

CARIBBEAN EXAMINATIONS COUNCIL

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

MAY/JUNE 2011

**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 fifth time in 2011. 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 COMMENTS

Paper 01 – Multiple Choice

This paper consisted of 60 multiple-choice questions drawn from all sections of the syllabus. Performance was satisfactory. Attention still needs to be focused on the calculation of elasticity, Gross Domestic Product (GDP) and the balance of payments. Questions involving interpretation of data posed difficulties to some candidates.

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 microeconomic and two macroeconomic 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' ability to:

- Define sole trader
- List three advantages of being a sole trader
- Explain the circular flow of income using a diagram
- Describe two demerits of a centrally planned economy

Part (a) was fairly well done. Weaker candidates confused managing or running the sole trader business with the ownership of that type of business.

Part (b) was generally well done. Although some candidates were not able to clearly define a sole trader, they had an excellent knowledge of the benefits of being a sole trader. Some candidates, however, failed to clearly outline the advantages or kept repeating the same point in different words. For example, "you can be your own boss" and "you can make all the decisions". These two phrases are synonymous and do not earn separate marks.

In Part (c), a large majority of candidates drew the diagram without explaining it and lost two of the six marks available. Some students had difficulty in showing the flow of income and/or gave incorrect directional arrows of the flow.

Part (d) was fairly well done. Although some candidates were able to identify the various demerits of the planned economy, they were unable to clearly give explanations of the points listed. Some candidates misinterpreted the term 'demerit' for demerit goods in the economy.

Question 2

This question tested candidates' ability to:

- Define income elasticity of demand and cross elasticity of demand
- Identify one factor that affects income elasticity of demand
- Explain two factors that affect price elasticity of demand
- Calculate price elasticity of demand and interpret the result obtained

Generally, the question was in keeping with the content of the CSEC Economics syllabus. The question was compulsory and although it was attempted by over 95 per cent of candidates, it was very poorly answered. On average, candidates scored less than 15 per cent of the total marks allotted to the question. It was clear that candidates were not knowledgeable about elasticity. They had difficulties expressing themselves and applying this knowledge.

Part (a) of the question left much to be desired as candidates confused the different types of elasticities. For example, in some responses income elasticity of demand was defined as "the responsiveness of demand to a change in price". This is incorrect. The correct definition of income elasticity of demand is *the degree of responsiveness of demand to change in income*, or put more technically, *the income elasticity of demand is a measure of the percentage change in demand caused by the percentage change in income*.

Part (b) proved to be very challenging as the majority of candidates could not correctly identify one factor which affected income elasticity of demand. Most candidates gave 'income' as their answer. This was incorrect. Answers required included *nature of the good; time period; amount of money spent on the good as percentage of profit income*.

Candidates' inability to express their thoughts and apply their knowledge of elasticity to answer the questions resulted in them responding poorly to Part (c) of the question. Of the candidates who were able to identify the determinants of price elasticity of demand, only a very small percentage could clearly and correctly explain these determinants. Part (c) appeared to have been problematic for most candidates as it was evident that they could not distinguish between the determinants of demand and the determinants of price elasticity of demand.

Part (d) was generally well done. Overall, candidates' calculations were clear and accurate and their interpretation of the results was precise.

Question 3

This question tested candidates' ability to:

- Define disposable income
- Identify three major causes of inflation
- Explain three ways in which a trade union could seek to improve the working conditions of its members
- Discuss two measures that a government could adopt to stabilize the economy after a recession

Many candidates scored full marks for Part (a) of the question. Some candidates however gave partial definitions of the term. The most common partial definition given was "money available for spending". Candidates who did so were awarded some credit for their response. There were also some poor definitions of disposable income. Some of the poor responses included "money used for expenses" and "income earned after all expenses had been deducted".

The majority of candidates performed well in Part (b). In most cases, candidates were able to score two out of the three marks available for this part of the question. Many candidates identified an increase in demand but failed to complement it with 'supply remaining constant'. Also some candidates identified an increase in the cost of production and went on further to give an example of an increase in the cost of production, as a separate cause of inflation for example, an increase in the wages of labour. Candidates who adopted this approach were not awarded full marks.

