

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION  
MAY/JUNE 2007**

**ECONOMICS**

**ECONOMICS**  
**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION**  
**MAY/ JUNE 2007**

**GENERAL COMMENTS**

The candidates' overall performance this year was quite satisfactory, but did not attain the desired level of excellence. Performance on Unit 1 was good compared to performance on Unit 2. The syllabus provided an adequate degree of challenge to the candidates. Notwithstanding, many candidates performed in the good – excellent range.

**DETAILED COMMENTS**

**UNIT 1**

**Paper 01 – Multiple Choice**

Candidates' overall performance in this paper was quite good, and in some instances, excellent. Paper 01 for the first time adopted the multiple-choice format. It consisted of 45 items, with 15 items on each Module. The range of items provided adequate syllabus coverage and tested various levels of difficulty. The mean score compared favourably with that of the former structured Paper 01. The reliability of the present paper was very good.

**Module 1 - Methodology of Economics and Demand and Supply Analysis**

This Module addressed some of the fundamental concepts of economics such as scarcity, choice, opportunity cost, efficiency, the market, demand, supply and equilibrium. Performance in this Module was satisfactory.

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

This Module dealt with the efficiency with which the market system allocates scarce resources and included market structure and market failure. Performance in this Module was also satisfactory.

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

This Module dealt with a number of popular issues such as the size and functional distribution of income, inequality and poverty. Performance in the Module was satisfactory.

**Paper 02 – Essays**

This paper tested the higher-level competencies of the candidates, giving them the opportunity to combine their knowledge and understanding of basic economic terms, concepts and tools with their ability to analyse economic issues and evaluate economic policies and programmes.

Candidates were required to answer one of two questions in each of the three Modules. Each question was worth 50 marks.

**Module 1 - Methodology of Economics and Demand and Supply Analysis**

Module 1 dealt with decision making by consumers/households and the combining of inputs by firms/businesses to produce outputs. It also dealt with the cost of production.

Question 1

This question required candidates to demonstrate their knowledge and understanding of how consumers choose to spend their income among different goods and services given the prices of the goods using the marginal utility approach. Candidates were also tested on their comprehension and analytical ability regarding the factors affecting demand and supply, market allocation of commodities and the distortions and social implications accompanying government intervention in terms of price ceilings. Performance on this question was generally good although some candidates found the question challenging. Some of them could not calculate marginal utility and the marginal utility per dollar needed to decide on the quantity of each good the consumer would purchase. Some candidates could not draw a diagram showing the price ceiling and analyse the results of the ceiling imposed on the housing market.

Question 2

This question required knowledge and understanding of various concepts, including the production function; total, average, and marginal products; total average and marginal costs. Performance on this question was satisfactory. Candidates found explaining the relationship between the average physical product curve and the marginal physical product curve most challenging. Candidates should be encouraged to approach these concepts using the verbal, arithmetical and graphical methods. Candidates ought to go deeper into the relationships among the concepts; the relationship between the marginal and average product and cost (curves), question (c), the shape of various products and cost curves, question (d), the demand and supply curves and the calculation and meaning of the elasticity of demand supply.

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

This Module tested the ability of candidates to compare the main types of market structures (perfect competition, monopoly, oligopoly and monopolistic competition); analyse their effects on efficient resource allocation; discuss the measures used to correct market failure; analyse the effect of a unit tax on cigarettes on the efficiency of market allocation of cigarettes; understand consumer surplus and deadweight loss. Candidates found the questions quite challenging.

Question 3

This question required that candidates demonstrate knowledge and understanding of market structures, the assumptions of perfect competition and the comparison of two market structures. Candidates were required to draw a diagram showing the effects of a tax on price, quantity, consumer surplus and deadweight loss. Many candidates' performance in this question was good, but some candidates could not draw the required diagram and show deadweight loss and consumer surplus. A tax is likely to reduce consumer and producer surplus and cause a deadweight net loss or a loss of welfare, and candidates ought to be able to present the arguments.

Question 4

This question required knowledge and understanding of the causes of market failure in the sense of the Pareto efficiency criteria and relate them to the candidates' country. Candidates were also required to evaluate the effectiveness of measures that their government had implemented to correct market failure. Most candidates could say what market failure meant, but could not give the causes of it nor could they list and discuss the measures put in place by the government to correct market failure. Some of the stronger candidates were able to discuss factors such as public goods, externalities, natural monopolies and asymmetric information that cause market failure and the measures available to deal with these factors. Some candidates performed well on the question, but many found it very challenging.

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

Module 3 required the ability to analyse and evaluate issues surrounding the distribution of income; size and functional distribution of income. It also required knowledge and understanding of concepts and issues associated with income distribution, the measurement of inequality and factors that contribute to social welfare and poverty.

#### Question 5

In this question candidates were required to demonstrate knowledge and understanding of the Lorenz curve and to interpret the Lorenz curve diagram. They were also required to distinguish between absolute and relative poverty and discuss the effect of subsidies to the education sector on social welfare. Candidates' performance on this question was fair. The number of candidates who handled this question well was very small. Many candidates were not prepared to give a clear distinction between absolute and relative poverty. Many candidates also exhibited scant knowledge of the Lorenz curve, not being able to identify its components and their importance even though a picture of it was included on the question paper.

#### Question 6

This question required a knowledge and understanding of factor markets; including concepts such as the value of the marginal product of labour, the labour force, the potential labour force, rent and transfer earnings and the relationship between factor shares and costs. Many candidates were able to do the relevant calculations, but others showed very little facility with the concepts.

### **UNIT 2**

Unit 2 dealt with macroeconomic concepts and issues. Many of the candidates demonstrated a fair grasp of the subject matter. Their responses to most of the questions were of a good quality.

