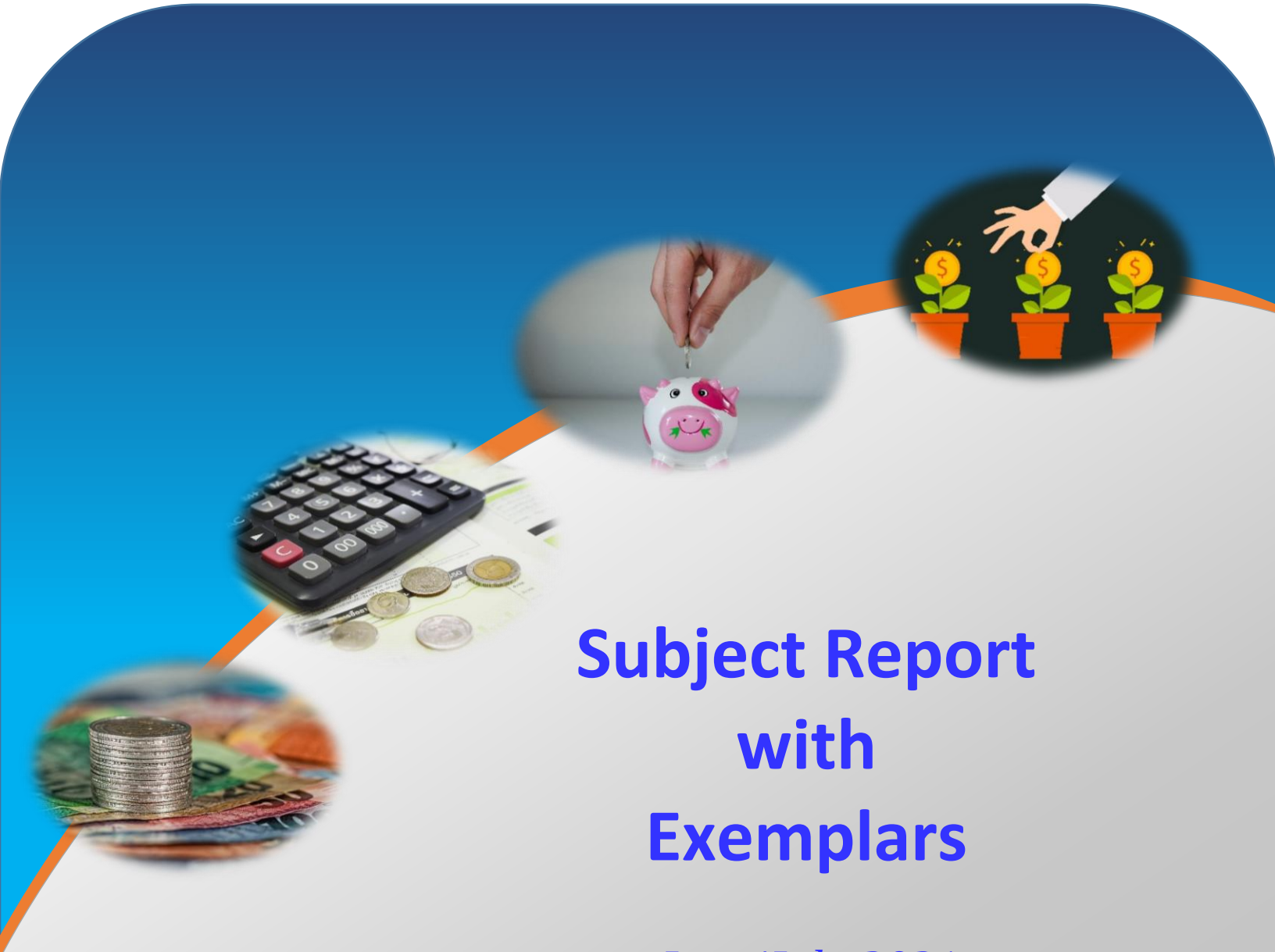
CARIBBEAN EXAMINATIONS COUNCIL

ECONOMICS



Subject Report with Exemplars

June/July 2021

CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN SECONDARY EDUCATION CERTIFICATE®
EXAMINATION

JUNE/JULY 2021

ECONOMICS
GENERAL PROFICIENCY

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INTRODUCTION

This guide has been put together using candidate responses to the 2021 June/July examination in CSEC Economics. The responses are kept according to the original design of the examination paper.

Caribbean Secondary Education Certificate (CSEC) Economics is generally offered in May/June of each year. However, due to the global pandemic, it was offered in July 2021. The papers offered were Paper 01, the multiple-choice paper; Paper 02, the structured question paper; Paper 031, the school-based assessment (SBA); and Paper 032, the alternative to the SBA for private candidates.

There was a candidate entry of approximately 5481 for Paper 02 and 220 for Paper 032. Approximately 68 per cent of candidates earned Grades I–III. The mean score for the examination was 99.23 out of 200 marks.

PAPER 01 – MULTIPLE CHOICE

Paper 01 consisted of 60 multiple choice questions. It was designed to provide adequate coverage of the content with items taken from all sections of the syllabus. Approximately 84 per cent of candidates earned acceptable grades on this paper; the mean score was 42 out of 60 marks.

PAPER 02 – STRUCTURED ESSAY

This paper sought to test candidates on a range of topics identified in the syllabus. Paper 02 consisted of five compulsory questions. Each question was worth 20 marks. The mean score for this paper was 23.34 out of 100 marks.

Question 1

This question tested candidates' ability to

- define the terms *law of demand* and *law of supply*
- identify two determinants of supply
- explain four determinants of demand
- calculate the cross-price elasticity of demand between two flavours of ice cream, given the change in price in one flavour and the resulting change in the quantity demanded of the other flavour
- identify the relationship between the two flavours of ice cream based on the calculation of the cross-price elasticity of demand.

Overall, performance of this question was poor. Approximately 4984 candidates attempted the question. The mean was 5.84 out of 20.

Candidate's Response to Part (a) (i) — Sample No. 1

1. (a) Define EACH of the following terms:

(i) Law of demand

The law of demand states that as price increases quantity demanded decreases and as price decreases quantity of demand increases at ceteris paribus.

(2 marks)

Candidate's Response to Part (a) (i) — Sample No. 2

1. (a) Define EACH of the following terms:

(i) Law of demand

BOD

The price of a good is inversely proportional to the quantity demanded, cetrius paribus.

(2 marks)

Examiner's Comments

In Sample 1, the candidate gave a comprehensive definition of the law of demand, inclusive of the term *ceteris paribus*, fully showing how both increases and decreases in price affects the quantity demanded of a good.

In Sample 2, the candidate correctly defined the law of demand by describing the inverse relationship between the price and the quantity demanded of a good, inclusive of the term *ceteris paribus*.

Part (a) (i) was attempted by most candidates. However, most of these candidates were only able to obtain one mark out of two. Two things that were necessary to provide a complete definition of the term were not included. Candidates either talked about an inverse relationship between price and demand instead of quantity demanded, and/or they failed to include the condition/phrase *ceteris paribus* or any of the other variations of this condition/phrase. For those candidates who got no mark for this part, some confused the cause and effect of the relationship between price and quantity demanded while others gave the definition of 'demand' for the definition of *law of demand*.

Candidate's Response to Part (a) (ii) — Sample No. 1

(ii) Law of supply

The law of supply states that as price ~~and~~ increases the quantity supplied will also increase and as price decreases quantity ~~sup~~ supplied will decrease at ceteris paribus.

(2 marks)

Candidate's Response to Part (a) (ii) — Sample No. 2

(ii) Law of supply

The price of a good is directly proportional to the quantity supplied, ceteris paribus

BOD

(2 marks)

Examiner's Comments

Sample No. 1 shows a comprehensive definition of the law of supply, inclusive of the term *ceteris paribus*, fully showing how both increases and decreases in price affects the quantity supplied of a good.

In Sample 2, the candidate correctly defined the law of supply by describing the direct relationship between the price and the quantity supplied of a good, inclusive of the term *ceteris paribus*.

Part (a) (ii) was attempted by most candidates. Many of these candidates were only able to obtain one mark. Two things that were necessary to provide a complete definition of the term were not included. Candidates either talked about a direct relationship between price and supply instead of quantity supplied, and/or they failed to include the condition/phrase *ceteris paribus* or any of the other variations of this condition/phrase. For those candidates who got no mark for this part, some confused the cause and effect of the relationship between price and quantity supplied while others gave the definition of 'supply' for the definition of the law of supply. In addition, some candidates stated that changes in demand or changes in the cost of factors of production cause changes in supply.

Candidate's Response to Part (b) — Sample No. 1

(b) Identify TWO determinants of supply.

Two determinants are:

i) Cost of Factors of Production ✓

ii) Indirect taxation or Subsidies ✓

(2 marks)

Candidate's Response to Part (b) — Sample No. 2

(b) Identify TWO determinants of supply.

Two determinants of supply are: i) Improvement ✓ in technology and ii) Climatic conditions ✓

(2 marks)

Examiner's Comments

In Sample 1, the candidate clearly identified not two but three determinants of supply, namely costs of the factors of production, indirect taxes, and subsidies.

In Sample 2, the candidate identified two appropriate determinants of supply, namely improvements in technology and climatic conditions.

Part (b) was attempted by most candidates. The majority of them correctly identified at least one determinant of supply. Some candidates gave the price of goods and amount demanded as determinants of supply, but Section 3 of the syllabus specifies that "determinants refers to non-price determinants" that cause shifts in supply and demand.

Candidate's Response to Part (c) — Sample No. 1

(c) Explain FOUR determinants of demand.

The first determinant of demand is changes in taste. This is so, because if a population has a change in preference for a product, this will result in either an increase or decrease in demand. For example if a society has an increased preference for Pepsi, the demand for Pepsi will increase. The second determinant of demand is changes in income. If the disposable income of a society increases, this will lead to an increase in spending, which consequently leads to an increase in demand for a product, as the society saves less, as stated by the economic theory. The third determinant of demand is the total population of a country. If a country population increases, due to factors such as migration, inevitably, this will lead to a further increase in demand for goods and services.

