TEST CODE **01216020**

# FORM TP 2007066

MAY/JUNE 2007

**CARIBBEAN EXAMINATIONS COUNCIL**

**SECONDARY EDUCATION CERTIFICATE EXAMINATION**

## ECONOMICS

**Paper 02 – General Proficiency**

***2 hours***

**06 JUNE 2007 (a.m.)**

**INSTRUCTIONS TO CANDIDATES**

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.
5. 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 'national income'. **( 2 marks)**

(b) List THREE factors that affect the national income of a country. **( 3 marks)**

(c) Explain TWO factors that may affect the quality of national income statistics. **( 4 marks)**

(d) Discuss THREE drawbacks of using the national income as a measure of the standard of living. **( 6 marks)**

**Total 15 marks**

**2.** (a) Define the concept 'terms of trade'. **( 2 marks)**

(b) List THREE reasons why countries trade. **( 3 marks)**

(c) Explain TWO ways in which a significant foreign direct investment is likely to impact your country. **( 4 marks)**

(d) With reference to a **named** country, discuss TWO reasons why a trade surplus may have negative effects on an economy. **( 6 marks)**

**Total 15 marks**

**3.** (a) Define a 'production possibility curve'. **( 2 marks)**

(b) Identify THREE advantages of the division of labour. **( 3 marks)**

(c) With reference to the sugar industry, distinguish between 'primary' and 'secondary' factors of production. **( 4 marks)**

(d) If the quantity of capital available for production in your country increases but labour remains fixed, would the law of diminishing returns still operate? Explain your answer. **( 6 marks)**

**Total 15 marks**

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

(b) List THREE reasons why markets fail. **( 3 marks)**

(c) Describe TWO benefits that will result in moving from a monopoly to a perfectly competitive market in the telecommunications industry. **( 4 marks)**

(d)

| Price (in $) | Quantity Demanded (Kg) | Quantity Supplied (Kg) |
|---|---|---|
| 1 | 50 | 10 |
| 2 | 40 | 12 |
| 3 | 35 | 15 |
| 4 | 32 | 20 |
| 5 | 30 | 30 |
| 6 | 27 | 41 |
| 7 | 26 | 50 |
| 8 | 23 | 65 |
| 9 | 20 | 80 |
| 10 | 15 | 97 |

**Table 1: Price, Quantity Demanded and Quantity Supplied of Product X**

Table 1 above presents a schedule of the price, quantity demanded and quantity supplied of Product X. Use the schedule in Table 1 above to answer the following questions.

(i) Describe the market situation at a price of $8. **( 2 marks)**

(ii) The government imposes a fixed price of $6 on Product X. With the aid of a diagram, discuss the effects of this action. **( 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) List THREE financial intermediaries. **( 3 marks)**

(b) State TWO functions of money. **( 4 marks)**

(c) "The Central Bank does not control gross domestic product (GDP) directly, though its ultimate policy objective is economic growth with stable prices".

(i) Discuss ONE way in which the Central Bank in your country can achieve this objective. **( 5 marks)**

(ii) Discuss TWO other monetary policy measures that the Central Bank may apply to curb inflation in your country. **( 8 marks)**

**Total 20 marks**

**6.** (a) Explain what is meant by 'recession'. **( 3 marks)**

(b) Describe TWO causes of unemployment. **( 4 marks)**

(c) Using a supply and demand diagram, illustrate and explain briefly cost-push inflation caused by a labour union successfully negotiating for a higher wage. **( 5 marks)**

(d) For a **named** Caribbean country, discuss TWO **negative** effects of a Government budget deficit on the economy. **( 8 marks)**

**Total 20 marks**

**7.** (a) List the TWO means by which resources are allocated in an economy. **( 2 marks)**

(b) Distinguish between a change in 'demand' and a change in 'quantity demanded'. **( 5 marks)**

(c) Explain TWO determinants of the price elasticity of demand for BMW vehicles. **( 5 marks)**

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(d) Using the determinants identified in (c) above, discuss how these may be responsible for the demand curve shifting from D to $D_1$ in Figure 1 below.

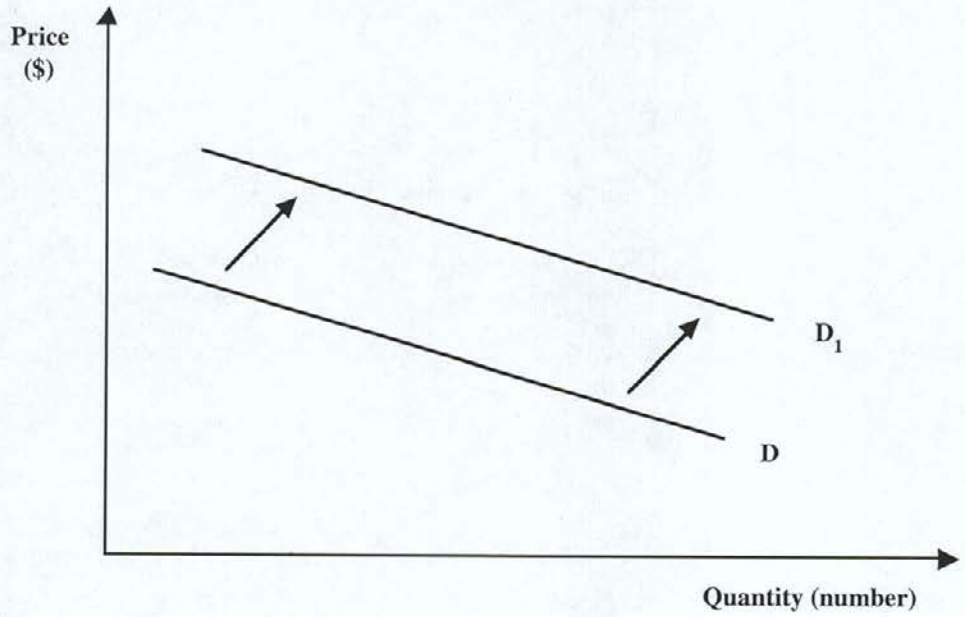



**Figure 1: Change in the Quantity of BMW Vehicles Demanded by Consumers**

**( 8 marks)**

**Total 20 marks**

**8.** (a) List THREE objectives of the Caribbean Community (CARICOM). **( 3 marks)**

(b) "Caribbean economies, in the face of trade liberalisation, are seeking to increase business through e-commerce".

(i) Explain the concepts of 'trade liberalisation' and 'e-commerce'.

**( 4 marks)**

(ii) Outline THREE benefits of e-commerce to Caribbean businesses.

**( 5 marks)**

(c) Discuss TWO measures that can be employed by Caribbean governments in order to promote sustainable growth in e-commerce in the region. **( 8 marks)**

**Total 20 marks**

**END OF TEST**