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 2014059

TEST CODE **01216010**

MAY/JUNE 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

1 hour 15 minutes

04 JUNE 2014 (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 answer space (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 this item later. Your score will be the total number of correct answers.

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. An 'economy' is BEST described as a system where

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

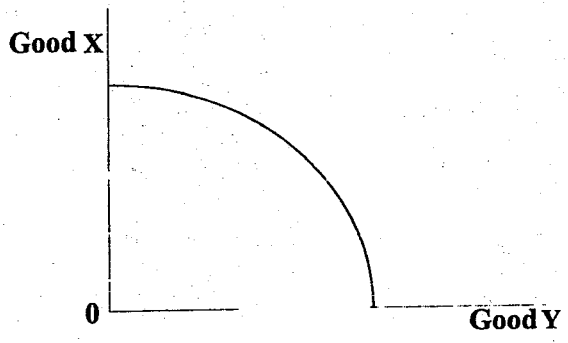
3. Which of the following pairs of activities in a country falls under the tertiary sector?

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

4. Which of the following is NOT one of the ways in which governments 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. Ana is considering the purchase of a new laptop computer. Which of the following factors is LEAST likely to influence her decision?

(A) Her level of income
(B) The price of the laptop computer
(C) The cost of producing the laptop computer
(D) Laptop computer advertisements in the newspapers

7. Which of the following factors causes money to lose value and become less effective as a medium of exchange?

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

8. The allocation of resources in a mixed economy is determined by

(A) consumers only
(B) government only
(C) government and producers only
(D) government, consumers and producers

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. 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

12. Which of the following financial instruments are issued by the government?

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

13. A government reduces tax on carrots. This causes the price of carrots to fall by 50%. 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

14. Sam and Jack started a catering business. They took out a bank loan, acquired a site in a busy city centre and hired two catering assistants. Under which factor of production will the roles of Sam and Jack be classified?

(A) Land
(B) Labour
(C) Capital
(D) Entrepreneurial talent

15. Which of the following should entrepreneurs consider when deciding which goods to produce?

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

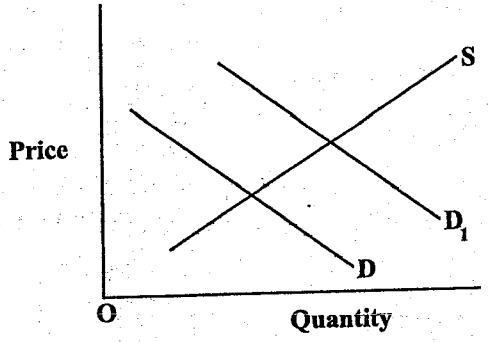
(A) I and II only
(B) I and III only
(C) II and III only
(D) I, II and III

16. 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) The managerial skills of the managers of a business
(D) Profits declared by a company in its annual report

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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

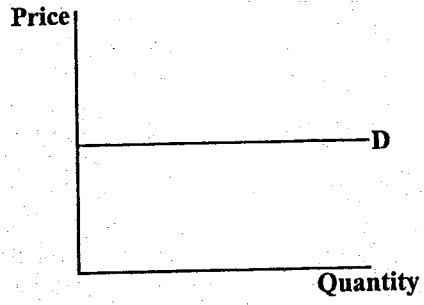
(A) consumer income
(B) the price of Good X
(C) the price of a complement
(D) the cost of inputs used to produce Good X

18. According to economic theory, 'second hand' cigarette smoke is an example of a

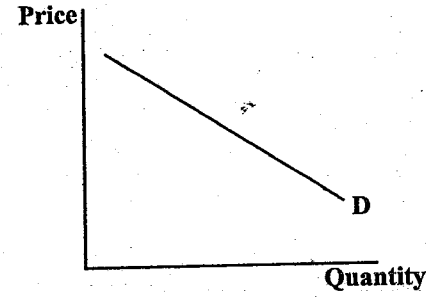
(A) private good
(B) positive externality
(C) negative externality
(D) merit good