(8 marks)

The fourth determinant of demand is the price of substitute goods. For example, if the price of butter increases the demand for margarine increases. This is because if the price of a good increases the demand for its substitute will increase as it is the cheaper alternative.

Candidate's Response to Part (c) — Sample No. 2

(c) Explain FOUR determinants of demand.

1) Consumer's Income - If the good is a normal good, then there is a positive relationship with demand (ie an increase in consumer's income will result in an increase in demand OR if there is a decrease in income there is a decrease in demand) If the good is an inferior good, there is a negative relationship with demand (ie an increase in consumers income will result in a decrease in demand, the opposite holds true).

2) Price of other good - If the good is a substitute good there is a positive relationship with demand (increase in price of other good results in an increase in demand for the good and vice versa) If the good is a complementary good there is an inverse relationship in that an increase in the price of the other good will result in a decrease in demand for the good. The opposite holds true

3) Expectation of a price change - If the price of the good/service is expected to be raised in the future, consumers will increase demand now in order to save. However, if the price of the good is expected to be lowered then demand at present will decrease. **(8 marks)**

4) Advertising - an increase in advertising will result in an increase in demand since advertising keeps the good at the forefront of a person's mind. It also reminds consumers of the benefits or relevance of the good/service to their lives.

Candidate's Response to Part (c) — Sample No. 3

(c) Explain FOUR determinants of demand.

• Income Level - Income level is a determinant of demand because if income increases, quantity demanded will increase as well while if income decrease, people will have less affordability to buy goods/services so demand will decrease.

• Price of ~~the~~ Substitutes (Other goods) - Substitutes are goods that can replace another in the market. If price of substitutes decreases the demand for the good will decrease as the substitute is cheaper. If a substitute price increases the demand for the good will increase.

• Taste/Preferences - If there are more persons preferring a good or an increase in flavour/fragrance the demand for the good will increase.

• Expectations - Its a determinant of demand because if it is expected that prices of a good will increase in the future, there will be an increase in demand for the good right now.

(8 marks)

Examiner's Comments

In Sample 1, the candidate clearly identified four determinants of demand, namely changes in taste, changes in income, changes in population and changes in the price of substitute goods. For each determinant, the candidate fully explained how a change in the determinant resulted in either an increase or decrease in demand.

In Sample 2, the candidate identified four determinants of demand, namely *consumer's income, price of other goods, expectations of price change* and *advertising*. With income, the candidate was able to explain the effect changes in income have on the demand for normal and inferior goods. With prices of other goods, the candidate explained the relationship between changes in prices of substitutes and complements and the effects of those changes on the demand for other substitutes and complements. With the expectation of price changes, the candidate explained the effects of both increases and decreases of prices in future on the current demand for a good. With advertising, the candidate explained how increased advertising of the benefits or relevance of a good or service to consumers could influence their taste and subsequent demand for that good or service.

In Sample 3, the candidate correctly identified four determinants of demand, namely *income level, price of substitutes, taste/preference* and *expectations of price changes*. Although simply written, the candidate was able to demonstrate a very good understanding of how changes in these determinants cause changes in demand. In his/her response, the candidate offered additional explanation. For example, with respect to income, the candidate explained that *a decrease in income means less affordability to buy goods and services*. With respect to prices of substitutes, the candidate gave a definition of substitutes and with respect to taste or preference, the candidate made reference to an increase in the flavour or fragrance of a good causing an increase in demand.

Part (c) was attempted by many candidates. However, very few of them were able to score full marks. The main determinants accepted for this question *were income, number of buyers, taste and preference, prices of related goods* and *consumer expectations of price changes*. However, the majority of candidates who attempted this question gave 'price of the good' as a determinant of demand together with other non-price determinants. Some candidates gave change in the price of substitutes and change in the price of complements as separate determinants and so received marks for only one of these points. Many candidates gave factors such as advertising, seasonal or climatic changes and bandwagon effects. However, these factors were awarded marks only if candidates did not have taste and preference as another factor. In such cases, the candidates were awarded marks for the factor or the fundamental determinant which most correctly explained how a change in this factor caused a change in taste, and subsequently a change in demand. In addition, some candidates gave two, three or four determinants but they either gave a listing of these factors or did not explain how a change in these factors caused an increase or decrease in demand. Some candidates gave responses that were unrelated to determinants of demand including some POB-related concepts and so were unable to obtain any marks.

Candidate's Response to Part (d) (i) — Sample No. 1

(d) A small shop reduced the price of its vanilla ice cream from $0.80 to $0.70 last month. As a result, the quantity of chocolate ice cream demanded decreased from 120 to 100.
old new

(i) Calculate the cross-price elasticity of demand between vanilla ice cream and chocolate ice cream.

$$Xed = \frac{\Delta\%\ Qd\ of\ chocolate\ ice\ cream}{\Delta\%\ Price\ of\ vanilla\ ice\ cream.}$$

$$Xed = \frac{\frac{100-120}{120}\times 100}{\frac{0.70-0.80}{0.80}\times 100} = \frac{-16.67\%}{-12.5\%}$$

$$Xed = 1.33$$

(4 marks)

Candidate's Response to Part (d) (i) — Sample No. 2

(d) A small shop reduced the price of its vanilla ice cream from $0.80 to $0.70 last month. As a result, the quantity of chocolate ice cream demanded decreased from 120 to 100.

(i) Calculate the cross-price elasticity of demand between vanilla ice cream and chocolate ice cream.

$$\frac{\text{percentage change in demand for chocolate ice cream}}{\text{percentage change in price of vanilla ice cream.}}$$

% Δ in demand: $\frac{100-120}{120} = \frac{-20}{120}\times\frac{100}{1} = -16.67\%$

% Δ in price: $\frac{\$0.70-0.80}{0.80}\times\frac{100}{1} = -12.50\%$

Cross-price elasticity: $+1.33$
$= 1.33$

(4 marks)

Examiner's Comments

The samples for Part (d) (i) represent candidates who interpreted this part of the question well and were able to fully apply the formula of cross-price elasticity of demand to the scenario presented. Both candidates used the actual two goods in the formula instead of the hypothetical 'Good X' and 'Good Y' and they gave percentages in the correct parts of their calculations and not as the final value of XED, as many other candidates did.

Part (d) (i) was the least attempted question and many candidates who attempted it failed to complete it or completed it incorrectly. Those candidates who were able to score full marks demonstrated a knowledge of the correct formula for calculating cross-price elasticity of demand (XED) and so were able to arrive at the correct coefficient of XED. Some candidates, however, did not show the formula. In addition, some candidates correctly calculated the percentage changes in the price of one good and the quantity demanded of the other good but mixed up which one was the numerator and the denominator, thereby obtaining an incorrect XED. A few candidates got one mark for partial calculations; however, many candidates showed no knowledge of this concept, performed incorrect calculations, and so earned no marks.

Candidate's Response to Part (d) (ii) — Sample No. 1

(ii) Vanilla ice cream and chocolate ice cream are related goods. Identify the relationship between these two goods and give a reason for your answer.

Vanilla ice cream and chocolate ice-cream are substitute goods and this is so because the price elasticity coefficient is positive and as the price of vanilla ice-cream decreased the quantity demanded for chocolate decreased as well. **(2 marks)**

Candidate's Response to Part (d) (ii) — Sample No. 2

(ii) Vanilla ice cream and chocolate ice cream are related goods. Identify the relationship between these two goods and give a reason for your answer.

They are related as substitutes because when the price of vanilla ice cream decreases, the quantity demanded for chocolate ice cream decreased. A positive XED also indicates a substitute.

(2 marks)

Examiner's Comments

In Sample 1, the candidate correctly identified the relationship between the two goods (vanilla ice cream and chocolate ice cream) as substitute goods based on the positive coefficient of XED obtained in the previous part of the question. The candidate then went on to correctly explain the meaning of this positive relationship.

In Sample 2, the candidate was able to identify that the two goods are substitutes based on the responsive change in quantity demanded of one good to the specific change in the price of the other good. The candidate further added that a positive XED indicates that the goods are substitutes.

Part (d) (ii) was attempted by many candidates. Those candidates who obtained full marks were able to use the scenario and the correctly calculated cross-elasticity of demand in Part (d) (i) to identify and explain the relationship between the two goods. Some candidates were able to identify the goods as substitutes but were unable to give the reason for their response. Other candidates only identified the relationship as positive or described the positive relationship. Some correctly described the positive relationship but referred to the two goods as 'complementary goods', 'subsidies' or 'alternatives'. Some candidates gave the definition for substitute goods instead of using the scenario in Part (d) (i) to describe the relationship. Candidates who did poorly did not apply any economic concept in their responses; rather, they mentioned the ingredients, taste, nature, and storage of these goods as reasons for the relationship.

Recommendations

Teachers are encouraged to do the following:

- Reinforce the full meanings of the laws of demand and supply from time to time with students for them to properly internalize these concepts.

- Adequately explain the cause and effect between price and quantity demanded and price and quantity supplied, since many candidates confused these relationships. There also needs to be an awareness of the difference between demand and quantity demanded as well as supply and quantity supplied.

- Indicate to students that the price of a good should not be treated as a determinant of demand and reinforce that only non-price factors are determinants of demand. In order to achieve this, teachers should keep reviewing the difference between change in quantity demanded and change in demand from time to time with students. Further, students need to understand the fundamental determinants of demand.

- Engage students in a few numerical examples of the various elasticity of demand concepts, (in this case, cross-price elasticity of demand), in order to equip them to correctly calculate required elasticities.

- Help students to correctly interpret and explain the calculated elasticities of demand by exposing them to a few practical examples. In the case of cross-price elasticity of demand, teachers should clearly teach students how calculated values indicate whether goods are substitutes or complements.

Question 2

This question assessed candidates' understanding of Section 2 of the syllabus. The question tested candidates' ability to

- define the terms *capital* and *entrepreneurial talent*
- identify two of the main sectors in an economy
- describe how a decrease in the rent of factory space for a manufacturing firm affects
    - variable cost
    - total cost
    - average total cost
    - marginal cost
- draw a diagram to show fixed, variable and total cost curves based on a given production scenario.

