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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FORM TP 2018053

TEST CODE **01216010**

MAY/JUNE 2018

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

1 hour 15 minutes

22 MAY 2018 (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 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 pairs of activities in a country falls under the tertiary sector?

(A) Banking and tourism
(B) Tourism and agriculture
(C) Banking and construction
(D) Manufacturing and fishing

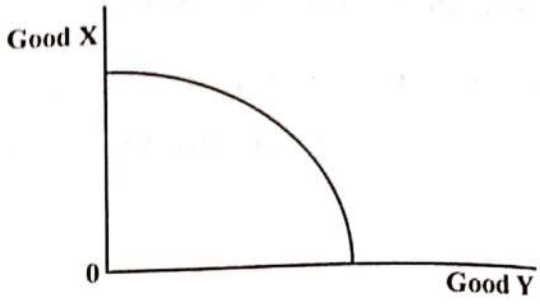
3. Trade liberalization can be defined as

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

4. 'Globalization' may be MOST accurately defined as the

(A) movement of technology and financial markets worldwide
(B) integration of financial services, technology and commodity markets worldwide
(C) international trade of goods and services including skilled workers
(D) movement of tangible and intangible goods among countries

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?

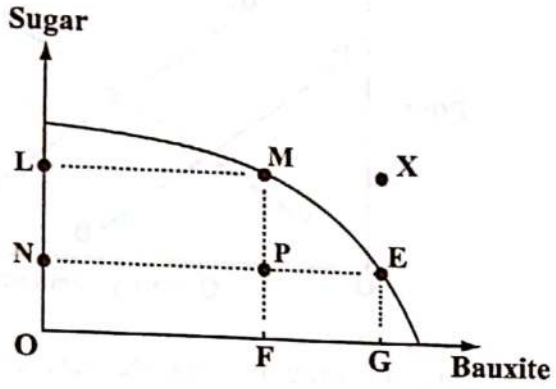
(A) Demand curve
(B) Market supply curve
(C) Individual supply curve
(D) Production possibility curve

6. 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

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Item 7 refers to the following diagram which illustrates the production possibility frontier for an economy that is capable of producing bauxite and sugar in different combinations.



7. Point X on the graph represents

(A) economic growth
(B) unemployed resources
(C) an efficient combination
(D) an unattainable combination

8. 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) specialization
(D) entrepreneurial ability

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. 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

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

Item 12 refers to the following table which shows government spending as a percentage of gross domestic product for four countries, W, X, Y and Z.

Country	Government Spending as a Percentage of GDP
W	47
X	89
Y	50
Z	3

12. The economic system of Country X is MOST likely

(A) mixed
(B) planned
(C) subsistence
(D) free market

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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. Fred earns his money by occasionally doing jobs such as painting, repairing and cleaning, while Wilma earns her money from occasional babysitting.

In which sector would Fred and Wilma's activities be located?

(A) Formal
(B) Foreign
(C) Informal
(D) Financial

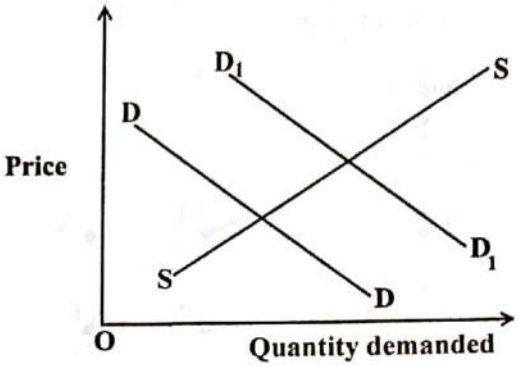
15. Price elasticity of supply refers to the responsiveness of the quantity supplied to a change in

(A) price
(B) taste
(C) income
(D) demand

16. If Company X is engaged in the cutting of trees to obtain lumber which is then used by Company Y to make furniture, to which sector of the economy does Company X belong?

