

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
ADVANCED PROFICIENCY EXAMINATION  
MAY/JUNE 2010**

**ECONOMICS**

## **GENERAL COMMENTS**

The CAPE Economics Examination consists of two units — each examined by the following papers.

- Paper 01 – Multiple Choice
- Paper 02 – Essay
- Paper 03/1 – The Internal Assessment (IA) (done by school candidates)
- Paper 03/2 – Alternative to IA (done by private candidates)

The overall performance of candidates in the examination was satisfactory for both Units 1 and 2. Performance on Unit 1 improved significantly over 2009 and now parallels Unit 2. Performance on Unit 2 remains stable and consistent with that of 2009.

## **DETAILED COMMENTS**

### **UNIT 1**

Unit 1 dealt with microeconomics theories, concepts and issues. Performance in Unit 1 was satisfactory. The mean mark was 55 per cent.

Unit 1 is divided into three modules:

Module 1 – Methodology of Economics and Demand and Supply Analysis

Module 2 – Market Structure and Market Failure

Module 3 – Distribution Theory and Applications of Recent Theoretical Development

#### **Module 1 – Methodology of Economics and Demand and Supply Analysis**

This module tested candidates' understanding of the fundamental concepts of economics — scarcity, choice, opportunity cost, the production possibilities frontier (PPF), pareto efficiency criteria, the market, demand, supply, equilibrium, price floors and price ceilings, utility maximization, optimal output, normal profit and economic profit — and candidates' ability to apply these concepts to economic problems. Performance on this module was very good. The mean mark was 61 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 to demonstrate understanding of economic concepts such as market structure, market failure, the characteristics that distinguish the four main market structures, perfect competition, monopolistic competition, oligopoly and monopoly, two measures of market power and the causes of market failure and government intervention in the market. Performance in this module was satisfactory. The mean mark was 49 out of 100.

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

This module required an understanding of the markets for productive resources. It dealt with a number of popular issues. The topics dealt with included the equi-marginal principle (with which some candidates did not show great familiarity), information asymmetry, the labour force, the

marginal revenue product (MRP) and the demand for labour, factor mobility in the CSME, the determination of factor prices, rent and transfer earnings, the functional and size distribution of income, inequality and poverty. Performance in the module was satisfactory. The mean mark was 56 out of 100.

### **Paper 01 – Multiple Choice**

Paper 01 consisted of 45 items, 15 on each module, spanning knowledge, comprehension, application and interpretation of information. The mean mark on Paper 01 was 62 per cent.

### **Paper 02 – Essays**

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 required to answer one of two questions in each of the three modules. Each question was worth 25 marks.

#### Question 1

This question was attempted by approximately 25 per cent of the candidates. Part (a) of the question required candidates to explain key utility concepts with the use of examples. Part (b) required them to calculate marginal utility and marginal utility per dollar for two goods and to apply the concept of consumer optimality. Approximately 88 per cent of the candidates who attempted this question performed at an acceptable level, with 65 per cent of them earning at least 14 out of a possible 25 marks.

Most candidates were able to define the key terms and perform the calculations. However, some candidates were challenged by the application of concept and in providing suitable examples. While candidates generally identified the combination of bread and buns that would maximize consumer satisfaction, many of them did not explain how they arrived at their answer. The mean mark was 15.91 out of 25.

#### Question 2

This was the more popular of the two questions in Module 1. Approximately 75 per cent of the candidates attempted this question, 77 per cent of whom received satisfactory marks.

Candidates were required, in Part (a) of the question, to demonstrate knowledge and understanding of demand and the law of demand as well as to explain how a change in demand differs from a change in the quantity demanded. In Part (b), candidates were required to identify three factors, other than the price of beef, and to discuss why each of the three factors identified influence the demand for beef.

Many candidates did not demonstrate a comprehensive grasp of the definition of demand or the law of demand. They were generally unable to explain why consumer demand changes when the conditions of demand change. Distinguishing between a change in demand and a change in the quantity demanded proved to be challenging for many candidates. The mean mark for this question was 14.2 out of 25.