The overall performance of this question was poor. Approximately 4984 candidates attempted this question. The question has a mean of 4.42 out of 20.

Candidate's Response to Part (a) (i) — Sample No. 1

2. (a) Define EACH of the following terms:

(i) Capital

Capital refers to the machinery and tools used in the production of goods and services.

(2 marks)

Candidate's Response to Part (a) (i) — Sample No. 2

2. (a) Define EACH of the following terms:

(i) Capital

Capital is the machinery or tools used by a firm to aid with production or manufacturing goods. The reward for this is interest.

(2 marks)

Examiner's Comments

The candidate's response in Sample 1 was outstanding. The candidate was able to recognize that capital is a tool or machinery used specifically in the production of goods and services.

In Sample 2, the candidate was able to recognize that capital is a machinery or tool used in the production of goods. However, the word 'services' should have been included.

Part (a) (i) was fairly done. Most candidates provided a partial definition of the term *capital* by stating it as a tool or technology necessary for the production of goods and services. On the other hand, there were candidates who defined capital in terms of its reward, interest or as money; such response earned zero marks.

Candidate's Response to Part (a) (ii) — Sample No. 1

(ii) Entrepreneurial talent

Entrepreneurial talent is the ability to combine all the other 3 factors of production and produce a good or service.

(2 marks)

Candidate's Response to Part (a) (ii) — Sample No. 2

(ii) Entrepreneurial talent

Entrepreneurial talent is the skill used by entrepreneurs where they combine the factors of production to produce a good or service in the economy.

(2 marks)

Candidate's Response to Part (a) (ii) — Additional Script

(ii) Entrepreneurial talent

This refers to the ability to be innovative and creative as well as take risks in co-ordinating the other factors of production to produce finished goods to satisfy

(2 marks)

Examiner's Comments

These three samples represented outstanding responses. The candidates were able to identify entrepreneurial talent as an ability to combine all the other factors of production to produce goods and services.

Generally, Part (a) (ii) was only fairly done. Most candidates did not demonstrate a clear understanding of the term and many incorrectly stated that the term specifically referred to a person who started a business for profit.

Candidate's Response to Part (b) — Sample No. 1

(b) Identify TWO of the **main** sectors in an economy.

(1) ~~Government~~ Primary or Extractive eg Agriculture

(2) ~~Firms~~ Secondary eg Manufacturing

(2 marks)

Candidate's Response to Part (b) — Sample No. 2

(b) Identify TWO of the **main** sectors in an economy.

- Primary
- Secondary

(2 marks)

Examiner's Comments

The samples represent outstanding responses. In Sample 1, the candidate was able to recognize that the two sectors of the economy are primary/extractive (agriculture) and secondary (manufacturing) while the candidate in Ssmple 2 identified the two sectors as simply primary and secondary.

Part (b) was poorly done. Very few candidates were able to identify the sectors of the economy as primary, secondary and tertiary. Candidates either included inaccurate responses such as 'government', 'firms', 'consumers' or 'public and private sectors'. Some candidates did not attempt the question.

Candidate's Response to Part (c) (i)—(iv) — Sample No. 1

(c) The rent for the factory space of a manufacturing firm is decreasing. Describe how EACH of the following FOUR production costs for the firm will be affected:

(i) Variable cost

Variable cost is the amount paid for factors of production that constantly change according to output produced, eg: raw materials. As such, if the rent is decreasing it has no effect on variable cost as rent is considered a fixed cost.

(ii) Total cost

Total cost is the total variable cost added to total fixed cost. Since rent is a fixed cost and it is decreasing, it would cause the total cost to decrease as well.

(iii) Average total cost

Average total cost is the total amount paid to produce one unit of output. (Total cost ÷ total output) Since the rent is decreasing, which caused total cost to decrease, there would now be a lower cost attached to each unit of output so average total cost would decrease.

(iv) Marginal cost

Marginal cost is the expenses incurred when one additional unit of output is produced. Marginal cost is dependent on variable factors as fixed factors remain the same no matter how many units of production. As such, if the firm produces 5 or 6 units, the decrease in rent does not change the marginal cost to produce the 6th unit. **(8 marks)**

Candidate's Response to Part (c) (i)—(iv) — Sample No. 2

(c) The rent for the factory space of a manufacturing firm is decreasing. Describe how EACH of the following FOUR production costs for the firm will be affected:

(i) Variable cost

The variable cost will remain the same as rent is a fixed cost and not a variable factor.

(ii) Total cost

The total cost will fall as TC = TFC + TVC. Rent is a fixed cost so the Total Fixed Costs will ~~rise in turn~~ reduce as rent decreases. Since Total Fixed Costs make up total costs the total Cost will fall.

(iii) Average total cost

The Average total cost will fall as ATC = $\frac{TC}{output}$. The ATC will fall as the Total Cost falls due to total fixed Costs falling yet yet the output ~~Remains~~ remains the same. The only change here will be TC leading to a fall in ATC.

(iv) Marginal cost

The Marginal Costs will remain the same as ~~a~~ a reduction in Fixed cost will not affect Marginal Costs for every level of output. Since affects every level when calculating MC the result will be the same. $MC = TC_n + TC_{n+1}$

(8 marks)

Examiner's Comments

Samples — Outstanding

For Part (c) (i), both candidates recognized that there would be no effect on variable cost since rent is a fixed cost. In Sample 2, the candidate further explained that a fixed cost does not vary with changes in output.
For Part (c) (ii), the candidates were both able to demonstrate a complete grasp that since rent is a fixed cost, it is a component of total cost. A fall in rent would therefore mean a decrease in total cost.
For Part (c) (iii), both candidates were able to identify the accurate effect on average total cost as a decrease and then explain that it was because of a fall in total costs.
For Part (c) (iv), the candidates demonstrated a complete grasp that there would be no change in marginal revenue since it is not affected by the change in fixed cost.

Overall Performance

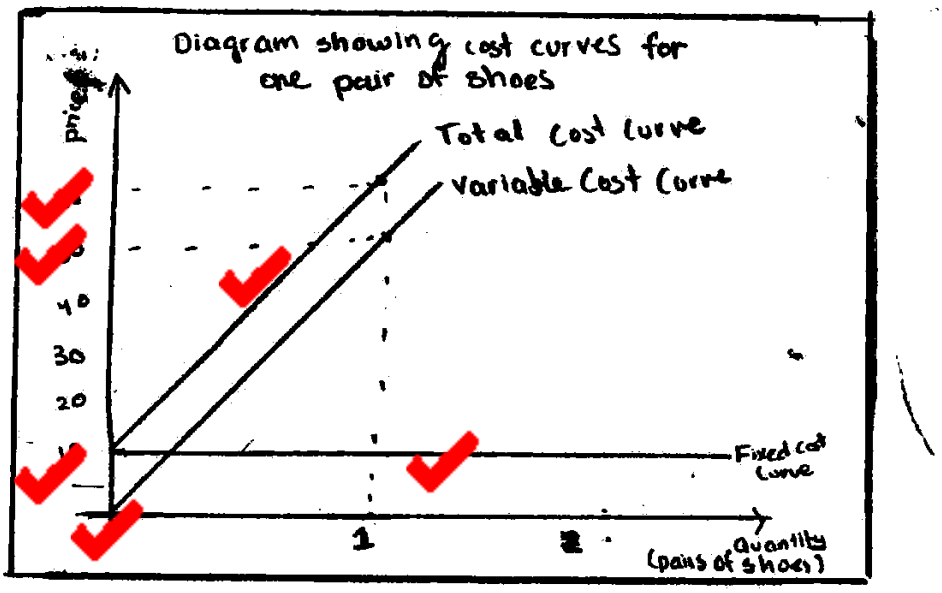
Part (c) was fairly done.

- Variable Cost: Most candidates failed to recognize that a decrease in rent did not have any effect on variable cost, as it is a fixed cost. In addition, some candidates confused rent as being a variable cost.
- Total Cost: The majority of candidates accurately stated that total cost would decrease. Further, most responses correctly described that the reason for the decline was due to total cost which is calculated as the sum of the variable and fixed cost, where rent as a fixed cost decreased.
- Average Total Cost: Most candidates correctly indicated that average total cost would decline. However, few identified the precise cause for the fall as due to the fall in total cost. Instead, many candidates simply stated the formula to calculate the average total cost.
- Marginal Cost: Many candidates scored zero in this response. Most candidates were unable to identify that marginal cost would remain unchanged since it was not affected by rent as a fixed cost.

Candidate's Response to Part (d) — Sample No. 1

(d) An economics teacher is teaching her students the concept of cost curves. The teacher calculated the costs incurred by a small firm that sold only five pairs of shoes in the past week. She finds that the firm's fixed cost is $10 and its variable cost is $50 for making the first pair of shoes.

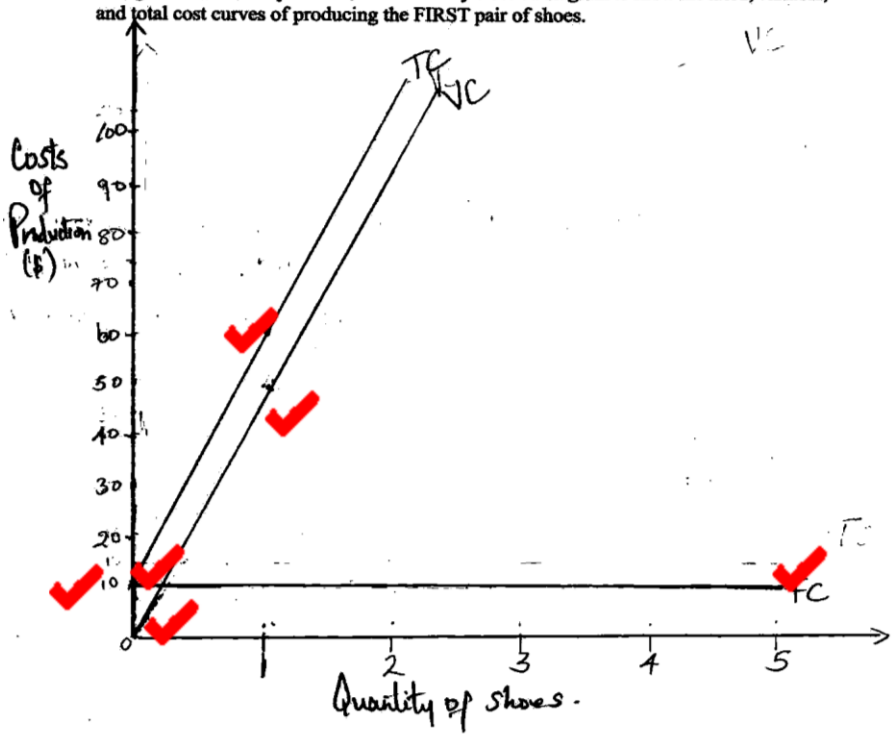
Using the information provided, draw a clearly labelled diagram to show the fixed, variable, and total cost curves of producing the FIRST pair of shoes.