19. Which of the following diagrams illustrates a perfectly inelastic demand?

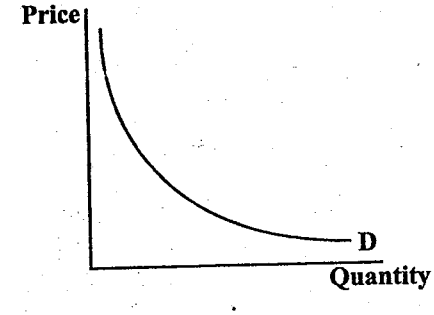
(A)



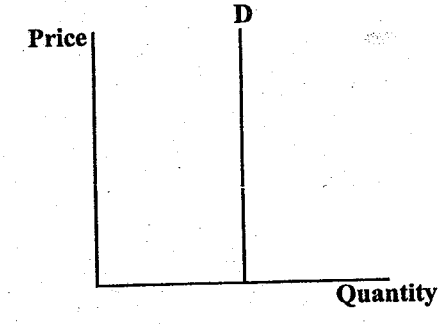
(B)



(C)



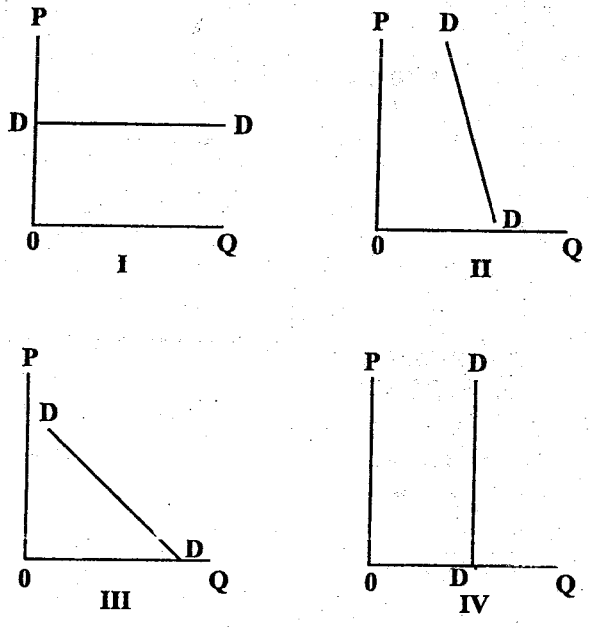
(D)



20. Shinelle spends 0.02% of her monthly income on a particular good. Her demand for this good, in terms of price, can be described as

(A) elastic
(B) inelastic
(C) perfectly elastic
(D) perfectly inelastic

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. Which of the following BEST explains 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 by countries on member countries within a region
(D) The amount of subsidies received by local exporters

24. One example of an 'entrepreneur' is

(A) a shop owner
(B) a store keeper
(C) a bank worker
(D) an airline employee

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 price increases
(C) are willing to increase supply as demand increases
(D) increase their profit margins as price increases

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Items 26–27 refer 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	

26. What is the marginal cost of the second unit?

(A) $ 5
(B) $ 30
(C) $125
(D) $130

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

(A) $125
(B) $130
(C) $155
(D) $160

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

(A) Freedom of entry and exit
(B) Many buyers and one seller
(C) Buying and selling of homogenous products
(D) Perfect knowledge of market conditions

29. Money is long-lasting, easy to carry around and can be changed into smaller denominations. Which of the following characteristics of money are being described above?

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

Item 30 refers to the following economic measures.

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

30. Which of the above measures may be used to reduce inflation?

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

31. Which of the following factors has led to the rapid expansion in e-commerce?

(A) The emergence of the internet
(B) The formation of regional groupings
(C) The increase in levels of income
(D) The rise in inflationary pressures

32. One example of a 'good' is

(A) a bottle of soda water
(B) a loan approved by a bank
(C) an extra lesson by a school
(D) a beauty makeover at a spa

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

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.

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

35. What is the equilibrium price?

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

36. Which of the following items is considered 'legal tender'?

(A) Gold
(B) Lumber
(C) Cheque
(D) Ten dollar bill (note)

37. 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.