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

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

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

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

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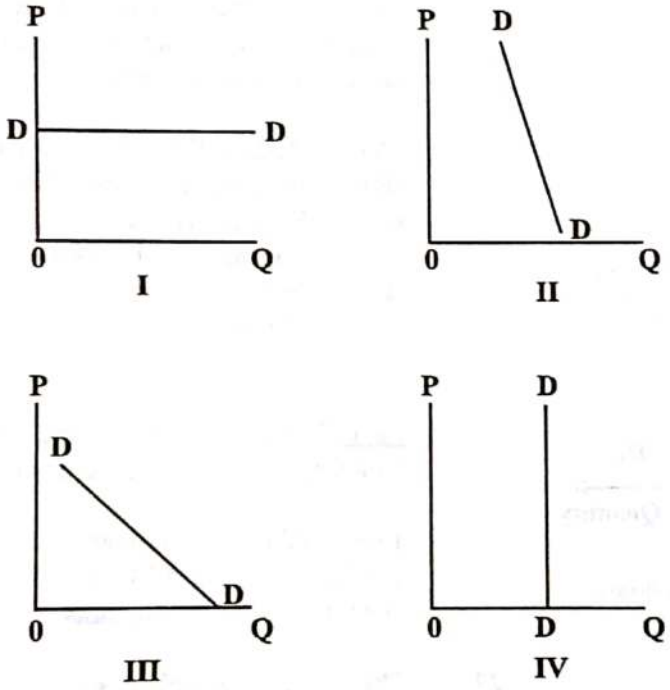
20. Which of the following financial instruments are issued by the central bank on behalf of the government?

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

21. 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

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

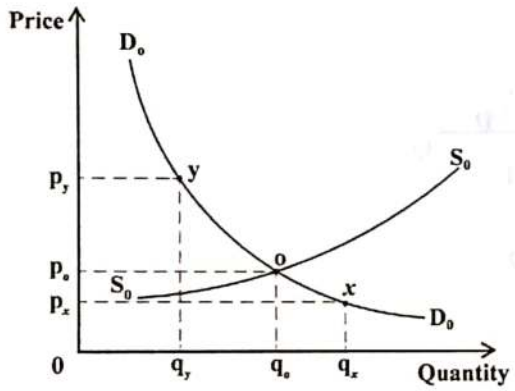
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23. 'Resources, both human and physical, are required to produce goods'.

The statement above MOST accurately describes

(A) productivity
(B) entrepreneurship
(C) factors of production
(D) need for resources

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 cost to consumers
(B) are willing to produce more as price increases
(C) are willing to increase supply as demand increases
(D) increase their profit margins as price increases

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

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

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

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Item 28 refers to the following table which shows the rate of inflation and the average percentage increase in wages over a four-year period.

Year	Rate of Inflation (%)	Wage Increase (%)
2014	5	20
2015	10	20
2016	10	5
2017	15	5

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

(A) 2014
(B) 2015
(C) 2016
(D) 2017

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

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	

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

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



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Item 32 refers to the following table which shows economic data for two countries, P and R, using all of their individual resources.

Country	Number of Mobile Phones that can be Produced	Number of Microwave Ovens that can be Produced
P	10 000	5 000
R	8 000	12 000
Total	18 000	17 000

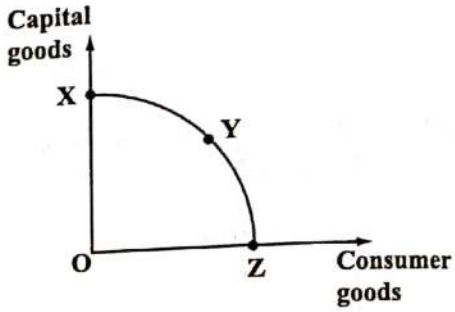
32. Using the theory of comparative advantage, which of the good(s) above should Country P produce?

