AFFIX SEAL HERE

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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 2008060

TEST CODE 01216010

MAY/JUNE 2008

CARIBBEAN EXAMINATIONS COUNCIL

SECONDARY EDUCATION CERTIFICATE EXAMINATION

ECONOMICS

Paper 01 – General Proficiency

75 minutes

04 JUNE 2008 (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. Which of the following statements BEST describes a 'free good'?

(A) A good that is given away by a retailer to promote the sale of another good
(B) One which gives no satisfaction to consumers
(C) One which has an infinite elasticity of supply
(D) A good whose opportunity cost is zero

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 where 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 the couple's decision EXCEPT

(A) their joint monthly income
(B) the possibility of a job promotion for Peter
(C) the acquisition of a new home by Sita's best friend
(D) the high cost of renting their current home

4. 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.

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

Item 6 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.

6. Which of the following factors will cause consumers to buy less of Good Z?

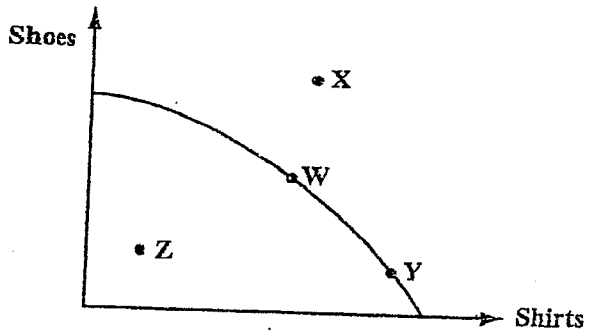
(A) An increase in the supply of good Z
(B) An imposition of a 100 per cent tax on good Z
(C) The placement of a 100 per cent subsidy on good Z
(D) The advertisement of good Z as an impressional good

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7. A student has a daily allowance of $20 with which he can purchase chicken and chips or a hamburger, but NOT both. If he purchases the chicken and chips, what will be the economic cost of his decision?

(A) The hamburger he gives up
(B) The price of the chicken and chips
(C) The price of the hamburger
(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: shoes and shirts.



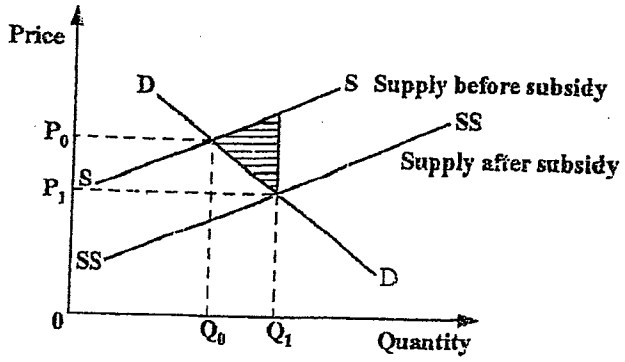
8. At what point in the diagram are resources underemployed?

(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 improvement in 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. 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

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

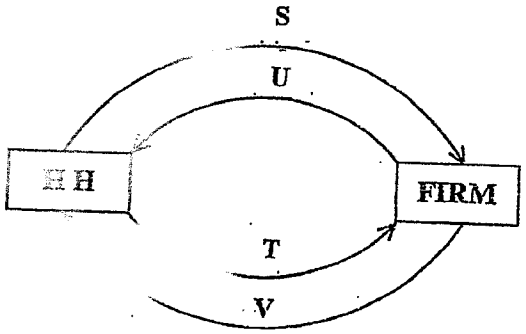
Item 13 refers to the following statement.

Expenditure-reducing measures may be implemented to improve a country's current account balance on its Balance of Payments.

13. Which of the following CANNOT be considered an expenditure-reducing measure?

(A) Devaluation of the currency
(B) A credit squeeze
(C) Granting of export subsidies
(D) Imposition of import controls

Items 14 - 15 refer to the following diagram which illustrates the flow of goods and services, factors of production and money earned and spent.



