

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2012

ECONOMICS

GENERAL COMMENTS

The CAPE Economics examinations consist of two units – each examined by the following papers:

Paper 01 – Multiple Choice

Paper 02 – Essay Questions

Paper 031 – School-Based Assessment (SBA) (done by school candidates)

Paper 032 – Alternative to School-Based Assessment (done by private candidates)

The overall performance of candidates was satisfactory for both Units 1 and 2. Performance on Unit 1 was consistent with performance in 2011, while performance on Unit 2 was consistent with that of previous years.

Unit 1 dealt with microeconomic theories, concepts and issues. Two thousand seven hundred and seventy-four candidates sat the Unit 1 examination. Performance on Unit 1 was fair. The mean mark was 159.08 out of 300 (53.03 per cent). The standard deviation was 42.85.

Unit 1 was divided into three modules:

Module 1 – Methodology of Economics and the Analysis of Demand and Supply

Module 2 – Market Structure, Market Failure and Intervention

Module 3 – Distribution Theory and Application of Recent Theoretical Developments

Module 1 tested candidates' understanding of indifference curve analysis, total cost, marginal cost, averaged fixed cost, average total cost and variable cost. Performance on this module was satisfactory. The mean mark was 57.75 out of 100. The standard deviation was 18.60.

Module 2 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 and deadweight loss, the characteristics that distinguish the four main market structures — perfect competition, monopolistic competition, oligopoly and monopoly. Candidates were also required to distinguish between normal and economic profits as well as to calculate the Four-Firm concentration ratio and the Herfindahl-Hirschman Index. Additionally, they were asked to define efficiency and market failure, distinguish between private and social benefit, compare characteristics between private and public goods and explain how public goods cause market failure, as well as how government intervention in the market responds to the problems of externalities and public goods. Performance on this module was fair. The mean mark was 49.43 out of 100. The standard deviation was 15.82.

Module 3 required an understanding of the rewards for the factors of production. It dealt with a number of popular issues. The topics dealt with included derived demand, marginal productivity theory, transfer earnings and economic rent, monopsony, wage differentials, the labour force, the marginal revenue product (MRP) and the demand for labour, perfect competition in the labour market, and factor mobility in the Caribbean Single Market and Economy (CSME). Performance on this module was fair. The mean mark was 47.51 out of 100. The standard deviation was 16.57.

Unit 2 dealt with macroeconomics theories, concepts and issues. Many candidates demonstrated a good grasp of the subject matter. Overall, the responses were good. The mean for Unit 2 was 163.05 out of 300. The standard deviation was 48.94.

Two thousand and seventy two candidates sat the Unit 2 examination.

Unit 2 was divided into three modules:

Module 1 – Models of Macroeconomics

Module 2 – Macroeconomic Problems and Policies

Module 3 – Growth, Sustainable Development and Global Relations

Module 1 required candidates to demonstrate knowledge and understanding of basic macroeconomic concepts, national income, the Keynesian consumption theory and the classical model. Performance was fair. The mean mark was 50.83 out of 100. The standard deviation was 19.61.

Module 2 tested candidates' knowledge of unemployment, interest rates, inflation, national debt, monetary and fiscal policy. The mean mark was 54.49 out of 100. The standard deviation was 19.04.

Module 3 dealt with international trade, economic integration, and the balance of payment accounts. Performance on the module was poor. The mean mark was 48.62 out of 100. The standard deviation was 18.13.

DETAILED COMMENTS

UNIT 1 – MICROECONOMICS

Paper 01 – Multiple Choice

Paper 01 consisted of 45 items, 15 on each module, spanning knowledge, comprehension and application. The mean mark was 57.36 out of 90. The standard deviation was 14.26.

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. Performance on the paper was less than satisfactory. The mean mark was 59.18 out of 150. The standard deviation was 27.53.

Question 1

This question was attempted by 64 per cent of the candidates, 46 per cent of whom scored at least 50 per cent of the available marks. Part (a) required candidates to define the terms *indifference curve* and *budget line* and to draw a diagram of the budget line and indifference curve and use it to explain consumer equilibrium. They were also required to use the diagram to explain the effect of a price

decrease of a good on consumer equilibrium. Part (b) required candidates to define the substitution and income effects and explain them with the aid of a diagram.

