

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

MAY/JUNE 2012

**ECONOMICS
GENERAL PROFICIENCY EXAMINATION**

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GENERAL COMMENTS

Economics was offered for examination at the Caribbean Secondary Education Certificate (CSEC) level for the sixth year in 2012. The examination consisted of Paper 01, the multiple-choice paper, Paper 02, the structured essay paper, Paper 031, the school-based assessment (SBA), and Paper 032, the alternative to the SBA for private candidates.

DETAILED COMMENT

Paper 01 – Multiple Choice

This paper consisted of 60 multiple-choice questions. Performance was satisfactory. Attention still needs to be focused on calculations in general, specifically elasticity, GDP and the balance of payments. Additionally, questions involving interpretation of data tended to give some candidates difficulty.

Paper 02 – Structured Essay

This paper sought to test candidates on a range of topics identified in the syllabus. It was divided into two Sections: A and B. Section A contained four compulsory questions while Section B comprised four optional questions from which candidates were expected to answer two. Section A tested two micro-economic and two macro-economic topics while in Section B, the micro and macro components of the syllabus were integrated in some of the questions. Performance was generally satisfactory.

Question 1

This question tested candidates understanding of basic economic principles such as choice and opportunity cost. The question tested candidates' ability to

- define the term *economics*
- list the three main components of an economy
- explain two factors that a consumer has to take into account before buying a good
- use a diagram of a production possibility curve to explain how opportunity cost can be illustrated.

Part (a) was fairly well done. However, there were many incomplete definitions of *economics*. Many students failed to recognize *economics* as a study of resource allocation. Part (b) was poorly done. There was general confusion over what the three main components of the economy are with some candidates giving the types of economic systems as possible answers instead of households, firms and government as was required.

Part (c) was generally well done. Responses were, however, very broad and often lacked a clear economic basis. Part (d) was also fairly well done. There were, however, many inaccurate diagrams. Where diagrams were accurate, there was an inability to use relevant points to express opportunity cost. Many candidates focused on choice along the PPF instead of clearly identifying the alternative foregone. Some candidates did not have a clear understanding of the term *resources* and as a result often used the term interchangeably with goods and services. Greater attention must be given to the drawing and labelling of diagrams and to ensuring that candidates understand and learn definitions of key economic concepts.

Question 2

This compulsory question was attempted by approximately 98 per cent of the candidates. In general, the performance was unsatisfactory with approximately 10–15 per cent of candidates unable to score any marks.

It tested candidates' ability to

- define the term *cartel*
- list three characteristics of an oligopolistic market structure
- use two separate diagrams to explain the effect of a reduction in the price of computers on computers and printers (related goods)
- explain two problems that can arise from a firm being the only producer in the market.

This question tested candidates' understanding of oligopolies and monopolies. In addition, it tested demand and supply analysis, in particular, the ability to distinguish between *shifts of the curve* and *movements along the curve*.

Part (a) was handled well by most candidates. Unfortunately, many candidates seemed unaware of the economic definition and linked the term with illegal activities such as drugs and prostitution. For Part (b), a very large percentage of candidates were able to score between two and the maximum three marks despite the fact that they experienced difficulties with Part (a). Candidates who did not perform well gave characteristics of market structures rather than distinctive characteristics of an oligopoly. Responses such as 'many buyers' and 'no government intervention' were inappropriate.

Performance on Part (c) was average, with most candidates demonstrating an understanding of market equilibrium and complementary goods. However, many of them were unable to make the distinction between *shifts of the curve* and *movements along the curve* as well as the distinction between a *change in demand* and a *change in quantity demanded*. Finally, although many candidates were able to articulate that computers and printers are jointly demanded, they were unable to represent this using graphical analysis.

Part (d) did not pose a difficulty to candidates, with the majority of them earning between two and the maximum four marks. However, it was noted that although some candidates were able to identify two problems, they were unable to develop an adequate explanation. In addition, unsuccessful candidates confused a monopoly with sole proprietorship. Finally, it was evident in candidates' responses that many could not distinguish between private sector and public sector monopolies. Hence, many stated that a monopoly would lower prices, operating at a loss, rather than stating that the monopoly was a price maker and would charge higher prices.

Question 3

This was a compulsory question. It was attempted by most candidates (approximately 96 per cent). It was poorly done. It tested candidates' ability to

- define terms of trade and balance of trade
- state one factor that could affect the terms of trade of a country
- calculate the balance of trade over a period of four years given a table and analyse the movements in the balance of trade over the period
- explain two economic effects of an adverse balance of trade on an economy.

