

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION  
MAY/JUNE 2006**

**ECONOMICS**

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## **ECONOMICS**

### **CARIBBEAN ADVANCED PROFICIENCY EXAMINATION**

**MAY/JUNE 2006**

#### **GENERAL COMMENTS**

Candidate entry for both units of the CAPE Economics examination in 2006 increased by 70 per cent over the 2005 figure of 2 783. However, performance in 2006 did not match the excellence achieved in 2005. The examination proved extremely challenging for the least prepared candidates, while those who were obviously better prepared were able to achieve higher grades.

#### **DETAILED COMMENTS**

##### **UNIT 1**

##### **Paper 01 – Short Answers**

This paper consisted of fifteen compulsory questions divided into three modules of five questions each. Each question was worth six marks. Some aspects of the syllabus continued to be challenging to the candidates, but overall performance on Paper 01 was satisfactory.

##### **Module 01 – Methodology of Economics and Demand and Supply Analysis**

This module tested candidates' appreciation of some fundamental economic concepts. These included opportunity cost, consumer behaviour, demand, supply, equilibrium, elasticity of demand, utility, cost of production. Performance on this module was satisfactory with candidates receiving a mean mark of 17.49 out of a maximum 30 marks.

##### Question 1

This question tested candidates' knowledge and understanding of two basic concepts: scarcity and opportunity cost and their ability to apply them. While many candidates demonstrated sound knowledge of these concepts, others were severely challenged especially by the application. Seventy-five per cent of candidates scored between four and the maximum six marks.

##### Question 2

This question required knowledge and understanding of market demand, supply, equilibrium and shortage and the ability to calculate the slope of a supply curve. Seventy-two per cent of candidates scored four marks and above, but few actually scored full marks. Candidates should be encouraged to work with demand and supply tables, identifying equilibrium price and quantity and transforming data into line graphs.

### Question 3

This question required knowledge of the concept elasticity and the ability to use the elasticity formula. This question proved challenging for many candidates with many not knowing the factors that determine the elasticity of demand. Elasticity is an important concept and teachers should ensure that candidates can demonstrate full understanding of the concept.

### Question 4

Although candidate performance on this question was satisfactory, there were many candidates who did not have the required knowledge and understanding of the utility approach to consumer choice. Many candidates understood the concepts but could not relate marginal utility to the price of a commodity.

### Question 5

This question required candidates to use their knowledge of cost of production to calculate total, average and marginal costs given levels of output and the related total fixed and total variable costs. Performance on the question was excellent with 72 per cent of candidates scoring between four and the maximum six marks.

## **Module 2 – Market Structure and Market Failure**

This module dealt with the efficiency of the market system in allocating scarce resources, market structure, market failure, indices of market concentration and the role of multinational corporations in the Caribbean. Candidates did not perform as well on this module as they did in Module 1. Mean mark on the module was 14.49 out of a maximum 30 marks.

### Question 6

This question required knowledge and understanding of the different market structures. Candidates' performance on this question was satisfactory but many candidates could not identify the behaviour of the different types of market structures. Fifty-one per cent of the candidates scored between four and six marks.

### Question 7

This question required knowledge and understanding of decision-making in perfectly competitive firms in the long-run and short-run and the difference between normal and economic profits. Candidates' performance on the question showed that they found it challenging with twenty-seven per cent scoring between four and six marks. Teachers are encouraged to get the candidates to spend more time on drawing graphs and using them in analyses.

### Question 8

This question required knowledge and understanding of multinational corporations (MNCs) and their impact on the economies of CARICOM. Candidates' performance on this question was satisfactory although some of them confused resources with benefits.

### Question 9

This question required knowledge and understanding of 'market structure' and 'market failure' and the ability to identify types of market structure by performance. Although some candidates failed to associate market failure with inefficiency, the overall performance on this question was satisfactory.

#### Question 10

This question required knowledge and understanding of measures of industrial concentration and the major reason for subsidising goods with positive externality. Most candidates found this question very challenging, in particular, Part (c) that dealt with the subsidy for positive externality. Only 39 per cent of candidates scored between four and six marks on this question.

