FORM TP 2012062

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**CARIBBEAN EXAMINATIONS COUNCIL**

**SECONDARY EDUCATION CERTIFICATE EXAMINATION**

# ECONOMICS

**Paper 02 – General Proficiency**

***2 hours***

**01 JUNE 2012 (a.m.)**

**READ THE FOLLOWING INSTRUCTIONS CAREFULLY.**

1. Answer ALL FOUR questions in Section I and TWO questions in Section II.
2. Number EACH answer in your booklet correctly.
3. Begin EACH answer on a new page.
4. Use the blank form(s) supplied to prepare answers where necessary.
6 Silent, electronic calculators may be used, but ALL necessary working should be clearly shown.

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## SECTION I

**Answer ALL FOUR questions in Section I.**

**EACH question is worth 15 marks.**

**1.** (a) Define the term 'Economics'. **(2 marks)**

(b) List the THREE **main** components of an economy. **(3 marks)**

(c) Explain TWO factors that a consumer has to take into account before buying a good. **(6 marks)**

(d) Using a diagram of a production possibility curve, explain how opportunity cost can be illustrated. **(4 marks)**

**Total 15 marks**

**2.** (a) Define the term 'cartel'. **(2 marks)**

(b) List THREE characteristics of an oligopolistic market structure. **(3 marks)**

(c) A computer store has reduced its price of computers. Using TWO separate diagrams, one for computers and the other for printers (related products), explain the effect of the reduction in price on the equilibrium price and quantity for computers and printers. **(6 marks)**

(d) Explain TWO problems that can arise from a firm being the only producer in the market. **(4 marks)**

**Total 15 marks**

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

(i) Terms of trade **(2 marks)**

(ii) Balance of trade **(2 marks)**

(b) State ONE factor that can affect the terms of trade of a country. **(1 mark )**

(c) Table 1 below illustrates import and export figures for the years 1990, 1991, 1992 and 1993 for Country X.

**TABLE 1: IMPORTS AND EXPORTS FOR COUNTRY X (US $)**

| Year | Imports | Exports |
|---|---|---|
| 1990 | 250 | 300 |
| 1991 | 300 | 200 |
| 1992 | 315 | 310 |
| 1993 | 320 | 320 |

(i) Calculate the balance of trade for the years 1990, 1991, 1992 and 1993. **(2 marks)**

(ii) Analyse the trend in the balance of trade from 1990 to 1993. **(4 marks)**

(d) Explain TWO economic effects of an **adverse** balance of trade on a country. **(4 marks)**

**Total 15 marks**

**4.** (a) Define the following terms:

(i) Investment **(2 marks)**

(ii) Savings **(2 marks)**

(b) Identify ONE factor that affects investment. **(1 mark )**

(c) An economy records a **rise in unemployment** and **a fall in business investment**. Explain how TWO fiscal policies can be used to address these conditions. **(6 marks)**

(d) Explain TWO factors that could have caused the state of the economy mentioned in (c) above. **(4 marks)**

**Total 15 marks**

## SECTION II

**Answer any TWO of the following questions in Section II.**

**EACH question is worth 20 marks.**

**5.** (a) Differentiate between 'fixed' and 'variable' costs. Give ONE example of EACH type of cost. **(4 marks)**

(b) List THREE types of business organization. **(3 marks)**

(c) (i) Distinguish between 'economies of scale' and 'diseconomies of scale'. **(4 marks)**

(ii) Draw a well-labelled diagram showing the regions of economies of scale and diseconomies of scale. **(4 marks)**

(d) Explain how a baker would respond to the THREE resource allocation decisions that arise in a free market economy. **(5 marks)**

**Total 20 marks**

**6.** (a) Define EACH of the following terms as it relates to international trade:

(i) Common external tariff **(2 marks)**

(ii) Import quota **(2 marks)**

(b) Identify THREE reasons why governments adopt protectionist measures. **(3 marks)**

(c) Explain, with examples, TWO items that would be found in EACH of the following sections of the Balance of Payments Account:

(i) Current Account

(ii) Capital Account **(8 marks)**

(d) By what name will EACH of the following transactions be known in the Balance of Payments Account of St Lucia?

(i) A St Lucian travels to France on holiday. **(1 mark )**

(ii) British visitors attend the 20/20 cricket match at the Beausejour Cricket Ground in St Lucia. **(1 mark )**

(iii) A St Lucian buys shares in Microsoft in the United States of America. **(1 mark )**

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(iv) Vanguard Atlantic earns US $2 million in profits in St Lucia and transfers these profits to its parent company in the United Kingdom. **(1 mark )**

(v) An American citizen sets up a company in the capital of St Lucia. **(1 mark )**

**Total 20 marks**

**7.** (a) Write EACH of the following acronyms in full:

(i) CSME **(1 mark )**

(ii) OECS **(1 mark )**

(iii) IMF **(1 mark )**

(iv) FDI **(1 mark )**

(b) Identify THREE characteristics of Caribbean economies. **(3 marks)**

(c) Discuss TWO potential benefits of trade liberalisation to an economy. **(8 marks)**

(d) Explain TWO ways in which e-commerce may encourage economic activity in an economy. **(5 marks)**

**Total 20 marks**

8. (a) Define the following terms:

(i) Stock exchange **(2 marks)**

(ii) Credit union **(2 marks)**

(b) List THREE functions of a Central Bank. **(3 marks)**

(c) Using a diagram, explain the circular flow of income. **(8 marks)**

(d) Explain TWO ways in which an insurance company can contribute to the economic development of a country. **(5 marks)**

**Total 20 marks**

**END OF TEST**

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