Part (a) (i) was poorly done. The majority of candidates provided a legal definition of the concept of *terms of trade* rather than an economic explanation. For example, many candidates referred to the rules and regulations that govern international trade in their response. The candidates who appeared knowledgeable about the topic did not include the correct economic terminology of *ratio* or *price*.

Part (a) (ii) was unsatisfactorily done. Most candidates failed to understand that there is a distinction between *balance of trade* and *balance of payments*. Additionally, weaker candidates could not mention that the balance of trade refers to goods or tangibles or visibles only. Further, many candidates did not state that balance of trade indicates a difference in exports and imports as opposed to exports plus imports or exports and imports.

Part (b) was poorly done. A lack of understanding of Part (a) (i) led to incorrect answers in this section of the question. Candidates focused on factors affecting international trade as a broad social topic instead of terms of trade. Examples of wrong answers given included 'weather conditions', 'war', 'natural disasters' and 'raw materials'.

Part (c) (i) was unsatisfactorily done. Some candidates were unable to calculate *balance of trade* even though they provided the correct definition in Part (a) (ii). Candidates gave summative figures for the years 1990–1993 rather than providing for each year, that is, they stated the balance of trade at the end of the period rather than for each year in isolation. In others cases, candidates used the formula for terms of trade while others obtained the correct balance of trade figures with the wrong signs.

Part (c) (ii) was poorly done. Generally, candidates displayed an inability to describe the trend, and therefore were not able to recognize a fluctuation in the figures. Some candidates looked at absolute values while others looked at the trends in imports and exports separately as opposed to the data analysis for the balance of trade itself.

Part (d) was unsatisfactorily done. Many candidates provided definitions, causes and even the solutions rather than effects of an adverse balance of trade. Some gave social effects and were generally unable to provide logical explanations. Other candidates seemed confused as they gave responses that applied to a favourable balance of trade.

Question 4

This question was compulsory and was attempted by 98 per cent of candidates with approximately 45 per cent giving satisfactory responses. It tested candidates' ability to

- define *investment* and *savings*
- identify one factor that affects investment
- explain two ways in which fiscal policy can improve a recession (that is, a rise in unemployment and a fall in business investment)
- explain two factors that could have caused the recession.

For Parts (a) (i) and (ii), most candidates were able to achieve maximum marks, with the exception of those who included the words 'invest' and 'save' in their responses which was repeated from the words to be defined. In Part (b), candidates performed well. Some factors identified by some candidates were too vague; for example, money and capital did not merit any marks.

For Part (c), approximately 50 per cent of the candidates answered satisfactorily. However, a large number of candidates were unable to distinguish between monetary and fiscal policies. Furthermore, candidates confused contractionary fiscal policy with expansionary fiscal policy. In Part (d), many candidates approached the question from a microeconomic perspective—they looked at the firm—rather than a macroeconomic perspective. Candidates' responses reflected their confusion in Part (c) regarding contractionary and expansionary fiscal policy. They also looked at types of unemployment as opposed to the factors causing the recession.

Question 5

This question was the third most popular question of the optional questions. It was attempted by approximately 25 per cent of the candidates and 15 per cent of them gave satisfactory responses. The question tested candidates' ability to

- differentiate between fixed and variable cost with examples
- list three types of business organizations
- distinguish between economies and diseconomies of scale and illustrate this on a diagram.
- explain how a baker would respond to the three resource allocation decisions that arise in a free-market economy.

Part (a) tested candidates' ability to differentiate between fixed and variable cost and give relevant examples. This part of the question was fairly well done. Weaker candidates were not able to indicate that there was a connection between cost and output level and appropriate examples were not always provided. Candidates confused short run and long run and related cost behaviour to time rather than to changes in output.

Part (b) tested candidates' ability to list three types of business organizations in an economy. This question was generally well done by most candidates, as they were able to identify types of business organizations such as sole proprietor, partnership, private limited companies etc. However, weaker candidates gave names of business organizations and a few candidates incorrectly identified market structures.

Part (c) contained sub-parts. This question posed challenges to candidates. In Part (c) (i), most candidates could not link decreasing cost in the long run average cost (LRAC) curve, to economies of scale and increasing cost on the LRAC to diseconomies of scale. Some candidates failed to state that the economies and diseconomies of scale were long-run concepts.

Most candidates omitted Part (c) (ii) and those who attempted it were not able to draw the LRAC curve and identify the area that represented economies of scale and diseconomies of scale. In those cases where diagrams were drawn, they were inappropriately labelled or not labelled at all.

