AFFIX SEAL HERE

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 2007065

TEST CODE 01216010

MAY/JUNE 2007

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

75 minutes

06 JUNE 2007 (p.m.)

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. In addition to this test booklet, you should have an answer sheet.
2. 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.
3. 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

A B ● D

The best answer to this item is "human behaviour", so answer space (C) has been blackened

4. If you want to change your answer, be sure to erase your old answer completely and fill in your new choice.
5. 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. You can come back to the harder item later. Your score will be the total number of correct answers.
6. This test consists of 60 items. You will have 75 minutes to answer them.
7. Do not be concerned that the answer sheet provides spaces for more answers than there are items in this test.
8. The use of silent electronic calculators is allowed.

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

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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. Which of the following statements BEST describes an 'economy'?

(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 maximise profits

3. Sita and Peter are planning to buy a new house. All of the following factors should affect their decisions EXCEPT

(A) their joint monthly income
(B) the possibility of a job promotion for Peter
(C) Sita's best friend also has a new home
(D) the high cost of renting where they now live

4. The Government of Country X decides to switch resources from investment goods to crop production. The opportunity cost of this decision is the

(A) profit earned by farmers
(B) rent of the land on which crops are grown
(C) reduction in investment goods
(D) wages earned by farm workers

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

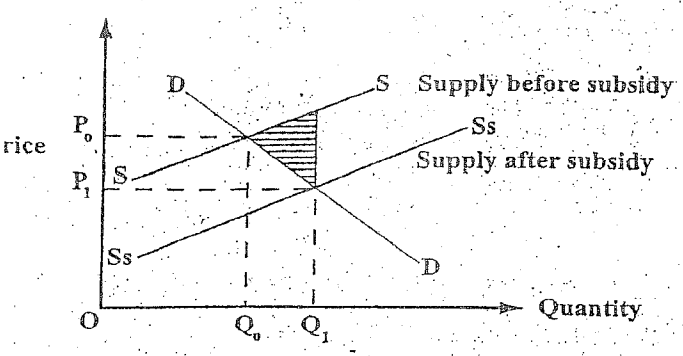
(A) specialisation
(B) progress
(C) productivity
(D) entrepreneurial ability

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 frontier curve
(D) Individual supply curve

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Item 7 refers to the diagram below.



7. In the diagram above, S is the supply curve before a subsidy is given and Ss is the supply curve after the subsidy is given. 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

8. Which of the following determines the allocation of resources in a mixed economy?

(A) Consumers only
(B) Government only
(C) Government and producers only
(D) Government, producers and consumers

9. Which of the following is an advantage of a market economic system?

(A) There is equality of income.
(B) Price control measures can be effected.
(C) It gives an incentive to produce.
(D) It reduces pollution and congestion.

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) buyers and sellers determine prices
(B) producers are never efficient
(C) profits are lower
(D) there are higher unemployment levels

11. A MAJOR disadvantage of a planned economy is that it

(A) causes inequality in the distribution of income
(B) discourages individual initiative and enterprise
(C) results in widespread unemployment
(D) causes high rates of inflation

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

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14. Many developing countries have changed their economies from a command economy to a market-based economy in order to increase

(A) government control
(B) efficiency
(C) subsidies
(D) price control

15. Sam and Jack started a catering business. They organised the factors of production and pooled their financial resources to produce the goods and services. In which factor of production will you classify Sam and Jack?

(A) Worker
(B) Investor
(C) Entrepreneur
(D) Manager

16. The sugar industry in New Island uses a high ratio of labourers to capital as inputs in the production of sugar. Which of the following economic questions is being answered in this production arrangement?