In Part (c), most candidates attempted this question and it was fairly well done. The most popular response was industrial action, yet, only a few candidates used economic jargon in their responses, such as collective bargaining, industrial action and political activities. Many candidates also failed to identify political activities as one of the ways in which trade unions can seek to improve the working conditions of its members. Candidates also identified desired outcomes rather than the measures that could be used by the trade union to improve the working conditions of the workers.

Most candidates attempted Part (d); they performed fairly well. Candidates discussed a range of measures including fiscal policies, monetary policies, borrowing from international lending organizations, foreign direct investment and prioritizing government expenditure/spending. Candidates who did not score full marks on this question simply identified the measure but failed to show how the measure can be implemented by the government. Also, some candidates identified an expansionary fiscal/monetary policy as their first measure and went on further to identify a contractionary fiscal/monetary policy as the second measure. Candidates who did this were not awarded full credit.

Overall, most candidates attempted all parts of the question and performed fairly well.

Question 4

This question tested candidates' ability to:

- Define tariff
- List three factors that influence imports into a country
- Explain two factors that could affect the value of a floating exchange rate
- Distinguish between a managed exchange rate and a fixed exchange rate

The question was attempted by 98 per cent of candidates and approximately 45 per cent of them gave satisfactory responses.

Part (a) was generally well done. The vast majority of candidates understood that a 'tariff' was a 'tax'. However, weaker candidates made mention of other protectionist measures such as quotas and embargoes instead of imports.

Generally, candidates performed well on Part (b) which required three brief responses. In many cases answers were repetitive. Some candidates opted to rewrite the question as the answer while others explained each point in significant detail instead of listing their response in clear, concise phrases or statements as was required. There were cases where candidates confused the factors affecting supply with factors affecting imports.

Part (c) was poorly done. Candidates neglected to interpret the question correctly and as such few provided accurate responses. Approximately 80 per cent of candidates provided an explanation of the factors affecting the floating exchange rate as demand for and supply of foreign exchange but very few gave factors underlying the causes of the movements of the demand and supply such as *inflation* or *purchasing power parity*, *economic stability* and *interest rate changes*. They were however awarded full marks for full explanations using just demand and supply movements.

Although some candidates were able to correctly identify answers based on their interpretation of the question, they were unable to comprehensively explain how these factors would ultimately affect the value of the floating exchange rate. In several instances, candidates confused the terms 'devaluation' and 'revaluation' as utilized under a fixed exchange rate regime with 'appreciation' and 'depreciation' concepts in the floating exchange rate regime.

Part (d) posed some difficulty for most candidates as they were unable to distinguish between managed exchange rate and fixed exchange rate. Candidates explained their answers using the same terms from the question or used synonyms. For example, "the fixed exchange rate is fixed or constant and the managed exchange rate is managed". Candidates failed to grasp that a dirty float/flexible float or managed float is different from a free floating system since maximum and minimum values or boundaries are set by the Central Bank in the case of the former.

Few candidates referred to the role or responsibility of the Central Bank in its intervention in the foreign exchange market with regard to maintaining both systems of foreign exchange. The Central Bank (agent for implementing monetary policy including foreign exchange rates) was often used interchangeably with the government (responsible for determining fiscal policy).

Question 5

This question was the least popular of the optional questions.

This question tested candidates' ability to:

- Define Gross Domestic Product
- Identify five items used in calculating gross domestic product when using the expenditure approach
- Explain four ways in which a recession could affect the gross domestic product in your country
- Use a numerical example to show how nominal output and real output differ

Generally, Part (a) was well done. Although most candidates possessed knowledge of the concept GDP, others omitted key words or phrases from the definition; for example, "in a given time period" or "within a country".

Similarly, in Part (b), over 80 per cent of the candidates were able to identify at least three of the five items used in the expenditure method of calculating GDP. However, for those who could not identify all five, the 'consumption' component (C), appeared to have been the most problematic as it was noted that many candidates wrongly identified it as 'capital'.

Part (c) was attempted by at least 90 per cent of the candidates; however, performance on this question was poor. While most candidates were able to identify the adverse effects of a recession (for example, increased unemployment), the majority failed to show how the adverse effect could affect the GDP.