### **Module 3 – Distribution Theory and Applications of Recent Theoretical Developments**

This module dealt with the marginal productivity theory, factor rewards, income distribution and poverty and asymmetric information. Performance on this module was not up to the standard of the other two modules. The mean mark on this module was 13.62.

#### Question 11

This question required knowledge and understanding of factor rewards and their determination. Although many candidates did not know the relationship between the prices of factors and the prices of the goods produced by the factors, overall performance on the question was satisfactory.

#### Question 12

The most challenging question (in terms of candidate performance) required knowledge and understanding of the marginal productivity theory of wages and the division of wages between transfer earning and rent. Only 23 per cent of candidates scored between four and six marks on this question. Teachers are advised to spend an adequate amount of time on this area of the syllabus.

#### Question 13

This was another challenging question for candidates. It required knowledge and understanding of the labour force, labour supply and the labour force participation rate. Some candidates performed well on this question (20 per cent earning between four and six marks), but many did not demonstrate enough knowledge of the terms.

#### Question 14

This question required knowledge and understanding of relative and absolute poverty and the Gini coefficient as a measure of the distribution of income and wealth. Although some candidates did not demonstrate the precision required but overall performance on this question was excellent.

#### Question 15

This question required knowledge and understanding of moral hazard, adverse selection and poverty alleviation policy. Some candidates did not demonstrate adequate knowledge of these topics but on the whole performance on the question was satisfactory.

### **Paper 02 – Essays**

Paper 02 consisted of six essay questions requiring higher-level competencies. Candidates were required to employ economic tools, their knowledge, understanding and analytical skills to evaluate economic policies and programmes.

Candidates were required to answer one of two questions from each of the three modules. Each question was worth 50 marks. Performance on Paper 02 was quite satisfactory.

### **Module 01 – Methodology of Economics and Demand and Supply Analysis**

This module dealt with the market, demand, supply and equilibrium, the effects of government intervention in the market, the production function and the stages of production, returns to scale, economies of scale and the law of diminishing returns.

#### Question 1

This was the more popular of the two questions on this Module. It required candidates to demonstrate knowledge and understanding of the factors that influence demand and supply, the efficiency of the market, allocation of scarce resources and the effect of government intervention on the operations of the free market. Most candidates performed satisfactorily on the question but for some, the analysis of a price ceiling, Part (c), was a serious challenge. The mean mark on this question was 27.60 out of a maximum of 50 marks.

#### Question 2

This question required knowledge and understanding of the production function, the relationship between the average and the marginal products, the stages of production, economies of large scale production and returns to scale. Overall performance on the question was less than satisfactory with candidates obtaining a mean mark of 19.72 out of a possible 50 marks. Candidates who attempted this question experienced difficulty in explaining basic economic concepts such as constant returns to scale (which occurs when a proportional change in all of a firm's inputs results in the same proportional change in output); increasing returns to scale (which occurs when a proportional change in all of a firm's inputs results in a greater proportional change in output).

### **Module 2 – Market Structure and Market Failure**

This module dealt with market structure and market failure, the relationship between structure, conduct and performance in the short and long-run, the causes of market failure and government policy to correct market failure.

#### Question 3

This was the best answered of the questions on Paper 02 with 73 per cent of candidates scoring above 25 marks. This question required knowledge and understanding of the types of market structures, their differences and similarities and how these affect decision making and performance. Candidates generally performed well on all parts of the question.

#### Question 4

This question required knowledge and understanding of market failure, how it is caused and what policies government can implement to correct it. Performance on this question was satisfactory, although there were areas that posed challenges for candidates. The free rider problem was not well understood and government intervention in the face of market failure was also not well understood. The better prepared candidates were able to state that the market might fail to provide efficient quantities of public goods because of the free rider problem, whereby the free rider consumed a good without paying for it. Because of the lack of enthusiasm among private investors to produce such a good, government would intervene to ensure that adequate amounts of the good were produced.