(A) How much to produce
(B) For whom to produce
(C) What to produce
(D) How to produce

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

18. An increase in the price of flour is MOST likely to be followed by an immediate

(A) rise in the quantity demand for bread
(B) fall in the quantity supply of flour
(C) rise in the quantity supply of flour
(D) fall in the quantity demand for flour

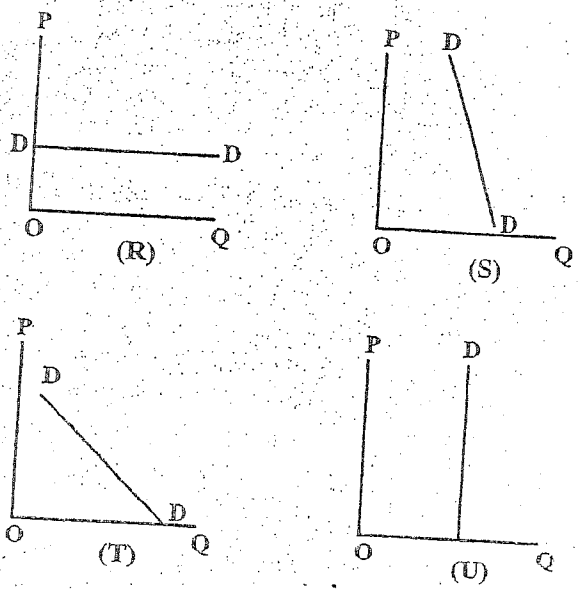
19. According to economic theory, 'second hand' cigarette smoke is an example of a

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

20. A shift in the demand curve for a commodity could result from a change in

(A) price
(B) supply
(C) conditions of supply
(D) conditions of demand

Item 21 refers to the following diagrams.



21. Which diagram above indicates that demand is perfectly elastic?

(A) R
(B) S
(C) T
(D) U

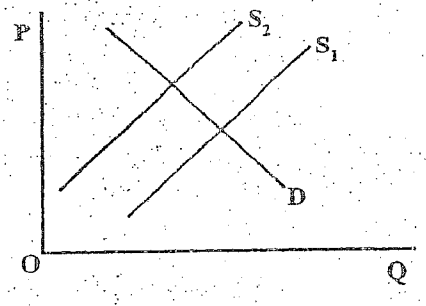
22. Hybrid electric cars are more expensive than cars which use gasolene. However, a major feature of electric cars is that they are pollution free. Which costs will fall as consumers start using electric cars?

(A) Total fixed cost
(B) Marginal cost
(C) Private cost
(D) External cost

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

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

Item 24 refers to the diagram below which shows the market for soft drinks in Country Y.



24. Which of the following is MOST likely to be responsible for the shift in the supply curve from S_1 to S_2?

(A) An increase in advertising of soft drinks
(B) A fall in the price of sugar
(C) Increased wages for workers in the soft drink industry
(D) An increase in income

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. Which of the following is NOT TRUE of perfect competition?

(A) Firms are price takers.
(B) Products are homogenous.
(C) Firms engage in price discrimination.
(D) There are no barriers to entry.

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. A treasury bill is an instrument for short-term borrowing by

(A) public companies
(B) governments
(C) insurance companies
(D) importers

30. The MAIN objective of a credit union is to

(A) encourage consumer spending
(B) provide investment funds for companies
(C) develop the habit of thrift among its members
(D) provide credit to government agencies

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 financial instruments is issued by the Government?

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

34. One of the functions of a commercial bank is

(A) issuing notes and coins
(B) making loans
(C) determining the foreign exchange rate
(D) keeping the accounts of government departments

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

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

37. Which of the following will be included in the capital account of the balance of payments of a country?

(A) Items bought from a foreign supplier through the internet
(B) Outstanding loan repayments made to a bank in a foreign country
(C) Investment in a local manufacturing industry by a foreign company
(D) The value of goods exported during the year

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

(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 39 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 (%)
2003	5	20
2004	10	20
2005	10	5
2006	15	5

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

(A) 2003
(B) 2004
(C) 2005
(D) 2006

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

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

Item 41 refers to the following table.