Part (d) was the least attempted with close to 60 per cent of the candidates failing to provide a response. Moreover, of those candidates who did attempt the question, very few demonstrated knowledge of the concepts 'nominal output' and 'real output' and the formula used to calculate either of them.

Question 6

This optional question was the second most popular among candidates. Overall, candidates performed poorly.

This question tested candidates' ability to:

- List three factors that cause a change in demand
- Distinguish between a change in quantity supplied and a change in supply
- State two benefits gained from a country's membership of the World Trade Organization
- Explain how the two benefits listed can be useful to the economy of their country
- Discuss two negative effects on Caribbean economies which can result from a loss of preferential trading arrangements

Candidates performed well on Part (a); however, some of them failed to score maximum marks as they incorrectly identified price as a factor affecting demand. Some candidates also identified complements and substitutes as factors but did not specifically state changes in the price of these goods.

Part (b) was the most poorly done; many candidates confused the differences between a change in quantity supplied and a change in supply. A large number of candidates demonstrated absolutely no understanding of these concepts.

In Part (c), although the marks scored were low, performance was perhaps the best by candidates who attempted this question. Responses to (c) (i) were often more relevant or better suited for (c) (ii) in that candidates stated how the benefits of the WTO helped countries instead of identifying the direct benefits. In several cases, candidates also appeared to confuse the WTO with international financial institutions.

Many candidates did not attempt Part (d) and those who did showed that they had no knowledge of what preferential trading arrangements were. Others who were able to obtain some marks did so because of the use of examples illustrating negative effects of the loss of these arrangements.

Question 7

This optional question was the most popular among candidates. Candidates' performance on this question ranged from very commendable to satisfactory.

This question tested candidates' ability to:

- Differentiate between a treasury bill and a treasury bond
- List three characteristics of money
- Explain two benefits of moving from a barter system to one which uses money as legal tender
- Discuss two ways in which the use of electronic payments impacts consumers and businesses

Responses to Part (a) were satisfactory. Most candidates were able to identify that *a treasury bill is a short term financial instrument while a treasury bond is a long-term financial instrument*. However, weaker candidates confused a treasury bill with a receipt and a treasury bond with a contract agreement. Many candidates also confused the role of the government in the issuing of these securities.

Responses to Part (b) were very good. Candidates were able to identify three characteristics of money. However, a few candidates confused the characteristics of money with its functions.

The responses to Part (c) were satisfactory. Candidates generally showed a good understanding of the concepts of barter and money as legal tender. However, most candidates provided explanations which lacked coherence.

The responses to Part (d) were excellent. Candidates showed a good understanding of the benefits to be derived by both businesses and consumers from performing electronic transactions. However, a few candidates confused electronic payments with payment by cheques and usage of ATMs, while very few candidates showed no knowledge of what electronic payments implied, making reference to electronic items in their responses.

Question 8

This question tested candidates' knowledge of both microeconomic and macroeconomic objectives. It was the third most popular question, most likely due to candidates' ability to draw from knowledge in other subject areas such as Principles of Business and Social Studies. Overall, performance on the question was fair.

This question tested candidates' ability to:

- Define economic integration and debt burden
- List three benefits of large-scale production
- Identify two characteristics of a mixed economy
- Explain two disadvantages of a mixed economic system
- Discuss two benefits that their country may gain from its membership of the CARICOM Single Market and Economy (CSME)

In Part (a), where candidates should have been able to score maximum marks for knowledge of basic definitions, performance was perhaps the worst. Many candidates failed to define the debt burden in a national context or from the perspective of the country (as opposed to the individual) and many could not clearly articulate the concept of economic integration, scoring only partial marks.

Part (b) appeared to be the strongest part of the question for most candidates; the majority was able to correctly identify at least two of the benefits of large-scale production, with several even gaining full marks.

For Part (c), most candidates were able to state the characteristics of the mixed economic system but very few discussed its disadvantages satisfactorily. Several candidates did not seem to have read the question properly, having discussed advantages instead of disadvantages as required.

