FORM TP 2014060

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CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 02 – General Proficiency

2 hours

04 JUNE 2014 (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. You may use a silent, electronic calculator to answer questions but ALL necessary working should be clearly shown.

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SECTION I

Answer ALL FOUR questions in this section.

EACH question is worth 15 marks.

1. Table 1 shows the combinations of sugar and bananas that Country X is capable of producing using ALL of its resources.

TABLE 1: PRODUCTION CAPABILITIES OF COUNTRY X

Combination	Sugar (tons)	Banana (tons)
A	0	40 000
B	1 000	25 000
C	2 000	15 000
D	3 000	9 000
E	4 000	0

(a) State the name of the curve that is normally used to represent the information in Table 1. **(1 mark)**

(b) (i) Moving from combination A through E in Table 1, state if opportunity cost is decreasing, increasing or constant. **(1 mark)**

(ii) State the maximum amount of sugar that can be produced if 40 000 tons of bananas are produced. **(1 mark)**

(iii) State TWO factors that would cause the curve identified in (a) above to shift inwards. **(2 marks)**

(c) Use the information given in Table 1 to determine whether for EACH of the production combinations stated below, Country X is operating efficiently or not if it is currently producing

(i) 2 000 tons of sugar and 15 000 tons of bananas **(2 marks)**

(ii) 1 000 tons of sugar and 15 000 tons of bananas. **(2 marks)**

(d) Explain TWO factors that should be considered before opening an internet cafe. **(6 marks)**

Total 15 marks

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2. (a) Define the following terms:

(i) Economic system **(2 marks)**

(ii) Capital goods **(2 marks)**

(b) Give ONE example of a capital item. **(1 mark)**

(c) Explain TWO types of economies of scale that a person might gain by moving from operating a small food stall to operating a big restaurant. **(6 marks)**

(d) Table 2 shows the total cost of production of Firm A for each level of output.

TABLE 2: TOTAL COST OF PRODUCTION OF FIRM A AT EACH LEVEL OF OUTPUT ABOVE ZERO

Quantity (units)	0	1	2	3	4
Total cost ($)	10	20	30	45	68

Use the information in Table 2 to calculate

(i) the average total cost (ATC) for output level 3

(ii) the marginal cost for the 4th unit of output. **(4 marks)**

Total 15 marks

3. (a) Define the following terms:

(i) Exchange rate revaluation **(2 marks)**

(ii) Managed exchange rate **(2 marks)**

(b) State the name of the protectionist measure that limits the quantity of goods entering a country. **(1 mark)**

(c) Describe TWO disadvantages that may accrue to a Caribbean country if it moves from a fixed exchange rate to a floating exchange rate system. **(6 marks)**

(d) Analyse ONE benefit of using devaluation to correct a balance of payments problem. **(4 marks)**

Total 15 marks

4. (a) Define the term 'economic goals'. **(2 marks)**

(b) List THREE economic goals of a government. **(3 marks)**

(c) Explain TWO disadvantages of using Gross Domestic Product (GDP) as a measure of standard of living. **(6 marks)**

(d) Table 3 shows the economic statistics for Country Y.

TABLE 3: ECONOMIC STATISTICS FOR COUNTRY Y

Category	**Value (millions of $)**
Exports	300
Government spending	300
Wages and salaries	900
Buildings and equipment	500
Rentals	200
Imports	400
Consumption	900

Calculate the Gross Domestic Product (GDP) for Country Y using the information provided in Table 3. *Hint: Use the expenditure approach.* **(4 marks)**

Total 15 marks

SECTION II

Answer any TWO questions in this section.

EACH question is worth 20 marks.

5. (a) Define the following terms:

(i) The gold standard **(2 marks)**

(ii) Equity securities **(2 marks)**

(b) List THREE types of financial institutions. **(3 marks)**

(c) Explain ONE way in which the informal sector contributes positively and ONE way it contributes negatively to the financial sector. **(8 marks)**

(d) Analyse TWO benefits of electronic payments to an individual. **(5 marks)**

Total 20 marks

6. (a) List THREE examples of transfers found in the current account section of the balance of payments. **(3 marks)**

(b) Define the following terms as they relate to a country's balance of payments account:

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

(ii) Balance of payments disequilibrium **(2 marks)**

(c) Explain TWO ways in which increases in the exchange rate of a country can affect the balance of payments account. **(8 marks)**

(d) Table 4 shows the balance of payments data for Country Z.

TABLE 4: BALANCE OF PAYMENTS DATA FOR COUNTRY Z

Category	**Value (millions of $)**
Export of goods	300
Export of services	900
Foreign direct investment	600
Grants, gifts	300
Import of goods	500
Import of services	800
Interest, profits and dividends	200
Foreign reserves	400

Use the information provided in Table 4 to calculate the current account balance. **(5 marks)**

Total 20 marks

7. (a) Define the term 'market equilibrium'. **(2 marks)**

(b) Identify the TWO main market forces in an economy. **(2 marks)**

(c) List THREE causes of market failure. **(3 marks)**

(d) *"A price hike in gasoline has caused motorists to rethink their choice of vehicle and mode of transportation."*

Explain this statement in the context of cross elasticity of demand. **(8 marks)**

(e) Discuss TWO impacts on the market that may result from the introduction of a low cost airline carrier in the Caribbean. **(5 marks)**

Total 20 marks

8. (a) Define the following terms:

(i) Debt burden **(2 marks)**

(ii) Economic integration **(2 marks)**

(b) List any THREE stages of economic integration. **(3 marks)**

(c) Explain TWO benefits to the Caribbean Community (CARICOM) of adopting a common external tariff. **(8 marks)**

(d) Analyse any TWO effects of foreign direct investment on the economies of Caribbean countries. **(5 marks)**

Total 20 marks

END OF TEST

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