In Part (a), most candidates were able to correctly define the concepts and use the diagram to adequately explain consumer equilibrium. The effect of consumer equilibrium on the decrease in the price of a good was also well done. Many candidates were able to score the maximum mark on this part of the question. In Part (b), many candidates were unable to give precise definitions of the substitution and income effects as well as to recognize the resultant increase in purchasing power arising from a decrease in the price of a good. Many candidates who attempted this part of the question were not able to use the imaginary budget line to separate the effects. However, a few candidates did an excellent job of distinguishing the income from the substitution effect.

This area of the course is precise and technical and more time should be devoted to explaining the concepts and practising drawing the diagrams in order to ensure proper internalization and improved candidate performance.

Question 2

This question was attempted by 48 per cent of the candidates, 54 per cent of whom scored at least 50 per cent of the available marks. Part (a) required candidates to state the formula for the various costs as well as to calculate the values for the various costs at given levels of output. In Part (b), they were required to explain the relationship between the marginal cost and the average total cost, with the aid of a diagram. Part (c) required candidates to draw a diagram of the marginal cost curve and the average variable cost curve and use the diagram to explain the relationship between these two curves and the supply curve.

In Parts (a) and (b), the majority of candidates were unable to demonstrate knowledge of the formulas for computing the various costs. The mathematical relationship between average and marginal values was not well demonstrated. Similarly, many candidates were unable to correctly calculate the types of cost averages since quantity was not used as the denominator. In Part (c), a number of candidates drew diagrams of product curves rather than cost curves. Further, some based their responses on the average cost curve rather than the average variable cost curve. A significant number of candidates did not recognize that the portion of the marginal cost curve above the average variable cost curve is in fact the supply curve of the product. In a few instances, candidates used the data from the table to plot the various curves. This was not required since the output range was inadequate for depicting the proper relationship between the curves. This resulted in the loss of valuable marks.

This area of the syllabus requires an appreciation of the mathematical relationships among the relevant concepts and students should be given adequate practice in calculating the various costs as well as constructing cost curves and interpreting them. It must be emphasized that teachers should ensure that students appreciate that marginal cost will pull up average cost only when it is above average cost and marginal cost will pull down average cost when it is below average cost regardless of whether the marginal cost is falling or rising. The statistics relating to cricket can be used to illustrate how marginal scores will impact average scores.

Question 3

This question was attempted by 50 per cent of the candidates, 34 per cent of whom scored at least 50 per cent of the available marks. This question tested candidates' knowledge of the theory of the firm.

Part (a) required candidates to distinguish between normal profit and abnormal profit as well as to define the concept of market structure. In Part (b), candidates were required to demonstrate their knowledge of the features/characteristics of the various market structures. Part (c) required candidates to compute and interpret two measures of industrial concentration.

Most candidates were able to correctly distinguish between the two types of profits. The concept of market structure was also widely known. The majority of candidates was able to secure the maximum in this section; however, some candidates failed to maximize their scores by focusing only on the degree of competition rather than on its impact on the behaviour and performance of the firms. Some candidates failed to state that the monopoly's product is unique. The majority of candidates did not demonstrate an understanding of the measures of industrial concentration. They were unable to state the correct formulae, apply the formulae and interpret the results.

The theory of the firm and measures of industrial concentration are essential components of the syllabus and precision and accuracy are required in studying the material. Teachers should allocate sufficient time to their delivery so that proper internalization can occur. Group research on the various market structures and student presentations to the class may assist in enhancing understanding.

Question 4

This question was attempted by 61 per cent of the candidates, 20 per cent of whom scored at least 50 per cent of the available marks. Part (a) required candidates to define the concepts of '*economic efficiency*' and '*market failure*' while Part (b) required them to distinguish between private and social benefits and to explain how the divergence between the two concepts causes market failure. In Part (c), candidates were required to compare the characteristics of public goods with those of private goods. They were also required to explain how the non-provision of public goods causes the market to fail and how governments can respond to correct the non-provision of public goods and the existence of externalities. In Part (d), candidates were expected to use a diagram to explain how monopoly equilibrium results in a deadweight loss to society.