Candidate's Response to Part (d) — Sample No. 2

(d) An economics teacher is teaching her students the concept of cost curves. The teacher calculated the costs incurred by a small firm that sold only five pairs of shoes in the past week. She finds that the firm's fixed cost is $10 and its variable cost is $50 for making the first pair of shoes.

Using the information provided, draw a clearly labelled diagram to show the fixed, variable, and total cost curves of producing the FIRST pair of shoes.



Examiner's Comments

In both samples, the candidates' responses were outstanding. The candidates were able to identify fixed cost as $10 and illustrate using the horizontal line for all unit values. They were also able to demonstrate a complete grasp of the total cost and variable cost curves for 1 unit as beginning from $10 and the origin respectively.

Part (d) was fairly done.

- Fixed Cost: Most candidates correctly illustrated the fixed cost curve as a horizontal line beginning at the $10 cost value, as labelled on the x-axis.
- Variable Cost: Many candidates were able to draw variable cost as beginning at the point of the origin but failed to indicate that a value of $50 was the cost associated with the quantity level of one pair of shoes.
- Total Cost: The majority of candidates was unable to graphically represent the total cost curve as starting at the point of fixed cost of $10 and further to demonstrate a value of $60 as the total cost associated with manufacturing one pair of shoes.

Recommendations

Teachers are encouraged to

- develop students' understanding of the factors of production by demonstrating their specific roles in an economy
- engage students with practical examples of costs curve; such examples will focus on developing the students' ability to calculate production costs and to plot cost curves.

Question 3

This question tested candidates' understanding of Section 3 of the syllabus. The mean score was 6.61. The question tested candidates' ability to

- define the terms *market structure* and *market failure*
- identify two types of market structures characterized by many sellers
- explain why the following are considered cause of market failure:
  - externalities
  - public goods
- complete a diagram by including price and cost curves based on a market structure that is characteristic of zero economic profit
- explain why there is zero economic profit in the given scenario.

The overall performance of this question was poor. Approximately 4984 candidates attempted this question. The question has a mean of 3.58 out of 20. No candidate earned maximum mark for this question.

Candidate's Response to Part (a) (i)

3. (a) Define EACH of the following terms:

(i) Market structure

- Are the features that determine the behaviour and performance of firms in the industry.

(2 marks)

Examiner's Comments

The candidate's definition of *market structure* was concise.

Part (a) (i) was attempted by most candidates. In many instances, candidates obtained the two marks allotted to this question, since they were able to correctly define market structure as it relates to the behaviour and performance of firms. However, a significant proportion of candidates provided only partial responses, for which they were only awarded one mark. In several cases, candidates simply listed the types of market structures (perfect competition and monopoly), and/or the characteristics used to determine these market structures, (number of buyers and sellers). While this indicated that the candidates had some knowledge of the concept, it was insufficient to determine whether they fully understood it. In other instances, candidates totally confused the terms *market* and *market structure* and as such, could not be awarded any marks.

Candidate's Response to Part (a) (ii)

(ii) Market failure

– Is the inability of the market to allocate resources effecientlyto best satisfy society's wants and needs

(2 marks)

Examiner's Comments

Market failure was succinctly described in the candidate's response.

Part (a) (ii) was attempted by most candidates. There were several instances where candidates showed a clear understanding of the concept and were therefore able to obtain maximum marks for their responses. However, in their attempt to define market failure, many candidates failed to recognize that it is not only an inability of the market to allocate or distribute resources, but to do so efficiently. In some cases, there were candidates who focused only on firms' inefficiencies rather than the entire market's inefficiency. Further analysis showed that on many occasions, candidates simply equated market failure with disequilibrium in the goods market. Hence, many responses sought to explain market failure as a situation where demand was greater than supply. Some also went on to explain that it was 'a firm's inability to supply sufficient goods (and services) to meet consumers' demand'. Overall, it was observed that only a small percentage of candidates earned full marks for Part (a) of the question, with a relatively larger percentage earning one mark. An unacceptably large number of candidates earned no marks, mainly because of incorrect responses. A few "no-response" were recorded.

Candidate's Response to Part (b)

(b) Identify TWO types of market structures characterized by many sellers.

1) Perfect Competition

2) Monopolistic Competition

(2 marks)

Examiner's Comments

The candidate interpreted and answered the question correctly.

Generally, Part (b) was well done; a significantly large number of candidates demonstrated knowledge and understanding of the concept and were therefore able to earn full marks. Although some candidates failed to obtain the two marks, many were able to correctly identify at least one of the market structures, particularly, *perfect competition*. However, in a few cases, there was clear evidence of candidates' misinterpretation or misunderstanding of the concept. Their responses related to economic systems such as 'free market' and 'planned economy'), rather than market structures. Further, there were instances where candidates' responses inferred that perfect competition was synonymous with the free market economy.

Part (c)

Part (c) required candidates to relate their knowledge of externalities and public goods, to market failure. Overall, the question was poorly done. While many candidates demonstrated some knowledge of both concepts, they lacked the ability to apply such knowledge to correctly answer the question. Only a few responses captured the pertinent details which showed or explained why externalities and public goods cause market failure.

Candidate's Response to Part (c) (i)

(c) Explain why EACH of the following are considered as causes of market failure:

(i) Externalities

There Are the spill over effects that fall on a third party due to the exchange between a producer and consumer. When it is negative or harmful too much of the good is being produced. When it is positive too little of the good is being produced The result is market failure

(4 marks)

Examiner's Comments

The response was comprehensive. It captured the key details that clearly outlined how externalities cause market failure.

For Part (c) (i), in some cases, candidates were only able to identify the types of externalities; that is, negative and positive externalities. Although some responses went on to provide examples of both negative and positive externalities, they failed to show why they give rise to market failure. In other instances, candidates' responses suggested that externalities were only negative or "bad". In several instances, candidates misunderstood or showed no knowledge of the concept. Hence, their responses alluded to externalities being imported goods that serve as strong competitors to domestic goods, giving rise to market failure.

Candidate's Response to Part (c) (ii)

(ii) Public goods

PG are goods that are collectively consumed by society. They are non-excludable and non exaustible. Examples include street lights, defence and the fire service. Because they are non excludable and exaustible opportunity cost is zero. No firm is willing to produce them as they are not profitable. This may result in a lack or shortage which leads to market failure. **(4 marks)**

Examiner's Comments

In explaining how public goods cause market failure, this candidate provided the reader with relevant details. The response was clear and to the point.

For Part (c) (ii), candidates often ignored the question and only focused on discussing the characteristics of public goods. Again, like with externalities, there were several instances where candidates showed little or no knowledge. Many responses suggested that public goods cause market failure simply "because they are provided by the government". There was very little discussion about the market inefficiencies that lead to market failure.

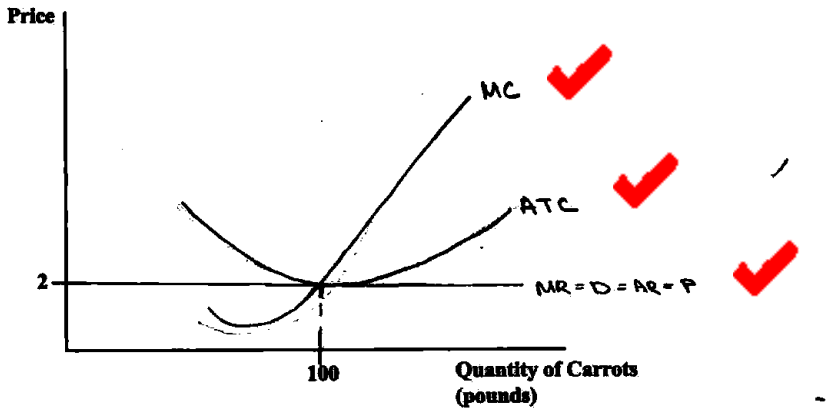
Part (d)

In Part (d), for a total of 6 marks, candidates were required to draw on their knowledge of economic profit. However, candidates rarely scored above 3 on this question. In fact, the scores mainly ranged from 0 to 2. A major factor which contributed to such low scores was candidates' failure to attempt the question. More "No Response" were recorded for this than for any other part of question 3.

Candidate's Response to Part (d) (i)

(d) Zero economic profit is a characteristic of a certain type of market structure. For instance, the local carrot industry sells 100 pounds of carrots at $2 per pound. The local carrot industry has many sellers and many buyers.

(i) Using the information given above, complete the diagram below by including the price and cost curves.



(3 marks)

Examiner's Comments

The diagram illustrating zero economic profit was accurately drawn and labelled.

In most instances for Part (d) (i), candidates scored 0 out of 3 either because they omitted the question or misinterpreted it. For example, some candidates inserted demand and supply curves rather than the required cost curves. Similarly, many inserted the fixed cost curve instead of the price curve. In cases where the correct curves were drawn, the equilibrium position was often incorrect, thereby resulting in less than full marks being awarded. Nevertheless, a few candidates were able to correctly interpret and analyse the information provided. Not only did they accurately illustrate the diagram showing zero (long-run) economic profit, but they also recognized that it was in a perfectly competitive market. For this, they were awarded full marks.