### **Module 3 – Distribution Theory and Applications of Recent Theoretical Developments**

This module dealt with the marginal productivity theory of distribution, measuring inequality, the labour supply curve, the poverty line, factors that contribute to poverty and the evaluation of government policies aimed at alleviating poverty.

#### Question 5

This was the less popular of the two questions on this module. The question required knowledge of the factors of production and marginal productivity theory. Performance of candidates was satisfactory. Fifty-four per cent of candidates scored above 25.

#### Question 6

This question required knowledge and understanding of the poverty line, the factors that contribute to poverty and the ability to evaluate welfare programmes and other government initiatives to alleviate poverty. This question was very popular and many candidates performed well on it. Sixty-eight per cent of candidates scored between 26 and the maximum 50 marks on the question.

### **Paper 032 – Alternative Paper**

This paper consisted of three questions each worth 20 marks. The questions were based on activities in the construction sector.

#### Question 1

This question required knowledge and understanding of the nature of the sector, the products, their demand and supply and the effect of rent control on the sector. Some candidates were prepared and performed satisfactorily on the question. However, others were severely challenged.

#### Question 2

This question required knowledge and understanding of market structure, market failure, market concentration and the measurement of concentration and measures that government may implement to achieve efficiency. Some candidates performed satisfactorily on this question. However, many candidates seemed not to have been prepared.

#### Question 3

This question required knowledge and understanding of the effects of regional migration on earnings of employees in the construction sector, income distribution and social welfare. Performance on this question was very good.

### **UNIT 2**

This Unit required knowledge and understanding of macroeconomic concepts and issues and the ability to analyse and evaluate economic policies and programmes. Performance on this Unit was satisfactory.

### **Paper 01 – Short Answers**

This paper consisted of 15 compulsory questions divided into three modules of five questions each. Each question was worth six marks. Performance on the paper was satisfactory.

### **Module 1 – Models of the Macroeconomy**

The questions on this module required knowledge and understanding of national income accounting and the determination of national income determination within the Keynesian framework, the calculation of the MPC, illustration and analysis of the inflationary gap. Performance on this module was satisfactory with candidates obtaining a mean mark of 16.80 out of a maximum 30 marks.

#### Question 1

This was the best answered question in this module and required knowledge and understanding of balance of payments, the exchange rate and inflation. Many candidates demonstrated adequate knowledge of the topics but some were severely challenged with a measure for inflation. Performance on this question was excellent with 84 per cent of candidates scoring above three marks.

#### Question 2

This question required knowledge and understanding of national income accounting and its limitation as a measure of well-being. Most candidates had the required knowledge. Performance on this question was satisfactory.

#### Question 3

This question was also well answered by candidates. It required knowledge and understanding of the determination of the equilibrium level of national income, calculation of the MPC and the multiplier. Some candidates were severely challenged by these concepts but most were able to perform the calculations. Performance on this question was good with 56 per cent of candidates scoring between four and six marks.

#### Question 4

This question required knowledge and understanding of the terms ‘saving’ and ‘investment’, their relationship at equilibrium and the Keynesian aggregate supply curve. Performance on this question was satisfactory but the less prepared candidates found the terms very challenging. However, candidates who were adequately exposed to this part of the syllabus performed well.

#### Question 5

Candidates generally performed poorly on this question which required knowledge and understanding of full employment, the inflationary gap, the recessionary gap and the causes of the volatility of investment. Many candidates could not draw the diagram illustrating the inflationary gap or give the explanation for the volatility of investment.

### **Module 2 – Macroeconomic Policy Analysis**

This module dealt with the nature, composition and functions of money, the effectiveness of monetary and fiscal policy measures, budget deficits, surpluses and the burden of the national debt. Candidates performed their weakest on this module. The mean mark on this module was 13.20 out of a maximum 30 marks.

#### Question 6

This question required knowledge and understanding of money, fiat money and commodity money and the functions of money. Performance on this question was satisfactory, but some candidates showed little knowledge of the difference between fiat and commodity money.