Most candidates were unable to give the expected definition of economic efficiency as *the production of the maximum output from a given set of inputs*. Alternatively, those candidates who opted to explain pareto optimality were also rewarded. Most of them recognized positive externalities as *the difference between private and social benefits* and many were able to use *excludability and rivalry/diminishability* to distinguish between public and private goods. Government intervention through fiscal spending, taxation, regulation and legislation were all recognized as corrective mechanisms. It was expected that candidates would show the deadweight loss to society through the loss of consumer and producer surpluses. However, many candidates depicted and explained the deadweight loss with predominantly the use of externality and to a lesser extent, government's intervention in the market by the imposition of a tax. In these instances, candidates were able to secure a mark if they correctly identified the deadweight loss diagrammatically.

As the facilitator, teachers must devote adequate time to the delivery and assessment of this area of the syllabus. They must also emphasize the strict use of economic terminologies when defining these concepts as well as in distinguishing a private good from a public good. Students should avoid stating that 'public goods are provided by the government or that public goods are free goods'. With regard to the deadweight loss, extensive practice in drawing and interpreting diagrams of the various situations in which it can occur will assist students in improving their performance.

Question 5

This question was attempted by 67 per cent of the candidates, with only 10 per cent of them scoring 50 per cent or more of the maximum available marks. This question focused on the theory of distribution with emphasis on the labour market. The expectation of Part (a) was that candidates would be able to identify the factors of production and their rewards and to explain the concept of derived demand. In Part (b), candidates were required to state the marginal productivity theory and explain how this concept is related to the demand for labour. In Part (c), candidates were required to distinguish between transfer earnings and economic rent using a diagram as an aid. With a presupposition that the supply curve is vertical, they were also required to state the values of economic rent and transfer earnings. In Part (d), candidates were required to discuss the effects of monopsony on the labour market. Given the interest rate, life span and MRP, candidates were required to apply the marginal productivity theory to determine the price for a capital item in Part (e).

The factor and their rewards were identified by most candidates but the concept of derived demand was not always properly explained. Candidates also failed to use an example to explain the concept. The explanation of marginal productivity theory and its relationship with the demand for labour was poorly handled by most candidates. It was expected that candidates would *state what MRP is, show how it is calculated and how employers use it to determine how many workers to hire by equating it to the market wage. Candidates could have also stated that the MRP curve is the demand curve.* The distinction between transfer earnings and economic rent was satisfactorily done by most candidates. Most candidates were also able to correctly recognize *economic rent as the total earnings and transfer earnings as zero when the supply curve of the factor was vertical.*

Many candidates were able to explain monopsony as a labour market structure but some showed improper understanding by making reference to one buyer of final goods and services rather than labour. Some misinterpreted the word *effect* and discussed trade union and government intervention rather than stating the behaviour of the monopsonist in terms of how it decides on the quantity of labour to employ and the level of reward paid to the factor. The calculation of the price of the capital item was a major challenge for candidates. They did not apply the present value formula to determine same. That is,

$$\text{Price of computer} = \frac{\text{MRP}}{(1+r)} + \frac{\text{MRP}}{(1+r)^2}$$

It is recommended that candidates be engaged in in-depth discussions on the subject matter as well as in doing work practical examples to illustrate the concepts.

Question 6

This question was attempted by 44 per cent of the candidates, 43 per cent of whom scored at least 50 per cent of the available marks. The question tested candidates' understanding of the distribution theory with specific emphasis on wage differentials. In Part (a), candidates were required to define the term *wage differentials* and outline two factors that gave rise to wage differentials. In Part (b), candidates were required to compare the level of wages in a perfectly competitive labour market with a market in which the buyer has monopoly in the factors of production market (monopsony). In

Part (c), candidates were required to explain two types of labour mobility and to discuss the effects of labour mobility on the labour market of CARICOM member states.

Part (a) was well done. Candidates were able to define wage differentials as well as state the factors that cause wage differentials. Candidates discussed, for instance, the level of education and experience of the worker as two factors. However, the heterogeneity of the attributes of the worker should be treated as one factor. The responses to Part (b) were very interesting as candidates demonstrated varying interpretations of the question. Two interpretations were provided for on the answer key. That is, monopoly compared with a perfectly competitive labour market and monopsony compared with a perfectly competitive labour market.