Part (d) saw a wide range of responses. Most candidates demonstrated a basic understanding of the CSME and its general benefits. However, only a few discussed the specific economic benefits to their country. Candidates nevertheless managed to score fairly well on this part of the question.

Paper 031 – School-Based Assessment

Title of Project

The majority of students chose topics that were within the scope of the syllabus. However, some topics were not clearly stated. Some students researched sociological and environmental topics rather than topics with an economic bias.

Purpose of Project

Most students were able to identify three objectives related to the title of the project. A few students stated only one legitimate research objective with the others being personal objectives.

Collection of Data

More than half of the students identified three or more sources of data which were evidenced in the research project. No marks were awarded where there was no evidence of the source in the project. Identification of the source must be combined with the use of that source.

Presentation of Data

Very few students scored full marks on this section. Marks were lost when students failed to label and name graphs as well as provide titles for figures presented, which were in most cases missing.

Interpretation and Analysis

There was a need for more in-depth discussion of data from the questionnaires. Some students incorporated the use of secondary data in cases where broad macro topics were researched. The majority of students did not link their analysis to economic theory regarding the topic as well as to all the objectives identified earlier in the project. In some instances, there was no link between the discussion in the analyses and the figures in the presentation of the data.

Findings and Recommendations

The majority of students were able to derive at least four findings from the research which were linked directly to the data collected. In a few cases, the recommendations were far-fetched or inappropriate but the majority of candidates stated recommendations that were linked to their findings.

Communication of Information

The use of grammar and communication of information was excellent overall.

Paper 032 – Alternative to School-Based Assessment

Question 1

The question tested candidates' ability to:

- Define discount rate and liquidity
- List four functions of a commercial bank
- Identify the change in growth of customer deposits from the extract
- Identify the change in Standard and Poors' outlook on the Barbadian economy

Successful candidates defined discount rate as the *interest rate charged by central banks on loans given to commercial banks*. However, too many candidates defined discount rate as the "discounted price of a good or service".

It is surprising that very few students knew how to define liquidity. Performance in this section was generally good. A few candidates identified functions of the central bank instead of the commercial bank. Most candidates were able to identify specific changes in the Barbadian economy based on the extract.

Question 2

The question tested candidates' ability to:

- Describe two functions of the central bank based on the information in the extract

The majority of candidates merely listed the functions of the central bank without drawing on the data in the extract to support the functions listed. This was an error. Overall, performance on this question was fair.

Question 3

The question tested candidates' ability to:

- Explain how reduced discount rates can increase economic activity
- Explain how two tools of monetary policy, other than discount rates, are used to increase economic activity in an economy

Only partial explanations about commercial banks were given without any reference to discount rates. Some candidates confused discount rates with interest rates charged by commercial banks in general. Performance was generally poor.

Some candidates failed to develop their arguments fully while others merely listed tools of monetary policy. Poor responses focused on fiscal policy, exchange rate policy and devaluation.

Question 4

The question tested candidates' ability to:

- Explain how high liquidity could reduce the effect of the lowered discount rate

This question required candidates to apply knowledge and understanding of monetary policy to the economy at a time of high liquidity and diminished consumer confidence. Candidates earned marks for partial explanations but performance was generally poor. The expected response is: *Lowered interest rates tend to be attractive only if there is a shortage of funds available in the banking sector. Consumers are not accessing loans because of lack of confidence in the economy and have concerns about the future so commercial banks have no need for additional funds from the Central Bank.*

Question 5

The question tested candidates' ability to:

- Discuss two problems that are implied by "and all that comes with such a slowdown"

Generally, candidates were able to discuss the consequences of recession but only a few did so in a manner that allowed them to score more than three marks out of six. Very little development of the discussion took place. Candidates displayed very poor literacy skills.

RECOMMENDATIONS

Candidates should:

- Be conscious of questions asking them to: 'list', 'explain' and 'distinguish' since this will allow for more efficient time management and accurate responses.
- Observe the mark allocation for each part of the question as this provides a guide for the total amount of response to be written.
- Endeavour to utilize the language of economics based on economic theory as opposed to writing generally.
- Pay more attention to spelling and literacy skills in general.