38. Which of the following is considered a withdrawal from the circular flow of income?

(A) Exports
(B) Savings
(C) Investments
(D) Household income

39. The type of unemployment which arises because a particular economic activity which creates jobs is available ONLY during a particular period of the year is known as

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

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

Item 42 refers to the following incomplete equation.

GDP = UNKNOWN = Total Expenditure = UNKNOWN

42. Which of the following options can BEST replace the two UNKNOWNS in the equation?

(A) Output and Employment
(B) Double Counting and Expenditure
(C) Income and Inflation
(D) Total Output and Total Income

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) marketing
(C) technical
(D) managerial

44. Which of the following is NOT used as payment for goods and services?

(A) Currency
(B) Insurance policy
(C) Standing order
(D) Personal cheques

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

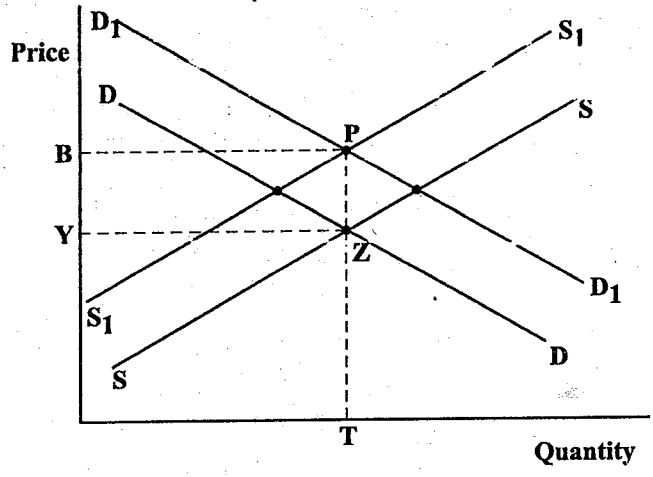
Item 46 refers to the following table which shows economic data for two countries, P and R, using all their individual resources.

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

46. Using the theory of comparative advantage, which of the goods above should Country P produce?

(A) Both goods
(B) Mobile phones only
(C) Microwave ovens only
(D) Some phones and some microwaves

Item 47 refers to the following diagram which shows the relationship between the demand for, and supply of, shirts.



47. 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 happens to 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.

Item 48 refers to the following information on the production of corn and beans in two countries, Smallville and Bigville.

Country	Quantity of Corn than can be Produced ('000 tonnes)	Quantity of Beans that can be Produced ('000 tonnes)
Smallville	40	10
Bigville	20	50

48. Which of the following statements is TRUE?

(A) Bigville has the absolute advantage in producing corn.
(B) Bigville has the comparative advantage in producing corn.
(C) Smallville has the absolute advantage in producing beans.
(D) Smallville has the comparative advantage in producing corn.

49. With a floating exchange rate system, the exchange rate is determined by

(A) the level of exports only
(B) the level of imports only
(C) government intervention
(D) demand and supply forces

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. 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 revaluation
(B) a recession
(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) free market
(B) planned economy
(C) controlled economy
(D) subsistence economy

53. Which of the following is usually a direct effect of retrenchment in a country?

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

54. Which of the following organizations has adopted a single currency to facilitate trade and people movement among its member countries?

(A) EU
(B) FTAA
(C) CSME
(D) CARICOM

55. Which of the following organizations aims to promote the free movement of capital and labour across member states?

(A) CBI
(B) CDB
(C) CSME
(D) CARIBCAN

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

(A) Bauxite
(B) Furniture
(C) Banana
(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 2008.

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. 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

59. Joe Brown sells his produce at the market and saves his money until he has enough to buy a car. Which of the following functions is money performing in this case?

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

Item 60 refers to the following table which shows manufacturing output as a share of Gross Domestic Product for four countries, A, B, C and D.

Year	Country			
	A	B	C	D
1980	28 %	40 %	29 %	29 %
1990	23 %	34 %	26 %	28 %
2000	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.