Candidates were required to state the equilibrium wage and employment determination point. They were also required to state the wage and employment levels under monopoly or monopsony and that of the firm in a perfectly competitive labour market. In most instances, candidates drew the diagram depicting the monopsonist, which was acceptable. Candidates also made relevant reference to the diagram in their discourse. With respect to the types of mobility, candidates were able to explain the types but in some instances they failed to correctly identify the types as either occupational or geographical. Candidates were expected to state the effect of the mobility on the labour market of CARICOM states. Some candidates were precise in their responses by stating the effects on the wage levels and the supply of labour. Others mentioned all the social ills of migration which were outside of the scope of the question and the subject.

Teachers are encouraged to urge their students to read the questions carefully before responding. In addition, greater attention must be paid to the distribution theory, specific emphasis should be placed on how firms (under perfect and imperfect competition) determine wages in the market as well as prices of their goods and services. This area of the syllabus may be taught through group discussions and the extent of the candidates' learning be assessed by means of a debate.

Paper 032 – Alternative to School-Based Assessment

For Paper 032, candidates were given the following information: "During an investigation in a certain country it was found that the demand curve of the industry was the demand curve of the firm". Candidates were required to research the topic in preparation for the examination and to answer three questions based on it. Forty-five candidates wrote the examination.

Question 1

Part (a) required candidates to draw a diagram to show the demand curve and explain its shape. Part (b) required them to outline three factors that may cause the demand curve to shift. Part (c) tested candidates' ability to calculate the price elasticity of demand of a monopolist product using the midpoint formula and to interpret the result. The final part in the question, Part (d) required candidates to identify three factors that may determine the price elasticity of demand for the product.

Candidates generally provided reasonable responses to Parts (a) and (b). There were a few, however, who cited 'price' as a determinant that causes the demand curve to shift. The responses in Part (c) showed that some candidates did not know the correct formula for price elasticity of demand and many had trouble interpreting the result.

Candidates should improve on interpreting elasticity, which is honed through practice, therefore it is recommended that teachers emphasize this through the use of practice sheets.

Question 2

Part (a) required candidates to explain the relationship between the *monopolist's demand curve* and the *marginal revenue* curve. Part (b) tested candidates' ability to compare and contrast four characteristics of perfect competition and monopoly. In Part (c), candidates were required to use a diagram to compare the output and pricing decisions of monopoly and perfect competition.

A wide cross section of candidates provided plausible responses to Part (a) and (b). Most candidates demonstrated competence in using a diagram to explain the relationship between the monopolist marginal revenue curve and the demand curve, more so than by using words. The assumption is that they were not clear about the relationship. In this question, candidates were expected to give the reason for the relationship. Only a few candidates were able to do this. In Part (b), candidates were required to compare and contrast, but instead of doing so most simply listed the characteristics of perfect competition and then those of the monopoly. Some candidates wrote the implications of the market structures rather than the characteristics. For example, they compared the type of profits of the two in different time periods. In Part (c), many candidates were unaware that the comparison between perfect competition and monopoly is superimposed on one diagram; most candidates gave separate diagrams for perfect competition and monopoly.

Teachers should assist students in differentiating between the characteristics of the entities and the implications of these characteristics.

Question 3

Part (a) required candidates to differentiate between *size distribution* and *functional distribution* of income. Part (b) tested candidates' ability to use a diagram to illustrate the case of a monopoly that is making positive economic profit or monopoly rent and explain how this may affect the functional distribution of income. The final part of the question, Part (c), required candidates to discuss one method by which governments attempt to redistribute income and evaluate the effectiveness of this method. Part (c) was the only section of the question that was generally well known; however, some candidates were unable to sufficiently discuss the method that they selected and even more so to evaluate its effectiveness. Most candidates were unable to differentiate between *size distribution* and *functional distribution* of income in Part (a). Part (b) seemed to have created a challenge for most candidates, especially the part that required them to explain how monopoly rent can affect the functional distribution of income.

Teachers are encouraged to reinforce instructional terms such as *differentiate*, *evaluate* and *discuss*, so that students will be aware of the extent of the responses they are required to produce. Most candidates had difficulty evaluating, but this reflects a deeper problem than students' understanding of terms, rather it is a problem related to students' ability to evaluate, this deficiency should be addressed.