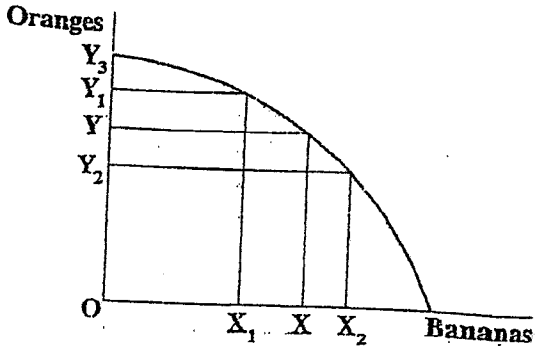
14. If U refers to goods and services, then S refers to

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

15. 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

Item 16 refers to the diagram below which shows the production possibility of an economy that produces bananas and oranges.



16. If OX is the amount of bananas produced, what is the amount of oranges produced?

(A) OY
(B) OY_1
(C) OY_2
(D) OY_3

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

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

18. Sam and Jack started a catering business. They organised 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

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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) A worker employed to work in the mine
(C) A company that uses the mineral
(D) A person who invests capital in mining operations

20. Which of the following would NOT have to change for a planned economy to become a market economy?

(A) The type of government in the country
(B) The method of allocating resources
(C) The price of goods in the private sector
(D) The ownership of resources by the state sector

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

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

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

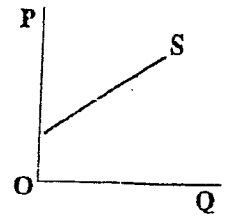
(A) private good
(B) positive externality
(C) negative externality
(D) merit good

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

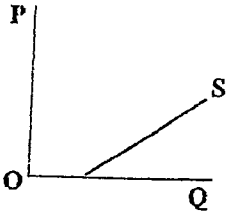
(A) many buyers and one seller
(B) freedom of entry and exit
(C) selling of homogeneous products
(D) perfect knowledge of market conditions

Item 24 refers to the diagrams I, II, III and IV below which show FOUR market supply curves.

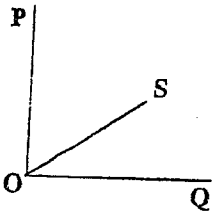
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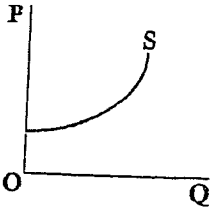
II



III



IV



24. Which diagram shows the market supply curve where price elasticity of supply is unitary?

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

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25. Which of the following conditions is UNLIKELY to 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

26. 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.

27. To which of the following does the term 'legal tender' refer?

(A) Money that government declares must be accepted if offered as settlement of debt
(B) Money that has no direct backing of gold
(C) Assets that can be converted immediately into a known amount of money
(D) Assets which only perform the function of a store of wealth

28. If a country has an 'improvement in the terms of trade' it means that

(A) the country has a surplus of foreign currency.
(B) the value of the country's imports is greater than its exports.
(C) the country can purchase more imports than previously with the same quantum of exports.
(D) the country cannot purchase more imports.

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

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

30. One of the functions of the Central Bank is to

(A) provide businesses with capital
(B) provide aid to countries in need
(C) accept deposits from members of the public
(D) manage the issue of treasury bills

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 export on the Balance of Payments of Country X?

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

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) 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 financial instruments are issued by the Government?

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

Item 38 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

38. In which year was the increase in real wages greatest?

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

39. 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

Item 40 refers to the table below which shows manufacturing output as a percentage of Gross Domestic Product (GDP) for four countries A,B,C and D.

YEAR	COUNTRY A	COUNTRY B	COUNTRY C	COUNTRY D
1980	28%	40%	29%	29%
1990	23%	34%	26%	28%
2000	19%	31%	21%	23%

40. 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 (GDP).
(C) There was a decline in the sale of manufactured products.
(D) There was a decline in manufacturing output as a share of GDP.