### Question 3

Part (a) required candidates to demonstrate knowledge and understanding of monopolistic competition and oligopoly and to assess the role of advertising in monopolistic competition. Part (b) required them to give a diagrammatic exposition of the short-run and long-run output, pricing and profits of a firm in monopolistic competition. Approximately 45 per cent of candidates attempted this question, with approximately 68 per cent of them performing satisfactorily. Some candidates could not satisfactorily show the similarities and differences between the two market structures, while many were challenged in assessing the role of advertising. Some candidates demonstrated a superficial knowledge of monopolistic competition and could not give satisfactory responses to Part (b). The mean mark was 12.84 out of 45.

### Question 4

This question was by far the most challenging of the entire examination. It was attempted by approximately 55 per cent of the candidates with 77 per cent of them receiving satisfactory scores.

In Part (a) of the question, candidates were required to demonstrate knowledge and understanding of the term 'market failure' using the pareto efficiency criterion and to explain how public goods and monopolies cause market failure. In Part (b), they were required to assess governments' response to market failure.

Many candidates demonstrated knowledge of market failure, but were unable to explain what causes it. The mean mark was 8.39 out of 25.

### Question 5

This question was attempted by approximately 79 per cent of the candidates, with 70 per cent of them receiving satisfactory scores. In Part (a), candidates were required to calculate the marginal product of labour and the value of the marginal product of labour. In Part (b), they were required to draw a diagram showing the value of the marginal product of labour curve, with the line showing the wage superimposed on the same diagram.

Candidates were able to perform the required calculations, draw the diagram and select the correct number of workers to be employed, but they were unable to explain how they arrived at their conclusions. The mean mark for this question was 13.89 out of 25.

### Question 6

This question was attempted by approximately 21 per cent of the candidates, with 68 per cent of them gaining satisfactory scores. Part (a) of the question required candidates to use a demand and supply diagram to explain the determination of wage rate and employment levels by the market. Part (b) required them to explain the role of institutional factors in the determination of wage rates. Many candidates did not draw the diagram carefully and could not explain it properly, nor could they explain how to arrive at the wage rates. Many candidates, however, were able to explain the role of government and trade unions, but not the employers' association, in the determination of wages. Performance on the question was fair. The mean mark was 9.54 out of 25

## UNIT 2

Unit 2 dealt with macroeconomic theories, concepts and issues. Many of the candidates demonstrated a good grasp of the subject matter. Overall, the responses were good. The mean for Unit 2 was 54 per cent.

### Paper 01 – Multiple Choice

#### Module 1

This module required candidates to demonstrate knowledge and understanding of basic macroeconomic concepts, national income accounting, the Keynesian consumption function, the determinants of money demand, real interest rates, the labour supply and labour demand, the natural level of unemployment and real and nominal gross domestic product (GDP) at factor cost and market prices. Performance on the module was fair. The mean mark was 51 per cent of the maximum score.

#### Module 2

Module 2 covered monetary and fiscal policy: money demand, money supply, the interest rate, the effects of changes in the interest rate, the role of the central bank, the Keynesian liquidity preference framework and motives for holding money. The module also dealt with discretionary fiscal policy and automatic stabilizers, deficits, surpluses, the national debt and the debt service ratio, unemployment and 'crowding out'. Performance on the module was fair. The mean mark was 53 per cent.

#### Module 3

This module dealt with the determinants of growth, foreign trade and commercial policy, international organizations, multinational corporations, economic integration, globalization, the balance of payments accounts, the determination of exchange rates, the advantages and disadvantages of different exchange rate regimes. Performance on the module was fairly good. The mean mark was 58 per cent of the maximum score.

This paper comprised 45 items, 15 questions per module. The items spanned knowledge, comprehension and application. Performance on the paper was good. The mean was 63 per cent.

### Paper 02 – Essays

This paper consisted of six questions, two per module. Candidates were required to answer one of two questions on each of the modules. Each question was worth 25 marks.

#### Question 1

This question was attempted by approximately 57 per cent of the candidates, 77 per cent of whom performed satisfactorily. Part (a) of the question required candidates to demonstrate knowledge and understanding of national income accounts. They were required to explain the difference between nominal and real GDP and to discuss reasons why the GDP by itself was not a complete measure of economic welfare. In Part (b), candidates were required to determine features of a small model of the

economy and use the model to determine equilibrium GDP. In Part (c), they were required to describe the net national product and personal disposable income and state how they are measured.