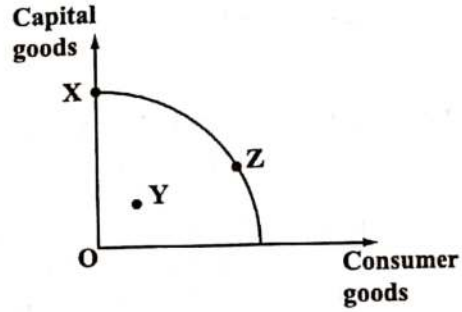
(A) Mobile phones only
(B) Microwave ovens only
(C) Mobile phones and microwave ovens
(D) Neither mobile phones nor microwave ovens

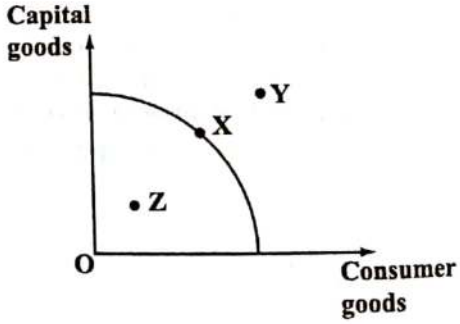
33. A country faces the following production combinations:

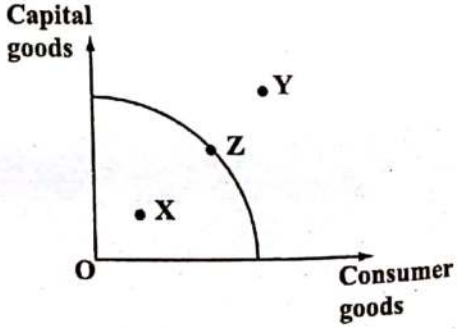
X = production with unemployed resources
Y = unattainable production combination
Z = efficient production combination

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

(A)


(B)


(C)


(D)


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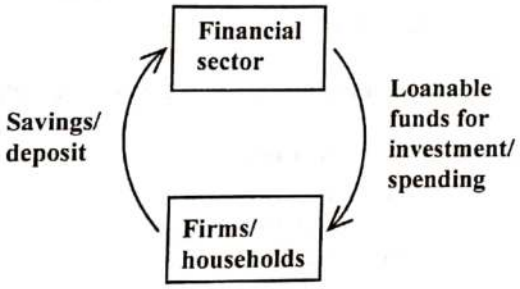
34. The functions of a central bank do NOT include

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

35. A pure public good can be described as

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

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) role that the financial sector performs for customers
(D) flow of funds into the household sector

37. Which of the following economic situations is NOT characteristic of Caribbean countries?

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

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) price of the chicken and chips
(C) satisfaction he gets from the burger
(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 demand 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. Which of the following measures would MOST likely reduce inflation?

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

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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

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

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

44. 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

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

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48. Which of the following will contribute to a surplus in the balance of trade of a country?

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

49. 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

50. The currency of a country may appreciate in value if

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

51. Country M's economy was booming then suddenly it begins to experience low demand for goods and services. This led to the closure of companies and businesses, rising unemployment and falling standards of living.

Which of the following terms BEST describes the situation experienced by Country M?

(A) A recession
(B) A revaluation
(C) An externality
(D) A disequilibrium

52. Mr Akah takes a loan from his bank and invests it in a sugar cane plantation where he employs 100 workers. In economic terms, the reward that Mr Akah hopes to earn from this business is known as

(A) wage
(B) profit
(C) salary
(D) interest

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

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

54. Which of the following factors should entrepreneurs consider when deciding what goods to produce?

I. Cost of resources
II. Level of inflation
III. Availability of resources

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

55. The ability to turn an asset into cash, without loss or delay, is known as

(A) liquidity
(B) durability
(C) portability
(D) divisibility

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

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

Item 57 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

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 activities 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. Which of the following occurences is NOT a benefit of trade liberalization to consumers?

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

Item 60 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
1990	28 %	40 %	29 %	29 %
2000	23 %	34 %	26 %	28 %
2012	19 %	31 %	21 %	23 %

60. The table shows that ALL countries experienced

(A) a decline in 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

END OF TEST

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

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