Candidate's Response to Part (d) (ii)

(ii) **Using the diagram in (d) (i), explain why there is zero economic profit in the local carrot industry.**

There is no economic profit as Average costs is equal to average revenue and sellers are not able to raise costs of the product as the ~~firm~~ market mentioned is perfectly competitive meaning they have to sell at marked price.

(3 marks)

Examiner's Comments

In reference to the diagram, this candidate was able to explain why zero economic profit was earned. Except for the use of the word 'cost' instead of *price*, (which was later corrected in the response), the candidate's explanation was thorough.

For Part (d) (ii), in attempting to explain why there was zero economic profit in the industry, many candidates identified the type of market structure (perfect competition) as the main reason. While this allowed candidates to earn one mark, it fell short of what was required for the three marks allotted to the question. Very few candidates referred to key factors such as *the price-taking characteristic of the industry's firms* or to their *production costs being equal to related revenues*. Only a small percentage of the responses was comprehensive enough to be awarded full marks.

Recommendations

- Teachers should devise different strategies to ensure that students have a clear understanding of those concepts that they are likely to confuse with others. For example, teachers can engage students in activities that emphasize key differences between market and market structure.

- The three Suggested Teaching and Learning Activities found at the end of Section 4 in the syllabus should be employed to facilitate attainment of the objectives.

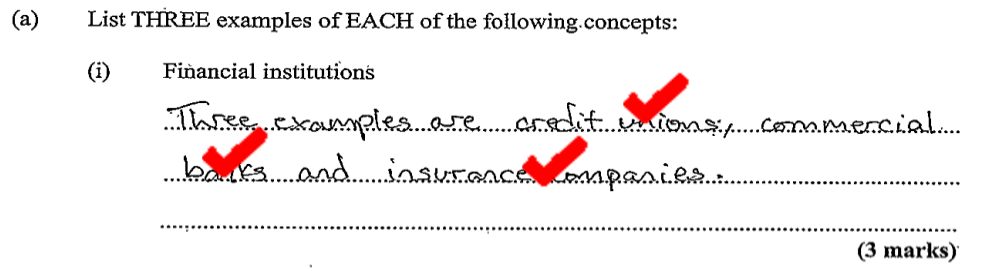
Question 4

This question tested candidates' understanding of Section 5 of the syllabus. The mean score was 4.58. The question tested candidates' ability to

- list three examples of the concepts:
  - financial institutions
  - financial instruments
- explain the specific action a central bank may take to increase the supply of money using the four tools which may be employed as part of a country's monetary policy to control the supply of money
- use the value of financial assets in a country to calculate M0, M1 and M2.

The overall performance of this question was poor. Approximately 4984 candidates attempted this question. The question has a mean of 4.57 out of 20. No candidate earned maximum mark for this question.

Candidate's Response to Part (a) (i)



(a) List THREE examples of EACH of the following concepts:

(i) Financial institutions

Three examples are credit unions, commercial banks and insurance companies.

(3 marks)

Examiner's Comments

The candidate correctly listed three types of financial institutions.

Part (a) (i) was done well by most candidates; these candidates earned at least two of out three marks for correctly listing three types of financial institutions. Some candidates gave specific examples of financial institutions, which were acceptable answers. Weaker candidates, however, either did not answer this part of the question or just stated 'banks' as their answer for financial institutions.

Candidate's Response to Part (a) (ii)

(ii) Financial instruments

Three examples ~~are~~ are municipal bonds, corporate bonds and equity securities.

(3 marks)

Examiner's Comments

This candidate correctly listed three types of financial instruments.

Part (a) (ii) was fairly done. Like Part (a) (i), many candidates earned at least two marks. Candidates who stated that money was a financial instrument were not rewarded marks as that was too broad an answer.

Candidate's Response to Part (b)

(b) There are FOUR tools which a central bank may use as part of a country's monetary policy to control the supply of money. Explain the specific action the central bank may take to increase the supply of money, using these FOUR tools.

1. Decrease Reserve Requirement Ratio – this is the percentage of all deposits that must be stored in a bank's vault. By decreasing it, their ability to create credit increases and more money is available for loans, etc.
2. Decrease Bank rates – this is the interest charged on loans. By decreasing it, loans become cheaper and more accessible, thereby increasing the money supply.
3. Decrease repo rates – this is the rate at which the Central Bank provides overnight liquidity to commercial Banks. By decreasing it, interest rates also become cheaper, leading to more loans.
4. Open Market Operations (OMOs) – this is the buying and selling of treasury bills, notes and bonds on behalf of the Government. By buying more bills/bonds, the government gives money to the sellers, therefore increasing the money supply.

(8 marks)

Examiner's Comments

This candidate thoroughly explained how a central bank could use four monetary tools to increase the supply of money.

Part (b) was poorly done as many candidates did not provide an answer for this part of the question. Furthermore, many candidates did not understand that increasing the money supply was a monetary policy issue. Consequently, many candidates offered fiscal policy responses. For example, many responses indicated that 'increasing government spending' or 'changing tax rates' would increase money supply. Some candidates gave monetary policy solutions but failed to recognize that the question asked about *increasing* money supply and not simply 'changing' money supply. A few candidates provided correct monetary policy tools to increase money supply. Not many candidates scored more than six out of a maximum of eight points for this part of the question.

Candidate's Response to Part (c) (i) — Sample No. 1

Using the information in Table 1, calculate EACH of the following types of money. (Show all working)

(i) M0 = Cash in bank vaults $200 + cash held by the public $100 = $300 million

(2 marks)

Candidate's Response to Part (c) (i) — Sample No. 2

Using the information in Table 1, calculate EACH of the following types of money. (Show all working)

(i) M0 = 200 + 100 = $ 300 million

(Cash and Bank reserves alone)

(2 marks)

Examiner's Comments

In both exemplars, the candidates calculated M0 correctly.

Candidate's Response to Part (c) (ii)

(ii) M1 = 200 + 100 + 250 = $ 550 million

(All m1 money plus demand deposit)

(2 marks)

Examiner's Comments

The candidate calculated M1 correctly.

Candidate's Response to Part (c) (iii)

(iii) M2 = M1 660 + Savings account deposits 305 + Certificate of deposit $20 = 985 million

(2 marks)

Examiner's Comments

Although this candidate calculated M1 incorrectly, the correct components were included when calculating M2.

Parts (c) (i), (ii), and (iii) were poorly done. Many candidates did not recognize that the latter measures/definitions of money were dependent on their earlier calculations/measures (M2 depended on M1 and M1 depended on M0). A small proportion of candidates calculated M0 correctly and very rarely did candidates correctly calculate M1 and M2.

Recommendations

Teachers are encouraged to do the following:

- Find creative ways to help students understand what financial institutions are and what their main purpose/objective/goal is.
- Explain what constitutes a financial instrument and use creative ways to help students understand them.
- Use real-world examples when teaching monetary policy tools. This is likely to help students better understand these concepts. Also, teachers could explain how various monetary policy tools would lead to a particular outcome. Furthermore, teachers should be intentional in differentiating between fiscal and monetary policies and how the two are used to achieve their intended purposes.
- Properly define the different measures of money and how these measures are interconnected. It is also a good idea to use examples when calculating these measures of money, and test students' understanding of the concepts. It is also recommended that teachers use slightly different wording for the relevant components of each measure. In doing this, students would be exposed to potential variations of these components which they may see in an examination.

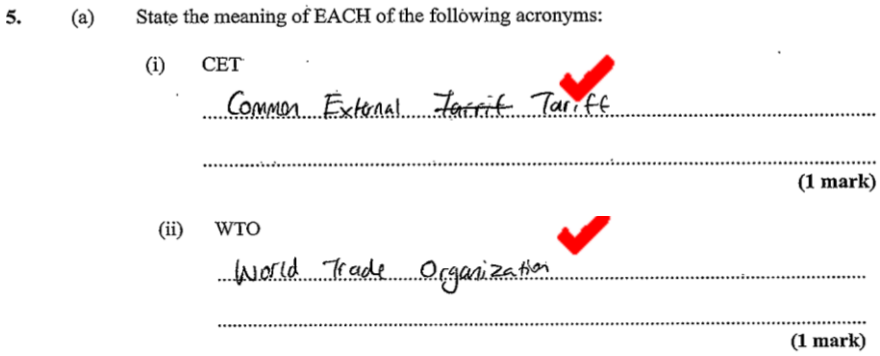
Question 5

This question tested candidates' understanding of Sections 7 and 8 of the syllabus. The mean score was 4.86. The question tested candidates' ability to

- state the meaning of the acronyms CET and WTO
- differentiate between the following economic concepts:
  - Absolute advantage and comparative advantage
  - Balance of trade and balance of payments
- explain how an increase in interest rates can improve the current account of the balance of payments
- explain how a current account surplus on the balance of payments can increase employment
- calculate, based on information from a current account:
  - the value of export of goods
  - the value of the current account
- suggest two policies which may be used to address the current account deficit.

The overall performance of this question was poor. Approximately 4984 candidates attempted this question. The question has a mean of 4.83 out of 20. Three candidates earned maximum mark for this question.

