FORM TP 2016060

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CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION

ECONOMICS

Paper 02 – General Proficiency

2 hours

01 JUNE 2016 (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.
5. You may use a silent, non-programmable calculator to answer questions but ALL necessary working should be clearly shown.

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

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SECTION I

Answer ALL FOUR questions in this section.

1. (a) Define the term 'diseconomies of scale'. **(2 marks)**

(b) In which time period does 'economies of scale' occur? **(1 mark)**

(c) Identify TWO types of diseconomies of scale. **(2 marks)**

(d) Explain how the THREE resource allocation decisions are made in a free market economy. **(6 marks)**

(e) Identify TWO 'fixed costs' and TWO 'variable costs' associated with setting up a hairdressing salon or a barber shop. **(4 marks)**

Total 15 marks

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

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

(c) Explain the impact on the demand curve when the

(i) price of a good falls

(ii) income of the population rises. **(6 marks)**

(d) The price of Good A rises from $2 to $4, causing a decrease in demand for Good B from 10 units to 5 units.

(i) Using the information provided, calculate the cross-price elasticity of demand. **(3 marks)**

(ii) Using the result obtained in (d) (i) above, determine the classification of Good A in relation to Good B. **(1 mark)**

Total 15 marks

3. (a) Define the term 'globalization'. **(2 marks)**

(b) List THREE challenges of e-commerce to the consumer. **(3 marks)**

(c) CARICOM is currently a common market. Using the characteristics of the stages of economic integration, justify this statement. **(6 marks)**

(d) Explain TWO benefits to Caribbean states of being a member of CARICOM. **(4 marks)**

Total 15 marks

4. (a) Define the term 'balance of payments'. **(2 marks)**

(b) List THREE types of exchange rate regimes. **(3 marks)**

(c) (i) Distinguish between 'investment income' and 'foreign direct investment'. **(4 marks)**

(ii) Indicate where 'investment income' and 'foreign direct investment' occur in the balance of payments. **(2 marks)**

(d) Explain TWO ways in which devaluation can improve a country's balance of payments deficit. **(4 marks)**

Total 15 marks

SECTION II

Answer any TWO questions in this section.

5. (a) Define EACH of the following terms:

(i) Economics **(2 marks)**

(ii) Money cost **(2 marks)**

(b) List the THREE **main** sectors in an economy. **(3 marks)**

(c) Explain the difference between 'increasing opportunity costs' and 'constant opportunity costs'. **(4 marks)**

(d) Describe the impact on the production possibility curve of a country if the following situations occur:

(i) There is heavy unemployment **(2 marks)**

(ii) Large-scale migration occurs in developed countries. **(2 marks)**

(e) Draw a diagram of the production possibility curve and label it to show increasing opportunity costs. **(5 marks)**

Total 20 marks

6. (a) Define the term 'price elasticity of supply'. **(2 marks)**

(b) List THREE characteristics of a perfectly competitive market. **(3 marks)**

(c) Identify TWO types of market structures **OTHER THAN** perfect competition. **(2 marks)**

(d) Explain the difference between an 'increase in supply' and an 'increase in quantity supplied'. **(4 marks)**

(e) Explain TWO factors that may affect the supply of a good. **(4 marks)**

(f) Describe how the market for cigarettes can contribute to market failure. **(5 marks)**

Total 20 marks

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

(b) Identify TWO withdrawals from the circular flow of income. **(2 marks)**

(c) List THREE types of unemployment. **(3 marks)**

(d) Explain TWO ways in which fiscal policy can be used to reduce unemployment in the tourism sector. **(8 marks)**

(e) The retail price index is given as 115 and gross domestic product is currently recorded at $500 billion.

(i) Calculate the real output. **(3 marks)**

(ii) What does the retail price index imply about inflation? **(2 marks)**

Total 20 marks

8. (a) Define the term 'barter'. **(2 marks)**

(b) List THREE disadvantages of bartering. **(3 marks)**

(c) State TWO functions of the financial sector in an economy. **(2 marks)**

(d) Explain how the central bank would use EACH of the following methods to increase the money supply:

(i) Discount rates **(4 marks)**

(ii) Reserve requirement ratios **(4 marks)**

(e) Using examples, explain how the use of credit cards has improved the function of money as a medium of exchange. **(5 marks)**

Total 20 marks

END OF TEST

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