#### **Paper 01 – Multiple Choice**

Candidates' overall performance in this paper was good, and in some instances, excellent. Paper 01 for the first time adopted the multiple-choice format. It consisted of 45 items, with 15 items on each Module. The range of items provided adequate syllabus coverage and tested various levels of difficulty. The mean score was much higher than what was normally seen in the former structured Paper 01. The reliability of the present paper was very good.

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

This Module required candidates to demonstrate a good understanding of national income accounting, the components of aggregate demand (expenditure), the classical and Keynesian economic models, national income equilibrium, recessionary and inflationary gaps.

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

Module 2 covered the nature of money its measurement, money demand and supply, the role of the central bank, monetary and fiscal policy, servicing the national debt and the quantity theory.

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

This Module dealt with foreign trade and commercial policy, the terms of trade, the balance of payments, the foreign exchange market, regional integration, globalisation and foreign direct investment.

## **Paper 02 – Essays**

This paper consisted of 6 questions with candidates being required to answer one of two questions on each of the three Modules.

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

This Module dealt with national income accounting, the limitations of GDP as a measure of well-being, national income equilibrium, the determinants of aggregate demand and supply savings and investments and the volatility of investments. Candidate performance was in the range of acceptable.

#### Question 1

This question required knowledge of the computation of national income using the income and expenditure approaches. Candidates were also required to show understanding of the consumer price index, the GDP deflator and the reasons for the GDP being a poor measure of well-being. Candidates' performance on this question was generally acceptable. However, many candidates showed little knowledge of the difference between the income and expenditure approaches. Many also could not explain the indices and the shortcomings of the GDP as a measure of well-being.

#### Question 2

This question required knowledge of the factors that determine aggregate demand and aggregate supply. Candidates were also required to discuss the reasons for the volatility of investment, explain the relationship between savings and investments and the difference between inflationary and recessionary gaps. Some candidates found answering parts of this question very challenging. It appears that they did not grasp how to perform the calculations and draw and interpret the required diagrams. Performance on the question was weak.

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

This Module dealt with money and banking, budget deficits and the rational debt, currency substitution, the use of monetary and fiscal policy tools to influence the level of employment and output. Performance on this Module was in the acceptable range.

#### Question 3

This question required knowledge and understanding of the nature, role and functions of money and the process by which banks create money. Most candidates showed good knowledge of nature, functions and demand for money, but many had little or no understanding of the money creation process. Regarding monetary policy instruments and their potency, many candidates could not state the main tools and discuss their relative ineffectiveness in the context of the Caribbean. Performance on the question was acceptable.

#### Question 4

This question required knowledge and understanding of how monetary and fiscal policy work to increase output and employment. This question was not popular with candidates, but those who attempted it performed better than those who chose the alternative. Performance on this question was satisfactory.

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

Module 3 dealt with regional integration and globalisation as well as protectionism, determination of exchange rates and the advantages and disadvantages of the fixed and free-floating exchange rate systems. Candidates produced a weak performance on this Module.

#### Question 5

This question required knowledge and understanding of economic integration, its benefits and costs and the stages of integration of CARICOM up to the CSME. Candidates were also required to discuss the forces driving globalisation. While candidates understood what integration and globalisation are and could identify the benefits and costs, their discussions of the topics were inadequate. Performance on this question was acceptable.

#### Question 6

This question required knowledge and understanding of arguments for protection of the CARICOM market, the determination of fixed and floating exchange rates and their advantages and disadvantages. Many candidates performed well on the part of the question dealing with protection and could say how exchange rates were determined. However, most of them could not identify the advantages and disadvantages of these systems. Overall performance on the question was weak.

### **Recommendations to Teachers**

Teachers have achieved a great deal of success in the preparation of candidates for the examination in CAPE Economics. However, there is evidence that many candidates were not ready for the examination. Though they had a good grip on the knowledge aspects of the questions, they lacked the higher level competencies required to excel in the examination.

Teachers should ensure that the candidates taking the examination are fully prepared. This should take approximately 130 hours. Candidates should be made to understand the demands of the course from the inception. Teachers will find that it is a good investment to spend much of the first two or three weeks of the class on the quantitative techniques, graphs and tables. The following is worth repeating.

Candidates should be taught to draw and interpret diagrams and to calculate the slopes of lines, elasticity coefficients, multipliers, percentage changes. The diagram of the market, demand, supply, equilibrium price and quantity should be fully understood by candidates. Teachers should ensure that adequate assignments targeting the most challenging areas are done by the candidates.

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

Candidates' performance on the Internal Assessment was of a good standard this year, reflecting greater teacher participation in school-based projects. There was evidence that teachers were able to exercise greater control over the process - the topics chosen, the research methodology, preparation of the outline and exercising overall greater supervision of the project. Teachers, and ultimately candidates, came to appreciate the synergy among Papers 01, Paper 02 and Paper 031; they reinforce one another and are not conflicting.

Teachers' marking was generally consistent with moderators' and overall there was general improvement in all categories, including data, graphs and charts in the reports.

Candidates chose manageable issues such as school cafeteria, sole trader, partnership... and cleverly integrated the economic theories and concepts.

Some areas in which there is room for improvement include the following:

- Some candidates should use empirical data to greater support the theories and concepts they discuss. The data should be used in calculations, for example, elasticities and in constructing diagrams.
- There has been a significant improvement in communication, but some candidates are still making too many grammatical errors which detract from the work.
- Some candidates are collecting more information but are not logically integrating them in the projects. Tables and diagrams are not properly described and analysed.
- Teachers should emphasise higher level competencies such as synthesis and evaluation.
- Many candidates are guilty of plagiarism. Teachers are encouraged to get them to desist in this area by informing them of the penalty for plagiarism.

With greater teacher guidance the quality of the internal assessment should continue to improve.