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CANDIDATE – PLEASE NOTE
You must sign below and return this booklet with the Answer Sheet. Failure to do so may result in disqualification.
Signature

FORM TP 2009055

TEST CODE 01216010

MAY/JUNE 2009

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

75 minutes

03 JUNE 2009 (p.m.)

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. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
4. Each item in this test has four suggested answers lettered (A), (B), (C), (D). After listening to or reading each item you are about to answer, decide which choice is best.
5. On your answer sheet, find the number which corresponds to your item and blacken 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' since it deals with

   (A) the environment
   (B) the economy
   (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.
6. If you want to change your answer, be sure to erase it completely before you fill in your new choice.
7. 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, omit it and go on to the next one. Your score will be the total number of correct answers.
8. The use of silent electronic calculators is allowed.

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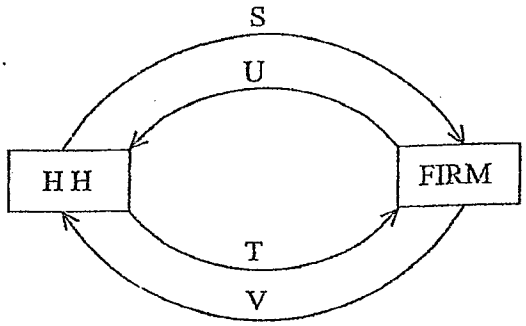
1. Why do consumers have to make choices among the goods and services that they purchase?

(A) Their wants are scarce and their resources are limited.
(B) Their resources are insufficient to satisfy all their wants.
(C) Their resources increase more rapidly than their wants.
(D) They receive most of their goods and services at no cost.

2. An 'economy' is BEST described as

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

Items 3 - 4 refer to the following diagram which illustrates the flow of goods and services, factors of production and money earned and spent.



3. If U refers to goods and services, then S refers to

(A) expenditure
(B) wages
(C) rent
(D) profit

4. If V includes interest and profit, then T represents the flow of

(A) factors of production
(B) goods and money
(C) services and money
(D) services and investment

5. Which of the following combinations gives a similar measurement of the national income?

I. Income method
II. Central bank method
III. Output method
IV. Expenditure method

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

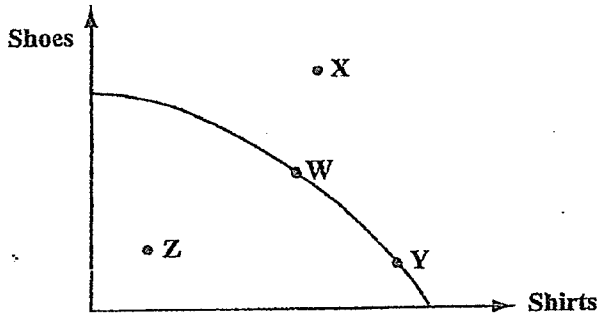
6. An economy produces two goods, namely sugar and bauxite. What name is given to the curve which shows the maximum amount of bauxite that can be produced for every given amount of sugar?

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

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

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



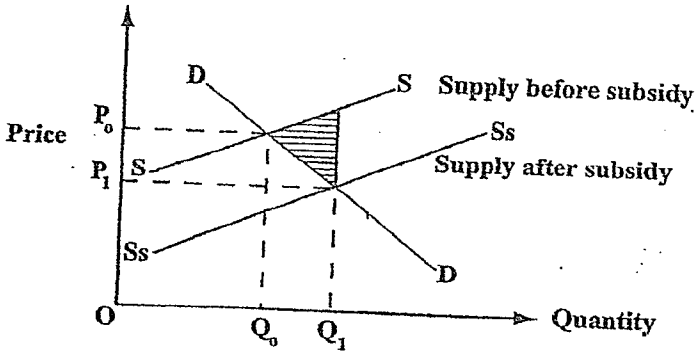
8. At what point in the diagram are resources underemployed?

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

9. Which of the following factors may cause an outward shift in a production possibility curve?

(A) An increase in wages
(B) An increase in prices
(C) An increase in trade
(D) An increase in the use of technology

Item 10 refers to the diagram below. S is the supply curve before a subsidy is given and Ss is the supply curve after the subsidy is given.



