

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2009**

ECONOMICS

ECONOMICS**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION****MAY/JUNE 2009****GENERAL COMMENTS**

The CAPE Economics Examination consists of two units each examined by three papers.

Paper 01 – Multiple Choice

Paper 02 – Essay

Paper 03 – The Internal Assessment (IA) done by school candidates and the Alternative to the IA done by private candidates.

DETAILED COMMENTS**UNIT 1**

Unit 1 dealt with microeconomics theories, concepts and issues. Performance in Unit 1 was satisfactory. The mean was 48 per cent. Unit 1 is divided into three modules.

Module 1 – Methodology of Economics and Demand and Supply Analysis

This module tested candidates' understanding of the fundamental concepts of Economics such as scarcity, choice, opportunity cost, efficiency, the market, demand, supply and equilibrium, and their ability to apply them. The mean was 49 out of 100.

Module 2 – Market Structure and Market Failure

This module tested candidates' ability to analyse the efficiency with which the market system allocates scarce resources, and required candidates to demonstrate understanding of the concepts such as market structure and market failure. The mean was 51 out of 100.

Module 3 – Distribution Theory and Applications of Recent Theoretical Development

This module required an understanding of the markets for productive resources as well as a number of popular issues, such as size and functional distribution of income, inequality and poverty. The mean was 49 out of 100.

Paper 01

Paper 01 consisted of 45 multiple choice items spanning knowledge and comprehension, application and interpretation of information. The mean on Paper 01 was 58 per cent.

Paper 02

Paper 02 required candidates to employ higher-level competencies to analyse economic issues; apply economic theories in solving problems, and evaluate economic policies and programmes.

Candidates were given the opportunity to choose one of two questions in each of the three modules. Each question was worth 50 marks. The mean for Paper 02 was 38 per cent.

Question 1

This question required candidates to:

- Explain how the market allocates scarce resources using a properly labelled diagram of the market.
- Demonstrate knowledge of equilibrium and disequilibrium.
- Explain the concept 'price floors' and give the advantages and disadvantages of price floors.

Question 1 was attempted by 29 per cent of the candidates, 86 per cent of whom performed at an acceptable level. It was apparent that many candidates were not accustomed to drawing the demand diagram and paying attention to details such as correct labeling of axes and curves. Candidates were also severely challenged to distinguish between price ceiling and price floor, and to discuss the advantages and disadvantages of an effective price floor. The mean for the Question 1 was 19 out of 50.

Question 2

Candidates were required to:

- Demonstrate knowledge and understanding of supply curves.
- Explain the shape of the short-run and long-run supply curves positive slopes.
- Distinguish between those factors that cause supply curves to shift and those causing them to change their slopes.

This was the more popular of the two questions in Module 1. Approximately 71 per cent of the candidates attempted this question, 61 per cent of whom provided acceptable responses. Most candidates listed the factors that determined the features of the supply curve, but could not explain how and why the factors influenced the supply curves. The mean for the Question was 18 out of 50.

Question 3

Candidates were required to:

- Identify the four major market structures.
- Identify the most efficient market structure and its characteristics.
- Compare the characteristics of monopolistic competition with perfect competition.
- Compare these market structures in terms of output, price and profit in the short and long run.

This question was more popular than question 4. It was attempted by 62 per cent of the candidates, of whom 86 per cent performed satisfactorily. However, some candidates did not correctly identify the most efficient market structure, hence, making the comparisons proved challenging. The mean for Question 3 was 24 out of 50.

Question 4

Candidates were required to:

- Demonstrate knowledge and understanding of the difference between pairs of concepts such as private cost and social cost, merit and public goods; positive and negative externality, and adverse selection and moral hazard.
- Explain how market failure was caused by public goods, externalities and moral hazards.
- Explain how governments can solve the market failure caused by public goods.