Candidate's Response to Part (a) (i)—(ii) — Sample No. 1


5. (a) State the meaning of EACH of the following acronyms:

(i) CET

Common External ~~Tarrif~~ Tariff

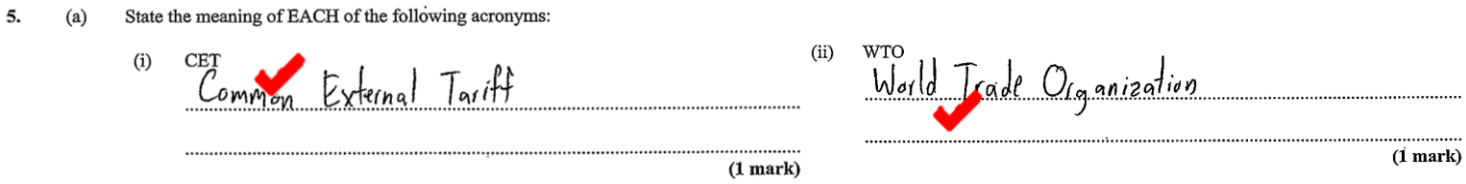
(1 mark)

(ii) WTO

World Trade Organization

(1 mark)

Candidate's Response to Part (a) (i)—(ii) — Sample No. 2


5. (a) State the meaning of EACH of the following acronyms:

(i) CET

Common External Tariff

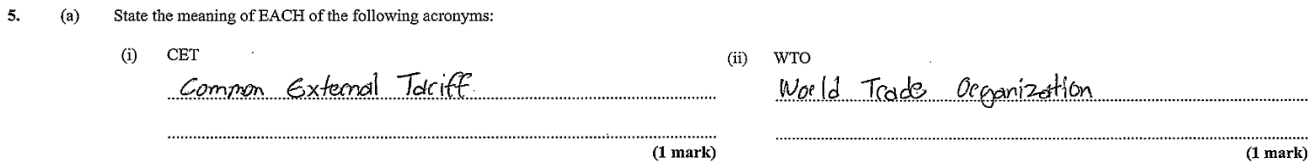
(1 mark)

(ii) WTO

World Trade Organization

(1 mark)

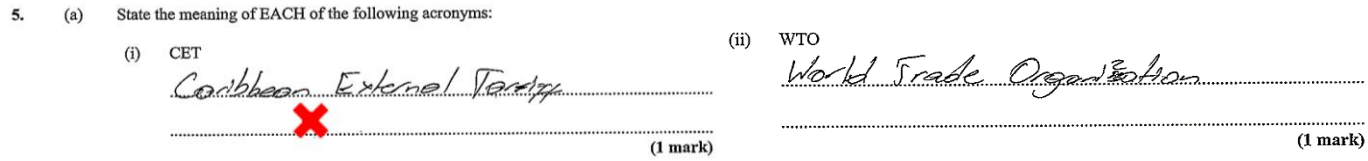
Candidate's Response to Part (a) (i)—(ii) — Sample No. 3


5. (a) State the meaning of EACH of the following acronyms:

(i) CET — Common External Tariff — (1 mark)

(ii) WTO — World Trade Organization — (1 mark)

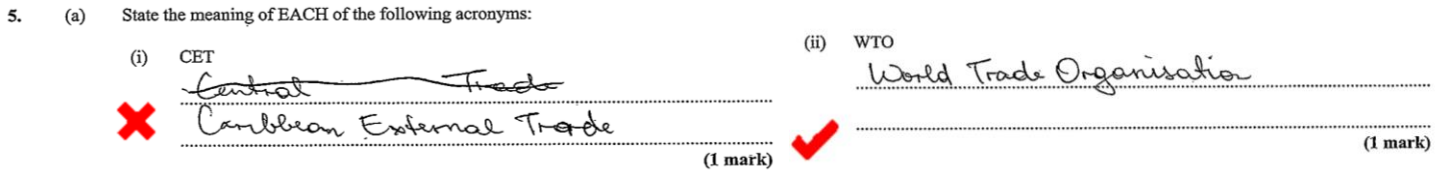
Candidate's Response to Part (a) (i)—(ii) — Sample No. 4


5. (a) State the meaning of EACH of the following acronyms:

(i) CET — Caribbean External Tariff — (1 mark)

(ii) WTO — World Trade Organization — (1 mark)

Candidate's Response to Part (a) (i)—(ii) — Sample No. 5


5. (a) State the meaning of EACH of the following acronyms:

(i) CET — ~~Central Trade~~ Caribbean External Trade — (1 mark)

(ii) WTO — World Trade Organisation — (1 mark)

Examiner's Comments

The candidates in Samples 1, 2 and 3 were able to identify the meanings of the acronyms: (CET) as Common External Tariff and (WTO) as World Trade Organization. Candidates in Samples 4 and 5 both had challenges with CET.

Generally, for Part (a) (i), the majority of candidates was either unable to correctly identify the acronym CET as Common External Tariff or simply provided no response. For Part (a) (ii), the majority of candidates was able to identify the acronym WTO as World Trade Organization.

Candidate's Response to Part (b) (i)—(ii) — Sample No. 1

(b) Differentiate between EACH of the following pairs of economic concepts:

(i) Absolute advantage and comparative advantage

Absoluk advantage is when 2 similar countries are given the same input but one country produces ~~the~~ a good more efficiently than the other whereas comparative advantage is when 2 different countries produce 2 of the same goods but one country ~~produces one good~~ sacrifices less to produce one good over the other.

(2 marks)

(ii) Balance of trade and balance of payments

Balance of trade ~~is~~ shows the imports and exports of a country for both visible and invisible trade whereas balance of payments ~~is~~ shows the transactions between one country and the rest of the world in a given time period.

(2 marks)

Candidate's Response to Part (b) (i)—(ii) — Sample No. 2

(b) . Differentiate between EACH of the following pairs of economic concepts:

(i) Absolute advantage and comparative advantage

Absolute advantage is the ability ~~to~~ of a country to produce more goods and services than another country using the same resources while comparative advantage is the ability of a country to produce more goods and services at a lower opurtunity cost than another country.

(2 marks)

(ii) Balance of trade and balance of payments

Balance of trade is the total Exports minus the total imports of an economy while blance of payments is a record to show all the transations between a country and all of its international traders over a period of time (usually a year)

(2 marks)

Candidate's Response to Part (b) (i)—(ii) — Sample No. 3

(b) Differentiate between EACH of the following pairs of economic concepts:

(i) Absolute advantage and comparative advantage

Absolute advantage is a country's ability to produce more of any good with the same amount of resources. Comparative advantage is the country's ability to produce a good at a lower opportunity cost to the another country.

(2 marks)

(ii) Balance of trade and balance of payments

Balance of trade is the difference of all visible & invisible Exports and imports while Balance of payment is the record of ~~a countries~~ country's transactions with the rest of the world.

(2 marks)

Candidate's Response to Part (b) (i)—(ii) — Sample No. 4

(b) Differentiate between EACH of the following pairs of economic concepts:

(i) Absolute advantage and comparative advantage

Absolute advantage is simply who can produce more given the same amount of resources while comparative advantage is who can produce more at a lower opportunity cost

(2 marks)

(ii) Balance of trade and balance of payments

Balance of trade is the difference in volue of imports and exports flowing in and out of a country which the balance of payment is the difference in the value of all funds and assets coming into and out of a country.

(2 marks)

Examiner's Comments

In Samples 1–3, candidates competently differentiated between absolute and comparative advantage, and balance of trade and balance of payments. However, in Ssmple 4, the candidate competently differentiated between absolute and comparative advantage but did not grasp the concept of the balance of payments.

Part (b) (i) was fairly completed as a majority of candidates were able to differentiate between absolute advantage and comparative advantage. More competent candidates were able to explain *absolute advantage* as *the ability of the country to produce more goods given its resources* and *comparative advantage* as *the ability to produce the good in which it has a lower opportunity cost*. Weaker candidates mixed up both concepts and were unable to distinguish comparative advantage using the key word *lower* to describe the opportunity cost in producing the good.

Part (b) (ii) was fairly completed as the majority of candidates was able to differentiate between balance of trade and balance of payments. More competent candidates were able to identify the *balance of trade* as *the difference between imports and exports* and *balance of payments* as *the transactions between the country and the rest of the world*. However, weaker candidates were unable to differentiate between the two. Weaker responses explained balance of payments as outflows and inflows and could not be awarded the required mark.

Candidate's Response to Part (c) — Sample No. 1

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

An increase in interest rates can improve the current account of the balance of payments because increasing interest rates will cause there to be less money in the economy therefor it will be more expensive for residents to import and so the residents will be encouraged to buy locally rather than import. This will therefor result in a favourable visible and invisible trade balance.

(4 marks)

Examiner's Comments

This candidate sufficiently explained how an increase in interest rates can improve the current account balance of the balance of payments.

Candidate's Response to Part (c) — Sample No. 2

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

To improve the current account of the balance of payments we would want inflows to be greater than outflows (exports exceeding imports). To do this we would want domestic citizens to import less goods from abroad. If interest rates increases, consumers are more likely to save their money rather than spend it on imports. This would improve the current account of the balance of payments as the total imports would decrease.

(4 marks)

Examiner's Comments

This candidate demonstrated the ability to explain how an increase in interest rates can improve the current account balance of the balance of payments. However, it was clear that the candidate could not link net exports to the improvement in the current account.

Candidate's Response to Part (c) — Sample No. 3

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

If the intrest rates increase it discourages people from importing too many goods. This benefits the balance of payment current account as it causes exports to rise against imports resulting in a a surplus. This is a good thing because it now means the country is not in debt and they are earning money from trade.

(4 marks)

Examiner's Comments

This candidate demonstrated the ability to explain how an increase in interest rates can improve the current account balance of the balance of payments.

Candidate's Response to Part (c) — Sample No. 4

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

If Intrest rates are increased this limits the amount of money that housholds and firms will borrow. As a result of this the housholds and firms will have less disposable income as money is taken out of the supply. This causes them to spend less in imports ~~and~~ ~~more~~ ~~put~~ and spend more in local products. This not only decreases total import but give local firms more money to ~~produ~~ increase exports **(4 marks)**

Surplus → More money contraint → more money [illegible]

Examiner's Comments This candidate demonstrated the ability to explain how an increase in interest rates can improve the current account balance of the balance of payments.

Candidate's Response to Part (c) — Sample No. 5

(c) Explain how an increase in interest rates can improve the current account of the balance of payments.

Current accounts deals with the import and exports of a country. Therefore as interest rates increase this means that residents will be borrowing less and spending less money. Because they borrow and spend less money to save themselves from the increase. The imports of the country (outflows) decreases. This decrease in imports allows the current amount of exports to further improve the current accounts of the balance of payment (exports – imports)

(4 marks)

Examiner's Comments

This candidate demonstrated the ability to explain how an increase in interest rates can improve the current account balance of the balance of payments.