10. 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

11. Which of the following is MOST likely to immediately affect the supply of labour?

(A) Improving worker productivity
(B) Increasing the demand for labour
(C) Improving the efficiency of workers
(D) Increasing the length of the work week

12. In a commercial bank, wages and salaries are paid to ALL of the following EXCEPT

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

13. In which of the following economic systems does the state own ALL the factors of production EXCEPT labour?

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

14. Which of the following will enable Caribbean investors to have access to larger capital imports?

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

15. Sam and Jack started a catering business. They organized the factors of production and pooled their financial resources to produce the goods and services. What factors of production should Sam and Jack be classified as?

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

16. Joe uses one plot of land and 65 seedlings to do his farming. Each seedling costs $8 and he rents the land for $200. The cost of the land represents his

(A) average cost
(B) fixed cost
(C) marginal cost
(D) variable cost

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

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

Item 18 refers to the table below which provides information on three similar goods, X, Y and Z.

Good	Prices ($)
X	10
Y	8
Z	3

Consumers buy more of Good Z because of its lower price.

18. 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

19. Which of the following is NOT considered a factor of production in the bauxite industry?

(A) The land on which the mine is located
(B) Workers employed to work on the mine
(C) Companies that use bauxite
(D) Persons who invest their capital to carry out mining operations

20. Which of the following features are characteristic of a fully planned economy?

I. All wages are equal.
II. Goods do not have prices.
III. There are no private shareholders.
IV. The profit motive does not exist.

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

21. A public good can be described as

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

22. The type of unemployment which is USUALLY experienced by workers in the hotel industry is known as

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

23. All of the following features are characteristic of perfect competition EXCEPT

(A) many buyers and one seller
(B) freedom of entry and exit
(C) selling of homogeneous products
(D) perfect knowledge of market conditions

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

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

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

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

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

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

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

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

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

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

30. Choice is the MOST important issue in economics because

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

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

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

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

33. Which of the following is regarded as an invisible import on the Balance of Payments of Country X?

(A) A citizen of Country X visits a foreign country and spends money in that country.
(B) A citizen of a foreign country receives dividends from his investment in a company in Country X.
(C) A citizen of Country X receives interest payments from investment in a bank in a foreign country.
(D) A citizen of Country X purchases a vehicle from a foreign country.

34. Country B had an increase of $300 000 000 in foreign direct investment. In which section of the Balance of Payments will this transaction be recorded?

(A) Visible trade account
(B) Balance of trade account
(C) Invisible trade account
(D) Capital account

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

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

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

Items 37 - 38 refer to the table below, which provides data on costs of production at different levels of output.

Output (Units per day)	Total Cost $
0	1500.00
1	1700.00
2	1800.00
3	1950.00

37. What is the total fixed cost?

(A) $ 200
(B) $1500
(C) $1950
(D) $6950

38. The marginal cost (MC) of production at output level of 3 units is

(A) $ 50
(B) $ 150
(C) $ 650
(D) $1950

39. Which of the following factors will MOST likely cause a fall in a country's exchange rate under a flexible exchange rate regime?

(A) An increased demand for its imports
(B) An increased demand for its exports
(C) An increased inflow of capital
(D) A reduced rate of domestic inflation

Item 40 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 (%)
2004	5	20
2005	10	20
2006	10	5
2007	15	5

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

(A) 2004
(B) 2005
(C) 2006
(D) 2007

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

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

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

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

43. Which of the following items would NOT appear in the current account of the Balance of Payments account?

(A) The export of goods to another country
(B) The use of local banking services by a foreign company
(C) Payment of dividends by a foreign company
(D) Establishment of a steel industry by a foreign company

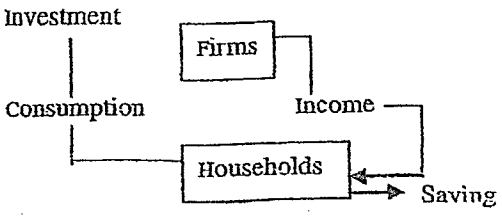
44. Bargain Supermarket increased the price of its name brand tissue by 65% and sales fell by 115%.