This question was attempted by 35 per cent of the candidates, 77 per cent of whom provided acceptable responses. Many candidates were not knowledgeable of the concepts and therefore found it very challenging. The mean for Question 4 was 17 out of 50.

Question 5

Candidates were required to:

- Demonstrate knowledge and understanding of the formulae applied in the calculation of the marginal and average products of labour as well as the value of the marginal product.
- Use the information supplied to draw and interpret diagrams, and analyse the effect of trade union activity on wages and employment.

This question was attempted by 32 per cent of the candidates, 80 per cent of whom provided acceptable responses. Many candidates demonstrated very good knowledge and understanding of the methods used to calculate marginal values, but some found the drawing of the diagrams, their interpretation, and the analysis of the effect of trade unions on the labour market challenging. Performance on this question was generally good. The mean for Question 5 was 23 out of 50.

Question 6

Candidates were required to:

- Distinguish between the terms ‘absolute poverty’ and ‘relative poverty’ and to explain and critique the basic needs approach, the poverty line approach, and the UNDP’S Human Development Index approach to measuring poverty.

This question was attempted by 68 per cent of the candidates, 68 per cent of whom provided acceptable responses. Many candidates were not sufficiently knowledgeable to give a clear distinction between absolute and relative poverty. A major challenge was the meaning of “relative poverty”, but most candidates demonstrated adequate knowledge of absolute poverty. Many candidates were greatly challenged by the concepts and, in particular, the explanations and critiques. Candidates’ performance on this question was satisfactory. The mean for Question 6 was 14 out of 50.

UNIT 2

Unit 2 dealt with macroeconomic theories, concepts and issues. The mean was 53 per cent. Unit 2 is divided into three modules.

Module 1 – Models of the Macroeconomy

This module required candidates to demonstrate knowledge and understanding of basic macroeconomic concepts: national income accounting, using the income approach and the expenditure approach and examine GDP per capita as a measure of standard of living; as well as explain the Keynesian Consumption Function, and the factors that cause it to shift and its slope.

Module 2 – Macroeconomic Policy Analysis

Module 2 dealt with the nature of money, the measurement of and the demand and supply of money, as well as the monetary transmission mechanism; the role of the Central Bank in the control of inflation; the Keynesian liquidity preference framework and the potency of monetary policy in the CARICOM member states. The module also dealt with fiscal policy; the effect of balanced budgets on income, the effects of fiscal deficits on selected economic variables, the investment function and the burden of the national debt.

Module 3 – Growth, Development and International Economic Relations

This module dealt with the determinants of growth and development, the components of the HDI, the costs of growth and the impediments to growth faced by Caribbean countries. The module also dealt with foreign trade and commercial policy; the determinants of exports, the advantages of different exchange rate regimes and the consequences of devaluation.

Paper 01

Paper 01 consisted of 45 multiple choice items spanning knowledge and comprehension, application and interpretation of information. The mean of Paper 01 was 63 per cent.

Paper 02

This paper consisted of 6 questions, two per module. Candidates were required to answer one of two questions on each of the modules.

Question 1

Candidates were required to:

- Demonstrate knowledge of major macroeconomic terms and how they are measured.
- Calculate the Gross Domestic Product (GDP) using both the income approach and the expenditure approach
- Explain the limitations of the GDP as an indicator of a country's standard of living.

This question was attempted by 76 per cent of the candidates, 90 per cent of whom provided acceptable responses. Overall the response to this question was good. Candidates answered most parts of this question well. They were, however, severely challenged when asked to explain the limitations of GDP as an indicator of national well-being. The mean was 27 out of 50.

Question 2

Candidates were required to:

- Demonstrate an understanding of some of the details of the Keynesian Consumption
 - The Average Propensity to Consume (APC)
 - Marginal Propensity to Consume (MPC)
 - Autonomous Consumption
- Represent the consumption function graphically.
- Explain the determinants of the consumption function.

