance of payments deficit

51. When an economy which was once booming suddenly starts to experience low demand for goods and services, leading to companies and businesses closing down, rising unemployment and falling standards of living, the country is said to be experiencing

(A) a recession
(B) a revaluation
(C) an externality
(D) a disequilibrium

52. 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

53. Production can be defined as the

(A) interaction between buyers and sellers
(B) transformation of inputs into outputs
(C) pricing of resources according to demand
(D) economic relationship between output and input

54. Which of the following measures is LEAST likely to be used to reduce imports?

(A) Tariff
(B) Quota
(C) Subsidy
(D) Embargo

55. A pure public good can be described as

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

56. Which of the following is NOT an example of a primary product?

(A) Banana
(B) Bauxite
(C) Furniture
(D) Crude oil

Item 57 refers to the following table which shows the current account section of a country's balance of payments for the year 2014.

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

57. What is this country's balance of merchandise trade?

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

58. Which of the following is NOT a function of the International Monetary Fund?

(A) Fostering global monetary cooperation
(B) Settling trade disputes between countries
(C) Promoting the financial stability of countries
(D) Assisting countries with balance of payments deficit difficulties

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

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

Item 60 refers to the following table which shows manufacturing output as a share of gross domestic product (GDP) for four countries: W, X, Y and Z.

Year	Country			
	W (%)	X (%)	Y (%)	Z (%)
1990	28	40	29	29
2000	23	34	26	28
2010	19	31	21	23

60. 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

END OF TEST

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