Paper 031 – School-Based Assessment (SBA)

The majority of students performed well on the SBA component of the examination, this is evidence of improved teacher supervision of students' projects. Generally, the projects selected were properly formulated and the objectives were related to the topics. The aims were clearly stated and the methodologies were appropriate. The data collected were well organized, presented and analysed and warranted conclusions were drawn. Many candidates demonstrated an excellent understanding of the concepts, principles and theories. The mean for the SBA for Unit 1 was 42.47 out of 60. The standard deviation was 8.43.

Strengths

- Students demonstrated good grasp of the knowledge and understanding components of the theories and concepts outlined in the syllabus.
- Students selected topics that were more tailored to microeconomic objectives and which were better aligned to the scope of the syllabus.
- The aims and objectives were plausible and achievable in the presentation of the reports.
- The general layout of the projects was good.
- There has been great improvement in students' ability to select appropriate sources for data collection.
- Most students incorporated the use of tables, charts and graphs in their projects.

Weaknesses

- There was some evidence of plagiarism.
- Students did not cite sources from which they garnered information. In addition, on occasions when the citation was done; it was incorrectly done.
- In many cases some of the diagrams that were presented were not incorporated into the discussions.
- Diagrams were poorly labelled, therefore, they did not add any value to the projects.
- Recommendations and conclusions were disjointed from the analysis and synthesis of the projects.
- Students' analytical skills appeared very weak.
- Students' presentation of the projects were not always organized in the format and based on the criteria outlined in the syllabus.

Recommendations

- Students' need to synthesize and analyse data by using the charts and tables. This should be done by incorporating the charts, graphs and theories into their presentations and then evaluating how well the theories fit with the research conducted. It is very acceptable to agree or disagree with the theories.
- Students' research should be based on the problem statement or objectives.

UNIT 2 – MACROECONOMICS

Paper 01 – Multiple Choice

This paper consisted of 45 items, 15 questions on each module. The items spanned knowledge, comprehension and application. Performance on the paper was good. The mean mark was 60.21 out of 90. The standard deviation was 16.07. Approximately 47 per cent of the candidates scored at least 50 per cent of the maximum available marks on this paper.

Paper 02 – Essays

This paper consisted of six questions, two per module. Candidates were required to answer one of two questions from each of the modules. Each question was worth 25 marks. The mean mark was 64.58 out of 150. The standard deviation was 30.73.

Question 1

This question was attempted by 90 per cent of the candidates, 45 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to differentiate between Gross Domestic Product (GDP) and Gross National Product (GNP). Part (b) required them to define the income and expenditure approach to measuring GDP and outline how each approach is calculated. Part (c) required candidates to discuss two ways in which growth in a country's GDP may negatively impact the country's standard of living. Part (d) required that candidates distinguish between the *marginal propensity to consume* (MPC) and the *average propensity to consume* (APC) and state how each is calculated. Part (d) required candidates to use the simple Keynesian consumption theory to explain the effect of a rise in income on the MPC and the APC.

Candidates demonstrated a clear understanding of the standard of living and how increased GDP can affect quality of life. They appear to have a better understanding of the expenditure approach than the income approach. Candidates provided plausible definitions of the APC and the MPC and stated how they are calculated. However, they experienced some challenges in distinguishing between the GDP and the GNP and were unable to define GNP. Candidates could not explain the effect of an increase in income on the APC and were generally unsure of the effect of income on the MPC and the APC.

Teachers need to dedicate more instructional time to the teaching of these concepts, and provide ample opportunities for students to practise questions involving calculations. Teachers need to help students to develop their analytical skills by providing suitable environments and opportunities.

Question 2

This question was attempted by nine per cent of the candidates, 42 per cent of whom scored at least 50 per cent of the available marks. Part (a) required candidates to use the classical model to explain why disequilibrium employment exists. Part (b) required them to analyse how the global recession may impact the aggregate demand and output of a country economy using aggregate demand and supply curves. Part (c) required candidates to identify three non-price determinants of aggregate supply and explain how each determinant influences the level of aggregate supply.