Question 2 was attempted by 24 per cent of the candidates, 69 per cent of whom provided acceptable responses. Many candidates however were unfamiliar with details required to explain the effect of a rise in income on the APC and the MPC. Overall the candidates performed fairly well on this question. Most candidates were able to draw the diagram of the consumption, show knowledge of the calculation of the APC and MPC, and identify the autonomous part of consumption. The mean was 23 out of 50.

Question 3

Candidates were required to:

- Demonstrate knowledge and understanding of the measures of money
 - Monetary transmission mechanism
 - Reasons for holding money
 - The velocity of money
 - Tools of monetary policy used in the region to control inflation
- Explain the Keynesian liquidity preference theory
- Explain the effect of monetary policy on interest rates and money demand, and the impotence of monetary policy

This question was attempted by 55 per cent of the candidates, 77 per cent of whom achieved acceptable grades.

The majority of candidates were able to define terms, but were challenged by the theories and their explanation and application. The Diagrams were poorly drawn and were therefore of little use. Performance on this question was fair. The mean was 21 out of 50.

Question 4

This question required candidates to:

- Demonstrate an understanding of fiscal policy; the budget, government spending and tax revenues, budget deficits and the national debt.
- Explain how government borrowing can have a negative effect on interest rates, investment, inflation and the exchange rate.

- Explain, using a diagram, the relationship between investment and the interest rate, also how expansionary fiscal policy can affect investment negatively
- Explain the national debt and why it is a burden to a country.

This question was attempted by 45 per cent of the candidates, 70 per cent of whom provided acceptable responses.

Many candidates demonstrated knowledge of balanced and unbalanced budgets, but could not explain why a balanced budget is expansionary. Some candidates confused balanced budget with the balance of payments and wrote about imports and exports. Many candidates were most seriously challenged in explaining the negative effects of government deficits and expansionary fiscal policy, but gave good reasons why the national debt may be a burden. Performance on this question was fair. The mean was 16 out of 50.

Question 5

Candidates were required to:

- Demonstrate knowledge and understanding of the concepts, “economic growth” and “development.”
- Explain the terms, ‘economic development,’ the ‘human development index,’
- Discuss the costs of, and impediments to economic growth of Caribbean economies.

This question was attempted by 58 per cent of the candidates, 75 per cent of whom provided acceptable responses.

Candidates demonstrated good knowledge of the determinants of growth, but their responses to the description of development were somewhat vague. Their explanation of the human development index (HDI) was good, but many could not give the three components of the HDI. Candidates misinterpreted the term “costs of economic growth” to mean value of economic growth. Most candidates gave a good discussion of the impediments to economic growth faced by Caribbean economies. Performance on this question was fair. The mean was 21 out of 50.

Question 6:

Candidates were required to:

- Demonstrate knowledge and understanding of:
 - Barriers to trade
 - The determinants of a country’s export earnings
 - The types and benefits of exchange rates
 - The consequences of devaluation

This question was attempted by 42 per cent of the candidates, 83 per cent of whom provided acceptable responses.

Most candidates demonstrated knowledge of tariffs and quotas, but were unfamiliar with the term, ‘non-tariff barriers’ (an example of which is quotas). Candidates also performed well on questions that dealt with the determinants of export earnings, the consequences of devaluation, as well as on the

types of exchange rates and their benefits. Performance on this question was good. The mean was 22 out of 50.

Recommendation To Teachers

Teachers of economics are quite aware that economics is a very logical subject and that the more meticulous the approach the teacher adopts to teaching it the better the results will be. Paying attention to details is the key to better results. This approach brings out the best in the students as it teaches them to think logically and coherently and reduces mediocrity.

Overall performance at this years' examination was fair but could have been much better. Some candidates however were not fully acquainted with some fundamental concepts, and there were some areas in which candidates lacked the ability required to answer some questions accurately, even though they had a good grasp of the basic concepts. Higher level competencies involving application, analysis, synthesis and evaluation required for excellent performance were lacking in many of the candidates.