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41. Exchange rate depreciation is LIKELY to occur when the value of a currency

(A) falls under a fixed exchange rate regime
(B) rises under a flexible exchange rate regime
(C) rises under a fixed exchange rate regime
(D) falls under a flexible exchange rate regime

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

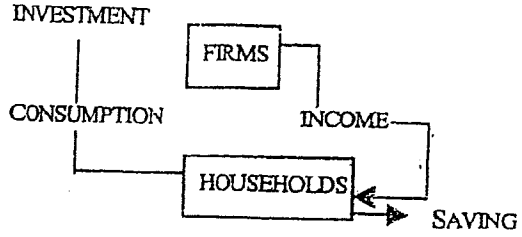
44. Hi-Lo Supermarket increased the price of its name brand tissue by 65 per cent and sales fell by 115 per cent.

How should the price elasticity of demand for Hi-Lo's tissue be categorised?

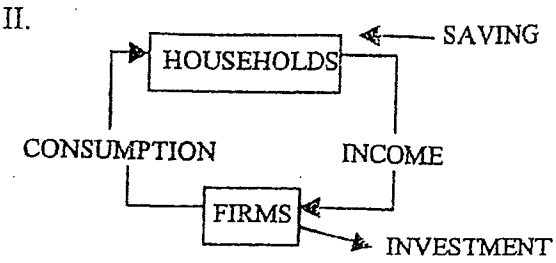
(A) Unitary elastic
(B) Elastic
(C) Inelastic
(D) Cross elastic

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

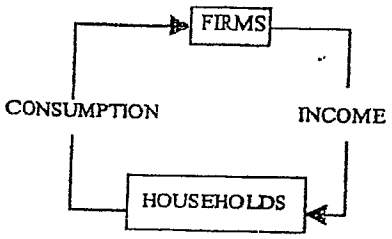
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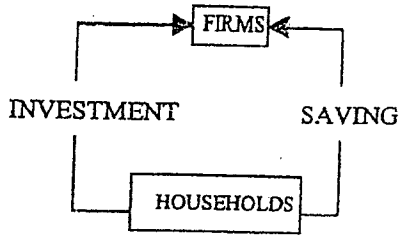
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III.



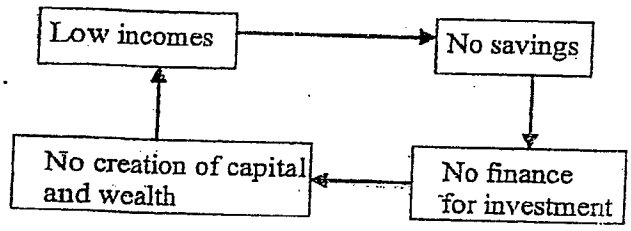
IV.



45. Which diagram BEST illustrates the circular flow of income in an economy consisting of households and firms?

(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) problems faced by developed countries

47. Which of the following is NOT a 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 liberalisation will result in several benefits to consumers. Which of the following will NOT represent a benefit to consumers?

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

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

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

50. 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

Item 51 refers to the table below which shows the 2007 import and export data for Country X.

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

51. What was the 'terms of trade' index for Country X in 2007?

(A) 0.98
(B) 1.2
(C) 2.0
(D) 120.0

52. 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.

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 agreement
(D) protectionism

54. Which of the following is NOT a function of money?

(A) Unit of account
(B) Form of credit
(C) Store of value
(D) Medium of exchange

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 from 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.

57. Which of the following will MOST likely result in a shift to the right in the supply curve for flour?

(A) Increased taxation on wheat producers
(B) Increased advertising by wheat producers
(C) Government subsidies to wheat farms
(D) Legislation to limit the use of pesticides by wheat producers

Items 58 - 59 refer to the following table which presents data on the supply, demand and price of potatoes.

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

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.