Several candidates were able to identify three non-price determinants of aggregate supply and explain how each determinant influences the level of aggregate supply. Their responses were, for the most

part, clear and concise. Most candidates were able to draw and label the diagram required in Part (b). They were also able to state how the global recession may impact the aggregate demand and output. However, Part (a) proved to be challenging for some candidates who relied on diagrams to answer the question even though diagrams were not required. Most candidates spoke generally about the classical model instead of answering specifically what the question required. Some candidates ignored the prompt of the *global recession* mentioned in Part (b) and this negatively affected their scores.

Candidates need to be encouraged to pay closer attention to key concepts in the questions. In this way, they should be able to recall information related to the particular concepts. In other words, interpreting the question in the correct context, for instance, the mention of the word *global* should alert candidates to the fact that re-export will be affected.

Question 3

This question was attempted by 73 per cent of the candidates, 55 per cent of whom scored at least 50 per cent of the available marks. Part (a) required candidates to distinguish between *unemployment* and *underemployment* as well as outline four types of unemployment. Part (b) required candidates to, with the use of examples, describe two types of inflation as well as differentiate between *nominal interest rate* and *real interest rate*. Part (c) required candidates to explain how expansionary monetary policy may be used, instead of fiscal policy, to increase employment in the economy.

Most candidates were able to adequately distinguish between *unemployment* and *underemployment*. However, they were unable to effectively outline the types of unemployment and mentioned, in particular *voluntary unemployment*. Candidates were able to describe the two types of inflation. However, they were inaccurately named as ‘cost pull’ and ‘demand push’. In relation to *demand pull* inflation, several candidates failed to include the aggregate supply constraint in their description of the concept. Candidates used microeconomic examples instead of macroeconomic examples. Candidates were unable to differentiate between *nominal interest rate* and *real interest rate*.

Nominal interest rate is the going interest rate on consumer/producer loans. There is no single nominal interest rate; there are many nominal interest rates. It is calculated by using the value of interest paid divided by the principal of the loan. Real interest rate is nominal interest rate minus the rate of inflation.

The most problematic section of the question was Part (c) as candidates seemed to have misinterpreted it — they compared fiscal policy and monetary policy as mechanisms to increase employment within the economy. There was rarely any logical progression from the increase in money supply resulting in a reduction in interest rate then an increase in aggregate demand and ultimately an increase in employment.

Teachers should use practical examples to assist students in differentiating among the types of unemployment. Teachers should emphasize the use of macroeconomic examples in explaining macroeconomic terminologies. Teachers are also advised to pay more attention to the teaching of the transmission mechanism.

Question 4

This question was attempted by 26 per cent of the candidates, 32 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to define the terms, *fiscal policy*, *budget surplus* and *transfer payments*. Part (b) required candidates to outline three limitations of monetary policy and three limitations of fiscal policy. Part (c) required them to identify four sources of government borrowing to finance their expenditure. Part (d) required candidates to evaluate three possible negative consequences of government borrowing.

Candidates were able to define the terms *fiscal policy* and *budget surplus* but they were unable to define the term *transfer payments*. *Transfer payments are payments made by governments to individuals that involve no productive activity like old age pensions, welfare and so on.* Candidates were able to identify at least three of the four sources of government borrowing to finance their expenditure. However, some candidates were repetitive with respect to naming international lending agencies. Parts (b) and (d) proved to be challenging for candidates. Candidates were unable to identify limitations of monetary and fiscal policies. They had difficulty in harnessing the skill to evaluate as they were only able to state certain negative consequences of government borrowing but were unable to assess them.

Teachers need to focus on distinguishing between monetary and fiscal policy with respect to managing aggregate demand. Specific efforts should be placed on skills of analysis, synthesis and evaluation. This will definitely improve students' overall performance.

Question 5

This question was attempted by 64 per cent of the candidates, 28 per cent of whom scored at least 50 per cent of the maximum available mark. Part (a) required candidates to explain the term *economic integration*. Part (b) required that candidates outline three benefits and three costs associated with economic integration. Part (c) required candidates to outline three major stages of economic integration that CARICOM countries have attempted to achieve over the past 30 years. Part (d) required candidates to evaluate the extent to which countries have achieved economic integration.