Overall, the responses to this question were good. Candidates demonstrated adequate knowledge of the limitations of GDP as an indicator of economic welfare. However, they were challenged in defining net national product and personal disposable income, distinguishing between nominal and real GDP, calculating national income equilibrium and the open economy multiplier. The mean mark for this question was 11.18 out of 25.

### Question 2

This question was attempted by approximately 43 per cent of the candidates, 69 per cent of whom scored at least 50 per cent of the maximum available marks. The question required knowledge and understanding of the Classical and Keynesian models. In Part (a), candidates were required to explain the difference between the ‘recessionary gap’ and the ‘inflationary gap’, and to explain disequilibrium employment from the point of view of the Classical economists. In Part (b), candidates were required to define investment and describe four factors that influence investment. Most candidates were able to distinguish between the gaps using the Keynesian 45 degree line. They were also able to define investment, but many were challenged to explain disequilibrium unemployment and to describe the factors influencing investment. The explanations were not thoughtful and precise, but rather loose and superficial. Performance on the question was fair. The mean mark was 10.43 out of 25.

### Question 3

This question was attempted by approximately 76 per cent of the candidates, 77 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) of the question required candidates to define money and outline the functions of money. Part (b) required them to explain what is meant by ‘a fractional reserve banking system’. In Part (c), candidates were required to explain the effects of various transactions on the transactions demand for money and equilibrium interest rate.

The majority of candidates were able to define money and outline the functions but some confused the functions of money with the motives for holding money. Candidates were generally challenged to explain the effects that changes in the pay period, changes in the nominal GDP and changes in the number of ATMs would have on the transactions demand for money and the interest rate. Overall performance on the question was good. The mean was 11.92 out of 25.

### Question 4

This question was attempted by approximately 24 per cent of the candidates, 70 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to explain what was meant by ‘automatic stabilizers’ and ‘fiscal policy’. Candidates were also required to outline fiscal policy measures that would increase employment and output in Caribbean economies. In Part (b), candidates were required to discuss the limitations of fiscal policy measures.

Many candidates demonstrated knowledge of automatic stabilizers. The majority of them were able to explain ‘fiscal policy’ and identify appropriate fiscal measures but were unable to explain how the measures would expand employment and output. They were particularly challenged by Part (c).

Many candidates did not attempt a discussion of the limitations of fiscal policies. Those who did demonstrated limited knowledge of the concept. Performance on the question was fair. The mean mark was 12.05 out of 25.

#### Question 5

This question was attempted by approximately 68 per cent of the candidates, 75 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to identify three main stages of economic integration that CARICOM countries have attempted. In Part (b), they were required to state three benefits and three costs associated with economic integration. For Part (c), candidates were required to assess the pros and cons of foreign direct investments (FDIs) by multinational companies (MNCs) with regard to access to technology and job creation.

Candidates demonstrated good knowledge and understanding of the stages leading up to the formation of CARICOM, but they were unable to state three benefits and three costs associated with economic integration. The candidates demonstrated very good knowledge of the pros and cons of FDI by MNCs. Performance on the question was very good. The mean mark was 14.50 out of 25.

#### Question 6

This question was attempted by approximately 32 per cent of the candidates, 83 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to distinguish between 'absolute advantage' and 'comparative advantage'. Part (b) required them to outline three arguments for and three arguments against the Economic Partnership Agreement (EPA) between the Caribbean and the European Union. In Part (c), candidates were required to outline two potential benefits of the EPA agreements. For Part (d), candidates were required to discuss two policy measures for correcting a trade deficit.

Distinguishing between 'absolute advantage' and 'comparative advantage' was very challenging for many candidates. They generally demonstrated little knowledge of the EPA between the Caribbean and the European Union. However, they were able to give reasonable responses to the potential benefits of the EPA. The responses to Part (d) were quite good. Candidates were able to give policy measures that could be implemented in order to correct a trade deficit. Candidates' overall performance on the question was fair. The mean mark was 11.42 out of 25.