It is no secret that teachers and indeed the candidates face several challenges preparing for CAPE examinations, time being high up on the list of challenges. Time management then becomes a priority. It is worth repeating that teachers should aim at improved preparation of the candidates by ensuring that they are familiar with the totality of the syllabus. This would ensure that candidates have the best chance of obtaining a good grade in the subject. Classroom instructions, which do not include take home assignments and self-study, should be no fewer than three hours per week for 39 weeks. Students should be made aware of the demands of the course of study at the first scheduled class meeting at which the programme for the entire course, including IA, is outlined. Serious work should begin on the first day of class. Teachers will find that it is a good investment to spend much of the first few weeks of the class on the quantitative techniques, graphs and tables.

Students should be taught to draw and interpret diagrams, and to calculate and interpret the slopes of lines, elasticity coefficients, multipliers, percentage and changes. The Marshallian Cross, the diagram of the market; demand, supply, equilibrium price and quantity should be fully understood by candidates, as should be the Keynesian Cross illustrating the determination of national income equilibrium. Students should practice these skills under the supervision of the teacher as well as on their own time. Teachers should insist on proper labeling of axes and curves since this is conducive to learning and candidates are awarded marks for neat and accurate diagrams. Teachers should ensure that students are exposed to adequate assignments targeting some of the challenging areas of the syllabus.

Paper 03/1 - Internal Assessment (IA)

Candidates performed well on the Internal Assessment (IA) component of the examination, reflecting close teacher supervision of many candidates' projects. The synergies among Papers 01 and 02 and the IA were exploited fully to the advantage of the candidates. Eighty-five per cent of the candidates achieved acceptable grades in both units. The mean for Unit 1 was 65 per cent. The mean for Unit 2 was 66 per cent. The marks awarded by teachers were generally fair and were more or less consistent with moderators' marks, though in cases there were wide discrepancies.

There is, however, room for improvement in some areas including the following:

- Students need to use empirical data to support their findings. The data presented must be relevant to the topic, must be analysed, and the results used to support conclusions. Data not analysed and discussed should not be included in the report. Students must also adhere to the word limit placed on the project.

- There has been a significant improvement in communication with a reduction in spelling and grammatical errors which often detract from the work. There remain, however, many errors, most of which could be eliminated by using the tools provided by the software.
- Students continue to perform below expectations in the higher level competencies such as analysis, synthesis and evaluation. Teachers should provide opportunities for students to engage in higher order thinking skills.
- Many candidates are guilty of not giving credit to all of their secondary sources. Teachers need to impress upon students to cite sources in the body of the project and to give full citation in the bibliography. Teachers must remain vigilant and ensure that the work presented is the candidate's own. Teachers should approve the project and the outline and follow the progress of the candidate over the duration of the project.

With greater teacher guidance the IAs should continue to improve.

Paper 03/2 - The Alternative To The Internal Assessment

Paper 03/2 consisted of three questions, one on each module. Candidates were required to research a given topic in preparation for the examination. Paper 03/2 attempts to simulate the skills assessed in the Internal Assessment.

UNIT 1

Thirty-six candidates wrote Paper 03/2. The theme of this examination was "The impact of market structure on the economy". The mean was 35 per cent. Candidates did not perform well on Questions 2 and 3. Their main challenge was in the application and analysis of information.

UNIT 2

One hundred and twenty candidates wrote Paper 03/2. The theme of this examination was "The impact of global recession on your country". The mean was 40 per cent. Candidates seemed unfamiliar with the concept 'balance of payment'. Hence, they were unable to outline the relationship between global recession and balance of payments.

Recommendations

In order for candidates registering for Paper 03/2 to perform well, they need to research the topic thoroughly and be prepared to discuss the issues relating to the topic.

Candidates need to follow a structured programme offered by a recognized institution and taught by certified persons.

Candidates also need to familiarize themselves with the requirements of the syllabus.