Part (d) tested candidates' ability to identify and apply the three resource allocation decisions to a baker in a free-market economy. Most candidates were able to identify the three allocation decisions as *what to produce*, *how to produce* and *for whom to produce*. However, they were not able to link these questions to the producer (baker). Some candidates focused more on the allocation of resources in a free-market economy, that is, no government interference in making decisions in the free market. Some candidates focused on the location of the factors of production for the production process in the economy.

Question 6

This optional question was the least popular for candidates. Overall the performance of candidates was fair.

The question tested candidates' ability to

- define common external tariff and import quota
- identify three reasons why governments adopt protectionist policies
- explain two items that would be found in the current and capital account, with examples
- determine the specific area of the balance of payments in which each listed item would be found.

Part (a) (i) was fairly well done. Most candidates understood that a tariff was a tax. Only a small minority understood the common external tariff and correctly related it to an economic union imposing a standard tax on non-union members. Part (a) (ii) was very well done. Most candidates gained full marks on this question as they had a good grasp of the economic concept.

Part (b) was fairly well done. Some candidates clearly stated the reasons for protectionism while others who lacked knowledge of the topic stated the effects of protectionism. Part (c) (i) was also fairly done. Most candidates were able to state two items in the balance of payments accounts but were unable to give examples of these items.

Part (c) (ii) was not very well done. Most candidates confused the accounting terminology with the economic meaning of capital account and current account by giving examples such as assets and liabilities.

Part (d) was fairly well done. Most candidates were able to gain marks by being able to identify that transactions belonged either in the *current account* or the *capital account*. They, however, were unable to state the specific category for the item within the balance of payments, for example, import of a service in the current account.

Question 7

This optional question was the second most popular for candidates. Some candidates performed very commendably while the majority obtained satisfactory marks. This question tested candidates' knowledge of Section 7 of the syllabus, Caribbean Economies in a Global Environment.

This question tested candidates' ability to

- write the abbreviations CSME, OECS, IMF and FDI in full
- list three characteristics of Caribbean economies
- discuss two potential benefits of trade liberalization to an economy
- explain two ways in which e-commerce may encourage economic activity in an economy.

In Parts (a) (i–iv), candidates were required to write abbreviations in full. Most candidates were able to identify the acronym *CSME*. Weaker candidates could not identify *OECS* and *FDI*. Part (b) tested candidates' ability to identify three characteristics of Caribbean economies. Most candidates were able to handle this part. However, they were not able to identify characteristics *unique* to Caribbean economies

but to developing countries in general. A few candidates gave characteristics that made their country part of the Caribbean.

Part (c) tested candidates' ability to discuss the potential benefits of trade liberalization. Most candidates were able to identify and discuss at least one benefit of trade liberalization to the economy. Some candidates identified the definition of liberalization as a benefit. Some candidates referred to barter and preferential trade agreements (trading blocs) as benefits. Many candidates did not discuss their points to link benefits to the economy although overall performance on this part of the question was good.

Part (d) tested candidates' ability to explain how e-commerce may encourage economic activity in an economy. Many candidates misinterpreted this part to mean *benefits* of e-commerce only and did not link it by stating how these benefits encouraged economic activity. Many candidates also used the answers for part (c) to answer Part (d). Some candidates did identify *convenience, safety, and lower start-up costs*.

Question 8

This question was the most popular optional question, most likely due to candidates' gravitation towards money and its related topics. Overall performance was fair. The question tested candidates' ability to

- define the stock exchange and credit union
- list three functions of the central bank
- explain the circular flow of income using a diagram
- explain two ways in which an insurance company can contribute to the economic development of a country.

Approximately 80 per cent of the candidates attempted this question. The question sought to assess candidates' knowledge of the financial sector. Candidates were required to show their ability to apply this knowledge correctly, to answer the question. More specifically, it required candidates to demonstrate their understanding of the characteristics and/or functions of some economic agents, including households and financial institutions such as the stock exchange, credit unions, the central bank, etc.

Close to 60 per cent of the candidates who attempted Part (a) failed to correctly define the terms identified. Of those who provided incorrect responses, it was evident that they misinterpreted the questions or confused the concepts with other terms/concepts. For instance, in attempting to define stock exchange, more than half of the estimated 60 per cent of candidates defined it as 'the process of buying and selling of shares...' rather than as *the financial institution which facilitates such buying and selling*. In the same way, a number of candidates defined foreign exchange rather than stock exchange.