Part (c) was challenging as the majority of candidates was unable to explain how interest rates can improve the current account balance. Better responses explained the reduction in spending because of the increase in interest rates leading to a decrease in imports as borrowing became more expensive. The reduction in imports led to more being spent locally and the decrease in imports leading to an improvement in the current account. However, weaker responses incorrectly explained an increase in investment flows as a result of the increase in the interest rates. It should be noted that the majority of candidates could not link the net increase in exports as a result of the fall in imports.

Candidate's Response to Part (d) — Sample No. 1

(d) Explain how a current account surplus on the balance of payments can increase employment.

If there is a current account surplus, this means that the country is exporting more than it is importing. Therefore in order to produce the goods and services that are to be exported, people must be hired to do these jobs. Therefore employment increases because in order to keep up with the producing of the goods (and service) for export, more people must be hired to do the jobs.

(4 marks)

Candidate's Response to Part (d) — Sample No. 2

(d) Explain how a current account surplus on the balance of payments can increase employment.

If there is a current account surplus on the balance of payments that means the total exports is greater than the total imports. This means the demand for locally produced goods is high therefore industries will need more workers to improve efficiency in the company. In Conclusion as demand for local products increases, firms will want to increase employment to either be more efficient or increase the total supply quantity supplied.

(4 marks)

Candidate's Response to Part (d) — Sample No. 3

(d) Explain how a current account surplus on the balance of payments can increase employment.

This can increase employment because it means more goods are being exported than goods imported. It provides jobs such as packaging and delivery and jobs in the shipping industry as the demand for exports rises the need for more workers in this industry also increases to maintain efficiency.

(4 marks)

Candidate's Response to Part (d) — Sample No. 4

(d) Explain how a current account surplus on the balance of payments can increase employment.

Surplus → More money coming in → more money circulating
Increase employment, individuals income
By there is a current account surplus that means there is more coming in that going out this results in the government having more money to pump into the economy when this is done there is more consumption leading to increased profit for firms allowing them to hire more people as they can and both want to do so as well as need to do so to meet demand.

(4 marks)

Candidate's Response to Part (d) — Sample No. 5

(d) Explain how a current account surplus on the balance of payments can increase employment.

Current account deals with imports and exports. When there is a surplus exports (inflows) are greater than imports (outflows) Therefore as there is a surplus it means that the firms/ government economy is gaining money. As they gain money to meet the new demand for exports from abroad firms may need to expand and increase there labour force which increases employement. The surplus also can mean that more tourist's spend there holiday which then gives firms a chance at a wider in country market and to meet the new market they must expand and increase employment. (4 marks)

Examiner's Comments

The five samples represent responses where candidates competently explained how a current account surplus on the balance of payments can increase employment.

Part (d) was poorly completed as the majority of candidates was unable to explain how current account surplus can increase employment. Most candidates did not explain the relation to trade and the increase in employment. More competent explanations included that there are greater inflows than outflows as local firms increase their output and export, leading to further expansions and they are able to demand more factors of production including labour and the need for more workers. Weaker candidates simply stated that with the extra money coming in there will be an increase in employment.

Candidate's Response to Parts (e) (i)—(iii) — Sample No. 1

(i) The value of export of goods

balance of trade of goods = exports - imports

$-40 = \text{exports} - 425$ ✓

$-40 + 425 = \text{exports}$ ✓

$\therefore \text{exports} = 385$ ✓

The value of exports of goods is $385.00

(2 marks)

(ii) The value of the current account

Current account = balance of trade in goods + balance of trade in services + net income flows

$= -40 - 20 - 35$ ✓

$= -95$ ✓

$\therefore$ the value of the current account is $-95.00

(2 marks)

(iii) Suggest TWO policies which may be used to address the current account deficit.

Two policies that may be used to address the Current account deficit are: Imposing trade ✓ restrictions which will make it harder for locals to import and foreigners to buy locally and also by Devaluation ✓ of the currency. This will make it more expensive for locals to import and cheap for foreigners to buy from that country thus increasing ~~imports and~~ exports and decreasing imports.

(2 marks)

Candidate's Response to Part (e) (i)—(iii) — Sample No. 2

(i) The value of export of goods

Value of export of Goods = x

$x - 425 = -40$

$x = -40 + 425$

$x = \$385$

$x = 385$

(2 marks)

(ii) The value of the current account

$-40 - 20 - 50 + 115$

(Total Exports − Total Imports)

$(385 + 165) - (185 + 40)$

550

Value $= -40 - 20 - 35$

$= -95$

(2 marks)

(iii) Suggest TWO policies which may be used to address the current account deficit.

1) Increase import controls by raising tariffs or decreasing quotas so consumers are not able to import as much as they could before or are less likely to.

2) Deflationary monetary policy - Increase interest rates so consumers will have an initiative to save more than they spend.

(2 marks)

Candidate's Response to Part (e) (i)—(iii) — Sample No. 3

(i) The value of export of goods

Export goods = Balance on trade Imports
= -40 - (-425)
= -40+425
= 385

(2 marks)

(ii) The value of the current account

Current account = -40 + -20 + -35
= -$95

(2 marks)

(iii) Suggest TWO policies which may be used to address the current account deficit.

Certain can other place tariffs on imports coming in or increase interest rates.

(2 marks)

Examiner's Comments

These three samples represent responses where candidates competently calculated the value of exports and value of the current account and suggested two policies used to address the current account deficit.

Candidate's Response to Part (e) (i)—(iii) — Sample No. 4

(i) The value of export of goods

~~Exports~~ Exports − Imports = Balance of trade

Exports = Balance of trade + Imports

Exports = 425 − 40

= $385

~~= 425 − 40~~

~~= 385~~

(2 marks)

(ii) The value of the current account

Current account = −40 − 20 + 15 − 50 − 35

= − $130

(2 marks)

(iii) Suggest TWO policies which may be used to address the current account deficit.

Contractionary Monetary Policy

Imposition of ~~the~~ Tariff

(2 marks)

Candidate's Response to Part (e) (i)—(iii) — Sample No. 5

(i) The value of export of goods

Balance of trade = exports - imports

$\therefore -40 = x - 425$

$x = -40 + 425$

export of goods = $385

(2 marks)

(ii) The value of the current account

Current Account =

(visible account) + (invisible account)

$= -40 - 20 = \$-60$

(2 marks)

(iii) Suggest TWO policies which may be used to address the current account deficit.

- Deflationary fiscal policy - the decrease in government spending and increase in taxes will → less imports (purchases) by residents
- Deflationary monetary policy - the decrease of the money supply, (less money to spend abroad)

(2 marks)

Examiner's Comments

Samples 4 and 5 represent responses where candidates competently calculated the value of exports and suggested two policies used to address the current account deficit. However, in both cases, candidates were unable to show an understanding of how to calculate the value of the current account.

Part e (i) was poorly done as the majority of candidates was unable to calculate the value of export of goods. Many candidates incorrectly calculated a negative 385. Part e (ii) was also poorly done as a majority of candidates were unable to calculate the value of the current account and provided no response. Part e (iii) was poorly completed as many candidates could not suggest two policies to correct a current account deficit. More competent answers identified *contractionary fiscal policy, contractionary monetary policy, devaluation,* and *the protectionist policy of tariffs*. Weaker candidates simply stated 'fiscal and monetary policy' for which no mark was awarded. A popular response included two protectionist policies which were quotas and tariffs however only one mark could have been awarded as both were protectionist policies.

Recommendations

- Teachers can utilize real-world examples of balance of payments to help students understand how policies impact the balance of payments.

PAPER 031 – SCHOOL-BASED ASSESSMENT (SBA)

General Comments

There was a marked improvement in the general presentation of the SBAs this year. Most students were able to score at least 70 per cent of the total marks possible. The mean score was 35 out of 40. The majority of projects focused on the COVID–19 pandemic and how this impacts issues such as demand, supply and unemployment. The marking of the SBAs at the centres continues to be show leniency. Teachers are encouraged to score the components of the project in a manner that is strictly consistent with the mark scheme as outlined in the syllabus.

Table of Content (1 mark)

Most students presented a properly formatted Table of Contents to earn the mark. However, in a few cases, students failed to include page numbers and so were unable to earn the mark allotted.

Topic (2 marks)

The topics chosen were generally good, accurately described the projects and were appropriate based on the requirements of the SBA. Students were largely able to clearly state the problem or issue under investigation and highlight the population of interest to the research. Topics were generally well delineated and within the scope of the syllabus.

Objectives (2 marks)

Most students were able to present at least two clearly stated and realistic objectives relative to the topic. However, some students presented objectives that were poorly stated, repetitive and ambiguous.

Background/Overview (4 marks)

Most students were able to effectively describe the history and development of the topic to earn the first two of the four marks available. Some students did not maximize the second two marks available as they failed to show how/why the topic or issue is important to them and to society by extension. Showing its importance would establish the need for conducting research on that topic.

Methodology (10 marks)

This section was generally fairly well done. Most students identified the data collection instruments but did not adequately describe the instruments in terms of construct and content. Some students provided definitions for, instead of descriptions of, the data collection instruments. In almost all instances, students appropriately used a questionnaire as their main data collection instrument. Unfortunately, many students did not reference their secondary sources and so could not have been credited as having used at least two data collection instruments.

Generally, the description of the data collection method was not well done. There were only a few instances where students were able to properly caption and adequately describe the data collection methods employed inclusive of the sampling technique used. However, most students provided information on the data collection instruments rather than the data collection methods. For example, students attempted to justify their use of data collection instruments and presented generic advantages of the chosen data collection instrument. In addition, where a statement of the limitations of the data collection method was required, most students highlighted the challenges faced when conducting the research while others presented common disadvantages associated with the data collection instrument.

Presentation of Data (10 marks)

Most students were able to use at least two different appropriate charts, graphs and tables that were correctly titled and labelled to present the data collected. It was however noted that although the data collection instrument catered for the collection of relevant data, students in some cases did not choose to present the data that were directly related to the objectives of the study.