Most candidates were able to define the term *economic integration*. However, they failed to mention that *economic integration is the coming together of a group of countries with the goal of increasing economic linkages among the group vis-à-vis the rest of the world.*

Candidates were able to outline the benefits and costs of economic integration. However, there was a tendency for many candidates to integrate non-economic content in this section. Most candidates were able to evaluate the extent to which countries have achieved economic integration. However, they did not effectively expound on the points listed. The most challenging section of the question was Part (c). Most candidates were unsuccessful in identifying and explaining the stages of economic integration. They referred to specific examples of integration within a Caribbean context and therefore spoke about CARIFTA, CARICOM and the CSME rather than the general stages namely, free trade area, customs union (which includes a common external tariff for non-member states) and common market.

Candidates should be guided to organize their responses in a logical, accurate and clear manner in order to improve the quality of their responses. It is recommended that candidates correctly number their responses, skip a line or two between different parts of the question and follow the prompts

given. Teachers need to focus on the economic perspective of economic integration rather than the social and cultural.

Question 6

This question was attempted by 34 per cent of the candidates, 22 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to explain the difference between *current account transaction* and *capital account transaction* in the balance of payments statement and to calculate the current account balance as well as the overall balance of payments. Part (b) required candidates to outline four ways in which a global recession may impact the main accounts of the balance of payments. Part (c) required them to distinguish between *absolute advantage* and *comparative advantage*. Part (d) required candidates to discuss two policy options that a country may use to correct a trade deficit.

The majority of candidates was able to distinguish between *absolute advantage* and *comparative advantage*. Most candidates were able to identify two policy options that a country may use to correct a trade deficit. However, some candidates did not focus on how the policy measures identified would address the trade deficit. Candidates were able to correctly indicate what the current account involves. However, they were unaware of what the capital account entails. Candidates failed to say what main balance of payments accounts were affected by the global recession.

Teachers should focus on a step by step analysis of all the accounts in the balance of payments, paying close attention to *net transfers*, *net investment* and not only exports and imports. Terms like *financial assets*, *hot money flows*, *official financing* and *physical assets* should be clearly explained. Close attention should be placed on policy responses (devaluation, trade protection measures and contractionary fiscal and monetary policies) to trade deficits.

Paper 032 – Alternative to School-Based Assessment (SBA)

For Paper 032, candidates were given the following instruction: “Investigate the impact of rising oil prices on the economy of your country”. Candidates were required to answer three questions based on their investigation. Twenty six candidates wrote this paper. Performance was less than satisfactory. The mean mark was 21.27 out of 60.

Question 1

In Part (a), candidates were required to distinguish between *leakages* and *injections* as they relate to the economy. They were required to explain the three main leakages from the circular flow of an economy in Part (b). Part (c) was divided into two sections. In Part (c) (i), candidates were required to analyse the impact of rising oil prices on the aggregate expenditure and aggregate output of the economy of their country. In Part (c) (ii), they were required to identify three injections that may be increased to offset the negative impact of the leakage.

Most candidates were able to distinguish between injections and leakages. They were also able to adequately explain the main leakages from the circular flow. Candidates for the most part were able to identify the three injections that may be increased to offset the negative impact of the leakage. Part (c) (ii) presented difficulties for candidates in that they were unable to adequately and logically

evaluate the impact of rising oil prices on aggregate expenditure and output being a case in point. There is a process that takes place throughout the economy as a result of a supply shock, many candidates were not aware of this.

Teachers and students need to keep abreast of current economic issues. Greater emphasis should be placed on analysis rather than learning definitions and concepts; Part (c) where candidates were required to analyse the impact of rising oil prices on aggregate expenditure and aggregate output being a case in point. It is also recommended that teachers use practical examples and case studies to widen students' scope and aid them in improving their analytical and critical thinking skills.

Question 2

Part (a) tested candidates' ability to define the terms *inflation*, *labour force* and *unemployment rate*. Part (b) required candidates to evaluate one way in which high or rising oil prices may impact the *inflation rate* and *unemployment rate*. Part (c) required candidates to discuss two ways in which the government may use fiscal policy to help soften the negative impact of rising oil prices on a country.