### **RECOMMENDATIONS TO TEACHERS**

The teaching and learning of economics can be very exciting as the subject matter deals with social reality, and economics is both a science and an art. As students are preparing for their examination and for life, many relevant events are occurring; new businesses are opening, new products are entering the market, firms are merging or are being taken over, some workers are losing their jobs while new workers are being employed, some prices are rising while others are falling or inflation is taking place. The little shop at the corner must compete with the large department store. There is no paucity of illustrations for teachers to use in their classes to make the subject relevant to the students and this is best done within frameworks or models. There are some basic principles which teachers should apply in preparing students for the examination.

- ❖ Students must pay attention to details. At the level of CAPE, for example, students need to go beyond the fact that if disposable income rises, consumption will also rise — the lay person knows that without reading an economics text. Students need to go into more depth, applying their knowledge of the marginal propensity to consume and the multiplier.
- ❖ There are some fundamental concepts and ideas which students must know, understand and be able to apply in solving economic problems: scarcity, opportunity cost, making of decisions at the margin, among others.
- ❖ Students must be encouraged to think logically and coherently for economics requires mathematically precise language.
- ❖ Diagrams must be drawn and labelled neatly using rulers; no shoddy, incomplete diagram should be presented.
- ❖ Students need to complete the entire syllabus in order to be adequately prepared for the examination.
- ❖ Students should be taught to draw and interpret diagrams and to calculate and interpret the slopes of lines, elasticity coefficients, multipliers, percentage changes, etc. The Marshallian Cross, the diagram of the market, demand, supply, equilibrium price and quantity need to be fully understood by students as should the Keynesian Cross and illustrating the determination of national income equilibrium.
- ❖ Students should practise diagram drawing and interpreting skills under the supervision of the teacher as well as on their own time. Teachers should insist on proper labelling of axes and curves since this is conducive to learning, and candidates are awarded marks for neat and accurate diagrams.
- ❖ Teachers should expose students to questions on traditionally challenging areas of the syllabus.

Overall performance on this year's examination was fair but fell short of expectations. The higher level competencies involving application, analysis, synthesis and evaluation required for excellent performance were again lacking in many of the candidates.

### **Paper 03/2 – Alternative to Internal Assessment**

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

#### **UNIT 1**

The theme for Paper 03/2 for 2010 was “The role of education as a means of poverty alleviation”. Forty-four candidates wrote this paper. The mean mark was 27 out of 60.

Question 1

Part (a) required candidates to list four types (levels) of education and training that are demanded in their country. In Part (b), candidates were required to explain why consumers demand the type of education and training that they do and for Part (c) they were required to discuss two costs, to consumers, of a good education.

Performance on this question was fair. Candidates were able to list the types of education. Most of them provided satisfactory responses to Part (b); however, describing the costs of education proved to be challenging for many candidates. The mean mark was 10.80 out of 20.

Question 2

In Part (a), candidates were required to explain the concept of market failure with special emphasis on the efficiency criterion. Part (b) required them to discuss market failure in the context of the provision of education. For Part (c), candidates were required to explain how government can address the failure of the market to provide adequate education privately.

Candidates did not perform well on this question. Candidates seemed to lack knowledge with respect to market failure, hence they were unable to discuss the concept or explain how the problem could be addressed. The mean mark was 5.57 out of 20.

Question 3

In Part (a), candidates were required to distinguish between ‘absolute poverty’ and ‘relative poverty’. Part (b) required them to explain the impact of education on income distribution, while Part (c) required them to assess the role of education in poverty alleviation.

Candidates did not perform well on this question. Many of them were challenged in distinguishing between ‘absolute poverty’ and ‘relative poverty’. The concept seemed not to be clearly understood, hence the distinction in many instances was not clear. Candidates were also challenged in Part (c) which required the application of higher-order thinking skills. The mean mark was 7.36 out of 20.

**UNIT 2**

The theme for Paper 03/2 for 2010 was “Fiscal and monetary policies — Their relative effectiveness on employment, income and output”. Twenty-five candidates wrote this paper. The mean mark was 27 out of 60.