Item	Amount ($M)
Consumption	100
Net income from abroad	20
Investment	80
Government spending	60

41. Using the data provided in the table above calculate the Gross Domestic Product.

(A) $200M
(B) $220M
(C) $240M
(D) $260M

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

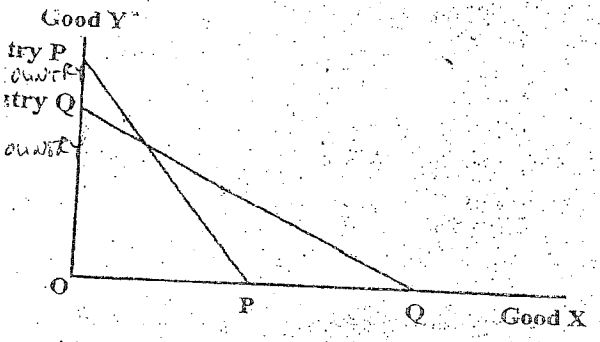
(A) private investment
(B) public expenditure
(C) state planning
(D) trade barriers

43. 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

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Item 44 refers to the following figure.



44. With reference to the diagram above, state which of the following is TRUE.

(A) Country P has an absolute advantage in Good Y only.
(B) Country P has an absolute advantage in Good Y and Good X.
(C) Country Q has an absolute advantage in Good Y only.
(D) Country Q has an absolute advantage in Good Y and Good X.

45. A country is said to have 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 total world sales of that commodity than any other commodity

46. Country X decides to protect its agricultural sector from foreign competition by restricting the amount of agricultural goods imported into the country. This measure is referred to as a

(A) trade barrier
(B) trade bloc
(C) quota trading
(D) trade embargo

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

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

48. 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

49. Which of the following events 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.

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Item 50 refers to the table below which shows figures taken from the balance of payments records for Country X in the year 2006.

	$M
Export of goods	500
Import of goods	400
Current balance	300

50. What is the invisible balance for Country X?

(A) $ 100M
(B) $ 200M
(C) $ 300M
(D) $1 200M

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

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

52. Chasa Cosmetics seeks to market its products in the United States. Such a move is made MOST likely through

(A) the establishment of the Caribbean Single Market and Economy
(B) direct foreign investment in the United States
(C) effective marketing strategies
(D) trade liberalization

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

(A) structural adjustment
(B) globalisation
(C) bi-lateral agreements
(D) protectionism

54. Which of the following benefits will consumers derive as a result of trade liberalisation?

(A) They will enjoy greater access to a variety of goods.
(B) Goods and services will be provided at lower costs.
(C) Prices of all goods and services will be reduced.
(D) Prices of goods and services will be more stable.

55. Which of the following are characteristic of MOST Caribbean economies?

I. High per capita incomes
II. A diversified manufacturing sector
III. Equitable distribution of incomes
IV. Dependency on primary product exports

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

56. All of the following are examples of primary products EXCEPT

(A) bauxite
(B) furniture
(C) bananas
(D) petroleum

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Item 57 refers to the table below which shows a country's current account of its balance of payments for the year 2006.

Item	($M)
Invisible imports	50
Invisible exports	80
Visible imports	70
Visible exports	32

57. What is its balance of merchandise trade?

(A) -$38 M
(B) $20 M
(C) $38 M
(D) $48 M

58. Country A and Country B are trading partners. How will their trading relations be affected if the value of the currency of Country A increases against the value of the currency of Country B?

(A) Exports from Country B to Country A will be cheaper.
(B) The volume of exports from Country A to Country B will be cheaper.
(C) Exports from Country B to Country A will decrease.
(D) The volume of exports from Country A to Country B will decrease.

Item 59 refers to the information below which shows import and export data for Country X in 2006.

Index of import prices	100
Index of export prices	120
Volume of exports	200
Volume of imports	80

59. What were the terms of trade for Country X in 2006?

(A) 0.98
(B) 1.2
(C) 2
(D) 120

Item 60 refers to the table below 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%

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

(A) Employment in the manufacturing sector increased.
(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.

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