The majority of candidates did sufficiently well in Part (a), since they were able to accurately define *inflation*, *labour force* and *unemployment rate*. Most candidates knew the final impact of rising oil prices on inflation and unemployment, most were unable to *evaluate* the impact of rising oil prices. However, many candidates did not mention the term *cost-push* inflation in explaining the impact of rising oil prices. It is essential that candidates use the jargon of economics since they are studying at an advanced level. For the most part candidates did not prove that they understood the question, because they seemed to have ignored the directive to discuss ways in which the government may use fiscal policy to help soften the negative impact of rising oil prices on a country. Some candidates did not know the difference between fiscal and monetary policy.

It should be reiterated that candidates should keep abreast of current affairs related to economics, especially when studying macroeconomics. This will assist them greatly as the discipline is aimed at studying current economic issues and seeking remedies. These issues and remedies are generally practised in every country; hence paying attention to current affairs will be beneficial to candidates. Teachers can prompt students by creating assignments that are geared towards making students aware of these issues and which hone their analytical skills. Teachers should also work with students in enhancing their understanding, equipping them with skills on how to interpret questions as well as how to use key words to determine what is required of them. The glossary of terms in the syllabus can assist in this regard.

Question 3

Part (a) (i) required candidates to define the term *balance of payments* and in Part (a) (ii) they were required to list the three main accounts in the balance of payments. In Part (b), candidates were required to assess three ways in which rising oil prices may impact their country's balance of payments accounts, they were to assume that their country imports all its oil. Part (c) required candidates to discuss two ways by which their country may address the temporary balance of payments crisis due to the higher import bill.

Some candidates were unable to clearly and accurately define the term *balance of payments*, some confused the term with gross domestic product (GDP), or gave partial answers. However, most candidates were able to correctly list at least two accounts in the balance of payments. Many

candidates failed to accurately highlight the impact of rising oil prices on the balance of payments accounts, they would often refer to the 'balance of payments' rather than to the specific accounts. Some simply stated the impact on the economy and not on the balance of payments accounts. Candidates also showed their inability to state the ways by which the country can address the balance of payments crisis.

Teachers need to teach this aspect of the syllabus in a very practical way by using real data and statistics from actual countries. In relation to Question 3, teachers are advised to take students to seminars put on by various financial institutions or to invite representatives to class sessions to make presentations on macroeconomic issues that are dealt with by these institutions. This should form the basis of class discussion. This may help students to better appreciate the discipline and enable them to speak and write on various topics and offer economically sound remedies to economic problems.

Paper 031 – School-Based Assessment (SBA)

The majority of students performed well on the SBA component of the examination, this is evidence of improved teacher supervision of students' projects. Generally, the projects selected were properly formulated and the objectives were related to the topics. The aims were clearly stated and the methodologies were appropriate. The data collected were well organized, presented and analysed and warranted conclusions were drawn. Many candidates demonstrated an excellent understanding of the concepts, principles and theories. The mean for Unit 2 was 39.15 out of 60. The standard deviation was 7.92.

Strengths

- Students demonstrated good knowledge of the theories and concepts necessary to present good projects.
- The topics chosen were appropriate as they were in alignment with the criteria outlined in the syllabus.
- The economic concepts used were related to the topics chosen.
- Economic theories were appropriately used.
- There was evidence of marked improvement in the analysis and interpretation components over 2011 samples.
- Some students demonstrated good referencing of the data sources from which information was gathered.

Weaknesses

- It was evident that some students are still struggling to formulate appropriate topics.
- Some students were not able to properly analyse secondary data.
- Sometimes the marks awarded by teachers were not consistent with the marking criteria set out in the syllabus, as a result, marks awarded appeared to be inconsistent and subjective.
- Students tended to refer examiners to the syllabus by indicating an objective number rather than stating the actual aims and objectives that were used.
- A large number of the reports were too similar; hence, it is recommended students do their individual write up after collecting the data necessary to complete their projects.

Recommendations

- Students should be guided in formulating topics that are appropriate to the unit to be examined. Microeconomics is based on a specific industry, firm or household. Macroeconomics studies the economy on a whole; however, the problems being researched should be time specific.
- Students should be encouraged to highlight limitations encountered in the use of the instruments employed in carrying out the research and in the methodology to be employed in the report.
- Methodology should speak specifically to design of instruments and validation of the reasons why they are suitable for the specific research.
- Topics chosen should be time period specific, and should be confined to a specific region or country.
- The style of citation and referencing should be used consistently throughout the report.