Question 1

In Part (a), candidates were required to explain the meaning of fiscal and monetary policy. For Part (b), they were required to analyse two types of fiscal policies used in their country over the past five years. Part (c) required an analysis of the main type of monetary policy. In Part (d), candidates were required to evaluate two objectives of fiscal policies.

Performance on this question was fair. Candidates were mostly challenged by Parts (b) and (d). In Part (b), they merely stated fiscal policies rather than analyse them. Some candidates had difficulty

even stating the fiscal policies. In Part (d), they tended to outline the objectives rather than evaluate them. Very few candidates mentioned how effective or ineffective the objectives were. The mean mark for this question was 9.72 out of 20.

### Question 2

In Part (a), candidates were required to outline three costs of unemployment. For Part (b), they were required to explain how fiscal and monetary policies can be used to solve problems.

Performance on this question was satisfactory. Part (a) was fairly well done. However, some candidates struggled mainly with how fiscal policies can be used to solve problems. Candidates seemed to have just a superficial knowledge of the concept, hence they were challenged in going beyond defining, stating and outlining where these concepts were concerned. The mean mark for this question was 10.12 out of 20.

### Question 3

Part (a) required candidates to define 'exchange rate' and to state two ways in which the exchange rate is determined. Part (b) required them to examine two negative consequences of excessive government spending on a country's exchange rate. In Part (c), they were required to assess two ways by which the central bank can use monetary policy to help stabilize the exchange rate.

From the responses given, many candidates did not seem to have a grounded knowledge with regard to the exchange rate. The definitions given were very imprecise. Assessing how the central bank can use monetary policy to stabilize the exchange rate proved to be very challenging for many candidates. While some candidates seemed to have some understanding of the central bank, they seemed to lack the ability to apply this knowledge to an actual or specific situation. The mean mark for this question was 7.16 out of 20.

## **RECOMMENDATIONS FOR PRIVATE CANDIDATES**

- In order for private candidates to perform well on Paper 03/2, it is imperative that they research the given theme thoroughly.
- Private candidates also need to pay close attention to budgetary issues in their country, as well as regionally and internationally, to get a better understanding of how governments run their countries.
- Private candidates need to make use of reports issued by the central banks, the International Monetary Fund and other financial bodies to familiarize themselves with fiscal and monetary policies.
- Private candidates will benefit from a structured approach to instructions offered by recognized institutions.
- When preparing for the examination, candidates need to go beyond memorizing facts and definitions. At this level, they need to be able to interact with the material in a critical and meaningful way.

- Candidates need to apply the study of economics to their everyday lives. This will help them to make sense of many of the concepts and ideas that presently seem abstract and unrelated to their current existence.

### **Paper 03/1 – Internal Assessment (IA)**

Most students performed well on the IA component of the examination, reflecting closer teacher supervision of students' projects. The synergies among Papers 01 and 02 and the IA were again fully exploited to the advantage of the students. The topics consisted of relevant economic problems to which appropriate concepts, principles and theories were applied, while the projects were kept within the stipulated limits. There was an overall improvement in the quality of the projects.

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

- Students need to make better use of empirical data in supporting their findings. The data students present must be relevant to the topic, must be analysed and the results used to support conclusions to which the students arrive. Charts, tables and graphs constructed from data collected must be neatly presented and properly labelled. Data not analysed and discussed should not be included in the report. Some students are not adhering to the word limit placed on the project.
- The word processing software tool should be used to assist in reducing the spelling and grammatical mistakes since these detract from the quality of the work done.
- Students continue to perform below expectations in the higher level competencies such as analysis, synthesis and evaluation. Teachers need to present more opportunities for students to practise these skills.
- Many students continue to have methodological challenges; the method to be employed must be stated, including how the data will be used. The plan must then be followed. Credit must be given to all secondary sources to avoid plagiarism. Sources must be noted in the body of the project and the full citation must be given in the bibliography.
- Teachers must remain vigilant and ensure that the work presented is the student's. Teachers should approve the project, the methodology and the outline, and follow the progress of students over the duration of the project.
- Students should be encouraged to include their primary data collection method in their report.

The projects presented this year reflect closer teacher guidance, resulting in better overall quality of the IAs.