Similarly, in defining the term *credit union*, over 50 per cent of the candidates who attempted the question confused it with trade union. As such, there were responses referring to the functions performed by trade unions such as 'seeking to have higher wages' and 'better working conditions for their members'. Of those who correctly described a credit union as a financial institution, only about 50 per cent of them went on to indicate one of its key characteristics; that is, it is owned and operated by its members. Also, a very small percentage of the candidates indicated that it is a cooperative. However, several candidates did identify some of the financial services offered to members by credit unions.

Overall, about 40 per cent of the candidates gave reasonable responses to Part (a) with approximately 15–20 per cent clearly and succinctly articulating a comprehensive response.

For Part (b), the functions of the central bank appeared to be well understood. The majority of candidates were able to sufficiently list the major functions. A small percentage of them confused the functions of the central bank with the functions of money and in some cases candidates gave functions of commercial banks rather than the central bank. In most instances however, candidates obtained full marks.

Part (c) proved challenging for candidates. Only about 40 per cent of the candidates who attempted this question were able to adequately represent the three major players (in the case of a closed economy) in the circular flow of income with clear indications of the directional flows. However, of the remaining 60 per cent, most named the two key players—firms and households. Nonetheless, many candidates neglected or were unable to precisely explain the relational flow between households and firms. In several cases, money was mentioned as payment from firms to households but the cycle was incomplete as the flow from households to firms was omitted. A small number of candidates responded by venturing beyond the closed economy but ended up with confusing, inaccurate responses. Among this small percentage of candidates, pie charts and other diagrams containing information unrelated to the question were given. In an isolated case, the water cycle was drawn and explained, demonstrating lack of knowledge of the required content material.

Part (d) in particular was fairly well done by approximately 45 per cent of the candidates. A number of candidates listed correct points but challenges cropped up as many of them were unable to develop these points to clearly show the link between the activities of insurance companies and economic development. In some instances, candidates limited insurance services to health insurance and motor insurance only. Moreover, there were a number of occasions when candidates likened insurance companies to health care facilities/providers.

Paper 031 – School-Based Assessment

Title of Project

A significant number of topics chosen were too broad or too general for students to handle adequately, especially vague macroeconomics topics such as ‘Inflation in Jamaica’ or ‘Balance of Payments’. It is recommended that students be guided to select much simpler topics more appropriate for the CSEC level. Studies should be focused on studies within the school or community rather than the country as a whole (which is outside the scope of the CSEC level given the word limit required). Microeconomic topics such as ‘The Supply of Lunches in the Cafeteria at School X’, for example, are acceptable.

Purpose of Project

Most students were able to identify three objectives related to the title of the project. Only a few students stated only one legitimate research objective with the others being personal objectives. Students are reminded that their aims or objectives must be clear and directly linked to their topic and that they should also avoid vague statements such as ‘to gain full marks towards their final grade’.

Collection of Data

This was also an area where students demonstrated good capability. In order to score maximum marks, students ought to identify in their methodology and/or bibliography at least three sources of data (textbooks, statistical reports, websites, questionnaires and observations, etc.). These sources should be correctly referenced in the bibliography and reference made to them in the report itself.

Presentation of Data

Performance in this area was average, as students failed to include different ways of presenting data such as pie charts, bar charts, tables etc. In some cases, this was due to poorly selected topics which did not lend themselves to adequate/efficient data collection. Students are also reminded that graphs, charts and other forms of presentation should be properly labelled and must be appropriate for showing the type of data. For example, line graphs are more suited for continuous changes of variables over time.

Interpretation and Analysis

Most students were able to interpret the data presented adequately by stating the basic trends or information being shown in charts and graphs. However, the majority of candidates failed to go beyond the level of interpretation and did not provide meaningful trends using economic theory and concepts. Students are reminded that this is an extremely essential part of the report and should ensure that enough time and effort are devoted to meaningful analysis. Students must also avoid textbook regurgitation or straight repetition of secondary data as this does not constitute data analysis.

Findings

Not many students handled this section well as they repeated exactly what was already said for interpretation and analysis instead of summarizing the major research findings and economic explanations for these conclusions. It must also be noted that findings/conclusions must be specific and directly related to the topic as well as reflective of the aims and objectives.

Recommendations

Students generally did not obtain high marks for this section of the report because they either completely omitted the section entirely or made very general recommendations which were not specific to their research. In this section of the report, students should give at least two specific recommendations which must be based on the research findings and backed up by economic theory where possible.