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

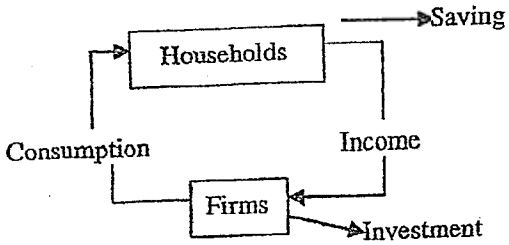
(A) Unitary elastic
(B) Elastic
(C) Inelastic
(D) Cross elastic

Item 45 refers to diagrams I, II, III and IV below which show the circular flow of income in an economy.

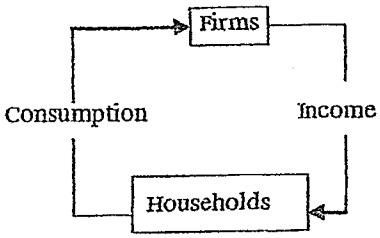
I.



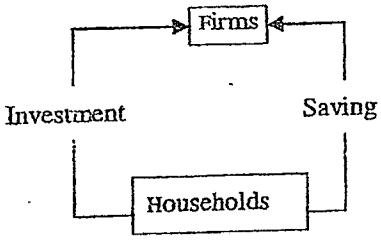
II.



III.



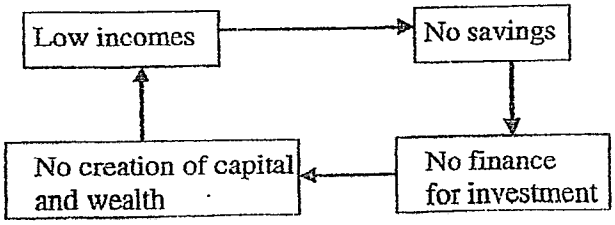
IV.



45. Which of the diagrams BEST illustrates the circular flow of income in an economy consisting of households, firms and financial institutions?

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

Item 46 refers to the diagram below.



46. This diagram BEST represents

(A) the 'poverty trap'
(B) diseconomies of scale
(C) foreign direct investment
(D) a problem faced by all CARICOM countries

47. Which of the following features is NOT characteristic of Caribbean economies?

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

48. Trade liberalization should result in several benefits to consumers. Which of the following does NOT represent a benefit to consumers?

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

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

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

50. 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 51 refers to the table below which shows manufacturing output as a share of Gross Domestic Product for four countries.

YEAR	COUNTRY A	COUNTRY B	COUNTRY C	COUNTRY D
1960	28%	40%	29%	29%
1980	23%	34%	26%	28%
1990	19%	31%	21%	23%

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

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

52. In 2007, Country X imported 20% more than it did in the previous year. This resulted in arrears in its Balance of Payments (BOP) account. As a result, Country X had to borrow from the International Money Fund. In addition, its Gross Domestic Product declined because the currency had been devalued.

The increase in imports depicted above resulted in

(A) reduction in borrowing by commercial banks
(B) consequences of a BOP deficit
(C) increased spending in an economy
(D) factors causing a BOP deficit

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

(A) structural adjustment
(B) globalisation
(C) bilateral agreement
(D) protectionism

54. 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

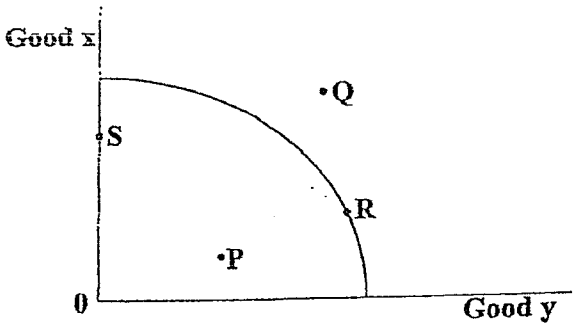
55. The issue of a treasury bond represents a

(A) short-term loan to the government
(B) long-term loan to the government
(C) long-term loan to the Central Bank
(D) short-term loan by the Central Bank

56. 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.

Item 57 refers to the diagram below which shows the production possibility curve for a country currently producing at point R.



57. At which point will production be MOST efficient?

(A) P
(B) Q
(C) R
(D) S

Items 58 - 59 refer 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

58. What is the equilibrium price?

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

59. If supply increased by 300 000 kg what would be the NEW equilibrium price?

(A) $ 8
(B) $12
(C) $16
(D) $20

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60. 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) Marketing
(C) Managerial
(D) Technical

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