FORM TP 2021059

TEST CODE **01216020**

MAY/JUNE 2021

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 02 – General Proficiency

2 hours

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper consists of FIVE questions. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. Do NOT write in the margins.
4. You may use a silent, non-programmable calculator to answer questions, but ALL necessary working should be clearly shown.
5. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

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

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Answer ALL questions.

1. (a) Define EACH of the following terms:

(i) Law of demand

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(2 marks)

(ii) Law of supply

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(2 marks)

(b) Identify TWO determinants of supply.

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(2 marks)

(c) Explain FOUR determinants of demand.

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(8 marks)

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(d) A small shop reduced the price of its vanilla ice cream from \$0.80 to \$0.70 last month. As a result, the quantity of chocolate ice cream demanded decreased from 120 to 100.

(i) Calculate the cross-price elasticity of demand between vanilla ice cream and chocolate ice cream.

(4 marks)

(ii) Vanilla ice cream and chocolate ice cream are related goods. Identify the relationship between these two goods and give a reason for your answer.

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(2 marks)

Total 20 marks

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2. (a) Define EACH of the following terms:

(i) Capital

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(2 marks)

(ii) Entrepreneurial talent

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(2 marks)

(b) Identify TWO of the **main** sectors in an economy.

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(2 marks)

(c) The rent for the factory space of a manufacturing firm is decreasing. Describe how EACH of the following FOUR production costs for the firm will be affected:

(i) Variable cost

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(ii) Total cost

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(iii) Average total cost

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(iv) Marginal cost

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(8 marks)

(d) An economics teacher is teaching her students the concept of cost curves. The teacher calculated the costs incurred by a small firm that sold only five pairs of shoes in the past week. She finds that the firm's fixed cost is $10 and its variable cost is $50 for making the first pair of shoes.

Using the information provided, draw a clearly labelled diagram to show the fixed, variable, and total cost curves of producing the FIRST pair of shoes.

(6 marks)

Total 20 marks

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3. (a) Define EACH of the following terms:

(i) Market structure

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(2 marks)

(ii) Market failure

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(2 marks)

(b) Identify TWO types of market structures characterized by many sellers.

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(2 marks)

(c) Explain why EACH of the following are considered as causes of market failure:

(i) Externalities

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(4 marks)

(ii) Public goods

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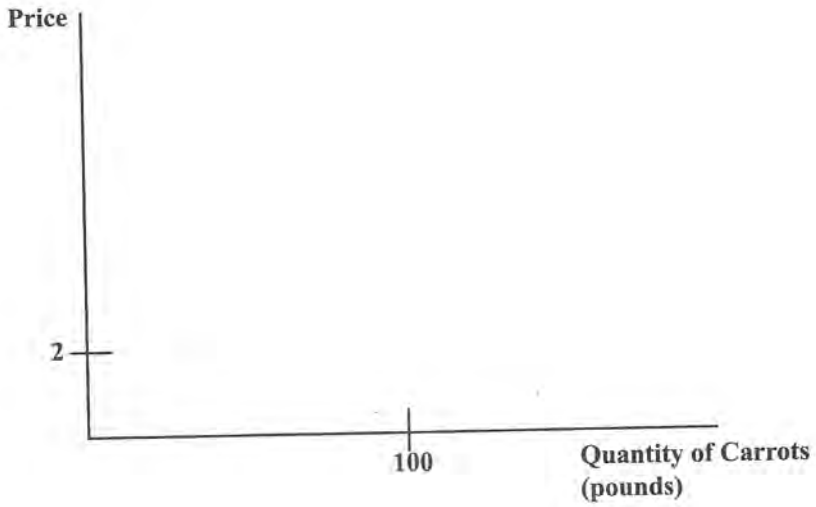
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(4 marks)

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(d) Zero economic profit is a characteristic of a certain type of market structure. For instance, the local carrot industry sells 100 pounds of carrots at $2 per pound. The local carrot industry has many sellers and many buyers.

(i) Using the information given above, complete the diagram below by including the price and cost curves.



(3 marks)

(ii) Using the diagram in (d) (i), explain why there is zero economic profit in the local carrot industry.

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(3 marks)

Total 20 marks

4. (a) List THREE examples of EACH of the following concepts:

(i) Financial institutions

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(3 marks)

(ii) Financial instruments

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(3 marks)

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(b) There are FOUR tools which a central bank may use as part of a country's monetary policy to control the supply of money. Explain the specific action the central bank may take to increase the supply of money, using these FOUR tools.

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(8 marks)

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(c) Table 1 shows the value of financial assets in a country.

TABLE 1: THE VALUE OF FINANCIAL ASSETS

Financial Asset	Value ($)
Cash in bank vaults	$200 million
Cash held by public	$100 million
Treasury Bills	$110 million
Demand deposits	$250 million
Savings account deposits	$305 million
Certificates of deposit	$20 million

Using the information in Table 1, calculate EACH of the following types of money. (Show all working)

(i) M0 = ...

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(2 marks)

(ii) M1 = ...

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(2 marks)

(iii) M2 = ...

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(2 marks)

Total 20 marks

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5. (a) State the meaning of EACH of the following acronyms:

(i) CET

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(1 mark)

(ii) WTO

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(1 mark)

(b) Differentiate between EACH of the following pairs of economic concepts:

(i) Absolute advantage and comparative advantage

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(2 marks)

(ii) Balance of trade and balance of payments

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(2 marks)

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

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(4 marks)

(d) Explain how a current account surplus on the balance of payments can increase employment.

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(4 marks)

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(e) Table 2 shows the current account for Caritopia.

TABLE 2: CURRENT ACCOUNT OF CARITOPIA

Current Account	Value ($)
Export of goods	
Imports of goods	–425
Balance of trade in goods	–40
Export of services	165
Imports of services	–185
Balance of trade in services	–20
Income receipts (investment income)	190
Income payments (investment income)	175
Net income receipts (investment income)	15
Current transfers (net)	–50
Net income flows	–35

Using the information in Table 2, calculate EACH of the following:

(i) The value of export of goods

(2 marks)

(ii) The value of the current account

(2 marks)

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(iii) Suggest TWO policies which may be used to address the current account deficit.

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(2 marks)

Total 20 marks

END OF TEST

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

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