#### Question 7

This question required knowledge and understanding of the demand for money and the supply of money. Candidates were required to distinguish between M1 and M2. Many of the candidates knew the components of M1 but not M2. While those candidates who were adequately exposed to the concepts did well, the majority performed poorly on this question.

#### Question 8

This question required knowledge and understanding of monetary policy, the goals of expansionary monetary policy and the tools used by the Central Bank to control money supply. Most candidates were familiar with the concepts but some who were adequately exposed did not perform well. Some candidates could not explain that the main goal of expansionary fiscal policy is to stimulate aggregate demand in the economy by increasing the money supply. However, performance on this question was satisfactory.

#### Question 9

This question posed the most difficulty to candidates. It required knowledge and understanding of the effect of expansionary fiscal policy during a recession and the lags associated with fiscal policy. Most candidates performed poorly on the question, being unable to argue that under the circumstances expansionary fiscal would increase aggregate income. Many were confused when dealing with the policy lags.

#### Question 10

This question required knowledge and understanding of the national debt, budget deficit and budget surplus. Candidates demonstrated a high level of competence in answering this question. Performance on this question was fairly good, with 60 per cent of candidates scoring between four and six marks.

### **Module 3 – Growth, Development and International Economic Relations**

This module dealt with the factors that promote and hinder development of the Caribbean economies, arguments for and against free trade, foreign exchange rates and evaluation of foreign direct investment in the region. Performance on the module was satisfactory with candidates obtaining a mean of 14.59 out of the maximum 30 marks.

#### Question 11

This question required knowledge and understanding of the characteristics of Caribbean economies and the factors that constrain their development. Most candidates were not as familiar with the Caribbean economies and the factors constraining their development as they ought to have been. Performance on this question was less than satisfactory, with only 15 per cent of candidates obtaining between four and six marks.

#### Question 12

This question required knowledge and understanding of the theory of foreign trade, restrictions on foreign trade and Caribbean imports and exports. Candidates demonstrated familiarity with the concepts though some were not too comfortable with the term 'export subsidies'. Performance on the question was fairly good.



### Question 13

This question required knowledge and understanding of the arguments for and against free trade. Performance on this question was good. It was evident that candidates had done this thoroughly in the classroom situation.

### Question 14

This question required knowledge and understanding of the relationship between the prices of traded goods and the exchange rates. This question proved challenging for many candidates. Candidates should be adequately exposed to the determination of exchange rates and the influence of exchange rates on imports and exports.

### Question 15

This question required knowledge and understanding of the nature of 'foreign direct investment', its advantages and disadvantages and the forms it takes. Many candidates performed well on this question but some candidates demonstrated only passing knowledge of the material. Performance on this question was satisfactory.

## **Paper 02 – Essays**

This paper consisted of six questions, requiring higher level competencies. Candidates were required to answer one of two questions from each of the three Modules. Each question was worth 50 marks. Performance on this paper was less than satisfactory.

### **Module 1 – Models of the Macro economy**

This module dealt with national income accounting, the determination of national income equilibrium, comparative statistics and the investment function.

#### Question 1

This question required knowledge and understanding of transfer payments, the computation and use of price indices to deflate nominal income to real income, criticism of GDP as a measure of well-being and the computation of various measures of national income. Many candidates performed well on the question, but those not familiar with the literature experienced severe challenges. Performance on the question was less than satisfactory.

#### Question 2

This question tested candidates' knowledge and understanding of key macroeconomic terms, their ability to analyse the impacts of changes in taxes, money supply and oil prices on equilibrium price and quantity under various circumstances and to explain the relationship between investment and variability profits and expectations. Performance on this question was less than satisfactory.

### **Module 2 – Macroeconomic Policy Analysis**

This module dealt with fiscal policy and monetary policy. Performance on the module was less than satisfactory.