Communication of Information

This is an area where students should be able to score maximum marks by paying due attention to spelling, punctuation, sentence structure and other grammatical elements both in the written report sections as well as titles and labels of graphs and charts. Students should also be guided to compile the project sections logically and in proper sequence according to syllabus guidelines for the SBA. It must be noted that while students are not penalized for handwritten reports and manually drawn graphs, these submissions should still be neatly and clearly done so that all information is communicated effectively.

Paper 032 – Alternative to School-Based Assessment

This paper provided candidates with stimulus material on an aspect of a small island developing state's economy. Five short answer questions, based on the stimulus were expected to be answered.

Question 1

Overall, 53 per cent of candidates scored between four and seven out of a maximum of ten marks for this question. The question tested candidates' ability to

- define a *tariff* and an *externality*
- state two characteristics of small developing states
- identify, from the extract, the measure adopted to make vehicles more affordable to citizens
- calculate the percentage change in the number of vehicles imported into Trams between 2000 and 2009.

Part (a) was well done. Most candidates demonstrated good knowledge of the term *tariff* and earned full two marks. Part (b) had satisfactory responses. While some candidates displayed knowledge of the concept of an externality, many of them failed to identify an externality as *an indirect or third party effect of production or consumption activity for which no compensation is received*.

Part (c) was poorly done. Some candidates were able to identify that small island developing states (SIDS) have small markets and limited resources when compared to developed economies. However, many candidates showed limited knowledge of the characteristic peculiar to SIDS and their responses were too general.

Most candidates earned one out of a maximum of two marks for Part (d) because their answers were too general and did not quote the specifics of the policy, that is, vehicles over three years and below 1500cc. Part (e) was a calculation question and candidates were required to again use information (figures) in the extract to calculate a percentage. This was poorly done. Candidates' responses displayed an inability to compute simple percentage changes.

Question 2

The question tested candidates' ability to explain how a reduced tariff on overseas used vehicles was expected to improve the public transport system. It was drawn from Section 3.3 of the syllabus. The majority of candidates failed to give a clear and adequate explanation of how a reduced tariff was expected to improve the public transportation system. Most candidates earned one mark for merely listing the effects without the required elaboration. This mainly resulted from candidates' misinterpretation of the question due to their lack of knowledge of the technical part of the extract which related to the vehicles being below 1500cc.

Question 3

The question tested candidates' ability to describe two effects of a reduction in the import tariff rate other than an improvement in the public transport system, drawing from the information in the extract.

This question tested Section 3.22 of the syllabus. Most candidates simply stated the effects of the proposed policy and did not use information from the extract to build and augment their answer. As a result, the average score was two out of a maximum of six marks..

Question 4

The question tested candidates' ability to:

- explain two negative externalities associated with the policy that was implemented, indicating clearly how they affected the economy of Trams
- discuss one measure each that could be taken to address each of the externalities identified.

Part (a) was based on Section 3.23 of the syllabus. Candidates' performance was generally unsatisfactory. Many candidates did not seem to fully grasp the concept of negative externalities as responses included general negative effects on the economy. Part (b) was linked to Part (a) and was particularly poorly done. Candidates evidently lacked the ability to evaluate and apply measures to address externalities. Some earned only one mark for merely listing the measures.

Overall, 57 per cent of candidates earned between zero and three marks out of a total of ten marks.

Question 5

The question tested candidates' ability to:

- identify one import policy which more developed countries may adopt to improve their fleet of vehicles
- discuss two reasons why the policy identified may be difficult to implement.

This question tested Section 7.2 of the syllabus. Part (a) was satisfactorily done as most candidates scored one of the two marks for simply stating a policy. However, some of them failed to earn the second mark since they did not elaborate on their answer.

Part (b) was very poorly done. Many candidates failed to discuss reasons why the policy identified in Part (a) may be difficult to implement in Trams. In some cases, candidates simply listed reasons but did not discuss the reasons as required.

This question was the most poorly answered since 87 per cent of candidates scored between 0 and 3 marks out of a total of ten marks.

RECOMMENDATIONS

It is evident that many candidates have difficulty with the application of knowledge as well as with analysing economic concepts and issues.

Candidates should

- be aware of the requirements of key verbs in the question such as *list*, *explain*, *distinguish* since this will allow for more efficient time management and accurate responses
- endeavour to utilize economic language based on economic theory as opposed to general writing
- pay more attention to literacy and spelling
- spend more time on analysing *trends* in economic data.