### Question 3

This question required knowledge and understanding of the operations of discretionary policy and automatic stabilizers and how they can be used to solve macroeconomic problems such as unemployment. Candidates were required to do the arithmetic and draw the diagram associated with closing a recessionary gap of a given size and MPC. They were also required to demonstrate competence in using the concept of a balanced budget and a balanced budget multiplier. Candidates performed well on some aspects of the question but found the parts requiring higher level competencies very challenging.

### Question 4

This question required knowledge and understanding of the nature of money, the role of money, the components of the demand for money and the determination of the interest rate. While performance on this question was better than on question three, overall performance was still not of an acceptable standard. Many candidates misinterpreted Part (b) on 'fiat money'.

## **Module 3 – Growth, Development and International Economic Relations**

This module dealt with trade and commercial policy, the effects of trade restrictions on output, employment and welfare. It also tested candidates' knowledge and understanding of the stages of economic integration including the CSME. Performance on the module was satisfactory.

### Question 5

This question required knowledge and understanding of the effects of free trade on a hitherto closed economy and the ability to illustrate these effects on a demand and supply diagram. Candidates were severely challenged by this question and, in particular, many candidates could not illustrate net welfare loss on a diagram. However, performance on the other parts of the question was encouraging and overall performance was satisfactory.

### Question 6

This question required knowledge and understanding of the stages of economic integration and CARICOM, the CSME and the FTAA. Performance on this question was satisfactory but many candidates were unable to define the main terms.

## **Paper 031 - Internal Assessments for Units 1 and 2**

The quality of the internal assessments improved this year. The better projects were characterized by good organization and integration of data and diagrams with prose.

There was vast improvement in the Internal Assessment projects.

- Presentation was improved as candidates made good use of presentation technology.
- Candidates showed greater knowledge of the topics chosen.
- Teachers showed more consistency in marking.
- The requirements for the selection of samples were met.

Some projects were weak however in the areas below:

- They lacked content and data presented were not analysed.
- Some projects exceeded the word limit without penalty.
- Sources of data and other material quoted were not supplied.
- Some topics were too general and incoherent.

Some projects did not fully meet the requirements set for internal assessments. Many candidates did not label their diagrams correctly while some presented data that had little or no relationship to their topics. A significant proportion of the candidates did not seize opportunities presented for using the data that they collected to generate relevant graphs. Some candidates wrote their aims and objectives directly from the syllabus instead of using them as guides for developing suitable topic-related ones.

Candidates should be encouraged to adopt a more problem-solving approach and to include warranted recommendations arising out of their study.

Teachers are advised to ensure that their assessment of candidates' projects follow the criteria established in the "Moderation of Internal Assessment" sheets in order to give students the correct feedback. They should not modify the mark scheme on the sheets and should ensure that they have the most recent version.

Teachers are critical in the process of guiding candidates so that they can produce excellent projects. From the first day of class the requirement of the unit should be established. Students should be guided and required to develop an outline to facilitate the choice of topics that are not too broad in scope and timeframes that render the process of supervision manageable. Candidates should not use outdated data to arrive at conclusions about present realities. Overall, the internal assessment projects were satisfactory.

### **Paper 032 – Alternative Paper**

This paper dealt with the CARICOM Single Market and Economy and required candidates to analyse issues arising out of the establishment of the CSME. Candidates were also required to evaluate the policy issues. Some candidates performed satisfactorily on this paper but others were severely challenged.

#### Question 1

This question required knowledge and understanding of goals of the CSME, their effects on the economies of CARICOM Member States and the ability to distinguish between macroeconomic and microeconomic issues. Some candidates performed well on the question but others were unprepared and so were severely challenged.

#### Question 2

This question required knowledge and understanding of monetary policy and fiscal policy, the harmonization of monetary and fiscal policy of Member States and the advantages and disadvantages of policy harmonisation to Member States. Some candidates performed satisfactorily but others found the question very challenging.

#### Question 3

This question required knowledge and understanding of the provisions of the CSME, the free movement of labour, trade restrictions, the demand and supply of foreign currencies and the determination of exchange rates. Although many candidates performed well on this question, many others were not knowledgeable about the provisions of the CSME. Overall performance on this question was satisfactory.