The analysis of the data was fairly well done. However, in cases where students identified secondary sources of data in the methodology, there was little evidence of this in the presentation and analysis of data. Also, most students did not incorporate the relevant economic concepts and theories in their analysis of data. Additionally, in most cases, students did not present clear statements of the findings and some statements were not consistent with the presentation and analysis of data.

Conclusion (4 marks)

The majority of the students did not present a logical summary of the project in the conclusions. Some students chose to use the conclusion section solely for the purpose of presenting their findings and so could not maximize on the marks allotted for this section.

Recommendations (4 marks)

Very few students were able to score maximum marks for recommendations. In some instances, students offered recommendations that are consistent with economic theory but were not in line with the findings of the research. Further, some students offered recommendations that were not actionable or could not address the issue specifically for the population of interest.

Bibliography (1 mark)

For the most part, students were unable to properly format the bibliography.

Overall Presentation (2 marks)

Most of the SBAs appear to be within the prescribed word limit and followed the correct sequence for the sections. There were numerous cases where students fell short in thoroughly proofreading and editing their final SBA documents to eliminate spelling, grammar, and formatting errors.

PAPER 032 – ALTERNATIVE TO THE SCHOOL-BASED ASSESSMENT (SBA)

This paper tested candidates' overall knowledge, interpretation, analysis, and application of key concepts in the CSEC Economics syllabus, particular for Section 2 – ***"Production, Economic Resources and Resources Allocation"*** and Section 5 – ***"Economic Management: Policies and Goals"***. Using the context of a natural disaster/hurricane, the paper tested candidates' ability to apply these key economic concepts.

The paper was generally poorly done with few candidates obtaining 50 per cent or higher of the total 40 marks allotted. The mean score was 12.5 out of 40. Poor responses to questions that assessed Interpretation and Analysis (P2) and Application (P3) accounted for the low scores received by most candidates.

Question 1

This question was a knowledge and comprehension-based question. It tested candidates' knowledge of basic economic concepts. The question was satisfactorily done with many candidates obtaining above 50 per cent of the 10 marks allotted. The mean was 4.95.

Candidate's Response to Parts (a) (i) – (iii)

(a) State the meaning of EACH of the following acronyms.

(i) CDB

Caribbean Developmant Bank

(1 mark)

(ii) CARICOM

Caribbean Community

(1 mark)

(iii) FDI

Foreign Direct Investment

(1 mark)

Examiner's Comments

The three concepts were clearly defined by this candidate. In particular, this response also demonstrated knowledge of the modern-day reference to the Caribbean Community with the omission of the common market, which was included in previous terminology.

The mean mark for Parts (a) (i–iii) was 2 out of 3. While most candidates demonstrated knowledge of the terms CDB and CARICOM, fewer candidates had knowledge of the meaning of FDI.

Candidate's Response to Part (b) (i)

Define EACH of the following terms.

(i) Economy

An economy is the combination of all production, distribution and consumption in a nation. Economies can be structured as market, planned, mixed or subsistance economies.

(2 marks)

Examiner's Comments

This candidate's definition of the economy was clear. The candidate acknowledged the fact that the economy facilitated three key functions — production, distribution, and consumption.

The mean mark for this question was 1 out of 2 as most candidates demonstrated knowledge of the term *the economy*. However, very few candidates were able to relate the term to all three key functions. Very weak candidates showed no knowledge of these three key functions.

Candidate's Response to Part (b) (ii)

(ii) Economic growth

Economic growth is the expansion of the size of an economy, over a period of time which is usually 1 year. The most common way to measure economic growth is using GDP figures.

(2 marks)

Examiner's Comments

This candidate provided a very clear definition of economic growth, highlighting the growth indicator along with the acknowledgement that it is measured over a period of time.

The mean mark for this question was 1 out of 2. While most candidates were able to relate economic growth to a change in GDP/output, per capita income or GNI, fewer candidates were able to relate that economic growth is measured over a given period of time.

Candidate's Response to Part (c)

(c) List THREE economic resources that are required to produce goods.

Three types of economic resources that are required to produce goods are capital, labour and land.

(3 marks)

Examiner's Comments

The factors of production were clearly highlighted by this candidate.

The mean mark for Part (c) was 2 out of 3 with many candidates demonstrating their knowledge of the factors of production, and scoring full marks.

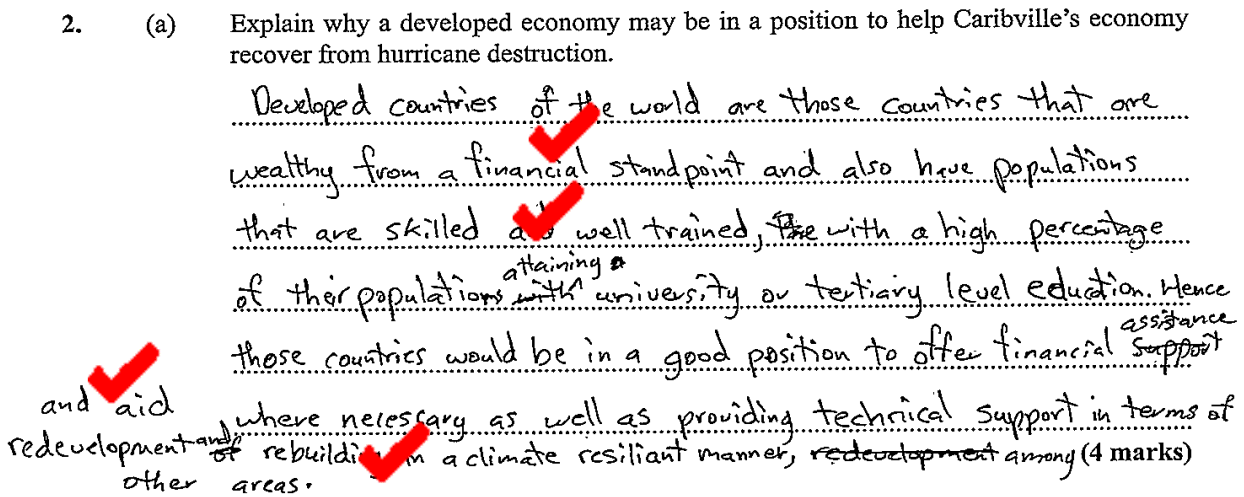
Question 2

This question was an application-based question (P3). It tested candidates' ability to distinguish a developed economy from a developing economy and required them to apply their knowledge of economics to an analysis of the impact of a natural disaster in a developing economy. This question was satisfactorily done by some candidates. However, the mean score was 3.37 out of 12.

This question tested candidates' ability to explain

- why a developed country would be in a position to help the small Caribbean economy of Caribville as described in the case study
- explain how the loss of workers affected labour productivity in the agricultural sector of Caribville
- how hurricane Bella caused an increase in the national debt of Caribville.

Candidate's Response to Part (a)



2. (a) Explain why a developed economy may be in a position to help Caribville's economy recover from hurricane destruction.

Developed countries of the world are those countries that are wealthy from a financial standpoint and also have populations that are skilled and well trained, the with a high percentage of their populations attaining with university or tertiary level education. Hence those countries would be in a good position to offer financial assistance support where necessary as well as providing technical support in terms of and aid redevelopment and of rebuilding in a climate resiliant manner, redevelopment among other areas. (4 marks)

Examiner's Comments

This candidate provided a comprehensive list of the factors that enhance the capacity of developed economies to lend support to less developed ones.

The mean mark for this question was 2 out of 4. Many candidates understood that a developed economy possesses more resources (in particular, higher levels of capital and GDP) and hence is able to provide aid to a developing economy impacted by a hurricane. However, most candidates were unable to demonstrate, in a sufficient manner, the characteristics of a developed economy that allow for such economies to be better positioned to assist in the aftermath of a natural disaster. Such characteristics include *access to more technically trained personnel* and *better economic stability*.

Candidate's Response to Part (b)

(b) Explain how the loss of workers affected labour productivity in Caribville's agricultural sector.

Hurricane Bella took the lives of agricultural labourers and destroyed land and farming equipment. These losses has reduced the total production capacity of Caribville, and because production is on a smaller scale, the productivity of each labourer has decreased. The loss of skilled labourers and equipment also means that less efficient methods of farming has to be used, as the skilled labourers knowledge was lost and equipment destroyed. **(4 marks)**

Examiner's Comments

A clear link between loss of workers and productivity was provided by this candidate.

The mean mark for this question was 2 out of 4. Generally, candidates were able to link the loss of skilled labour/workers to decline in agricultural output in future periods. However, most candidates were unable to link it to declining productivity resulting from the inability to replace the skilled workers.

Candidate's Response to Part (c)

(c) Explain how hurricane Bella caused an increase in the national debt of Caribville.

National debt is the sum of government's borrowings over the years to finance budget deficits. Hurricane Bella would have caused damage to public infrastructure such as roads, schools, clinics, sea and airports among other public building. In some cases the government would have to borrow in order to repair such critical infrastructure as well as to provide relief packages and other support to it citizens. These borrowings would unfortunately cause the national debt of Caribville to increase. (4 marks)

Total 12 marks

Examiner's Comments

Reasons for increase in national debt were clearly explained by this candidate.

The mean mark for this question was 2 out of 4. Most candidates recognized that a hurricane would result in the need for new loans by the government to rebuild damaged infrastructure and to help citizens with loss of income. However, few candidates noted the possibility that higher national debt could also come about through higher costs of borrowing following the disaster. Also, few candidates demonstrated an understanding of what the national debt represents, by definition, hence, these candidates were not awarded a mark for this aspect of the question.

Question 3

This question was an application-based question (P3). It tested candidates' ability to link informal savings to a household's ability to recover from the impact of a hurricane. The question also tested candidate's understanding of key economic sectors and the impact of the natural disaster on the primary sector. This question was satisfactorily done by some candidates. However, the mean score was 2.55 out of 8.

This question tested candidates' ability to

- suggest one informal method of savings that the citizens in the case study could use to protect themselves in their local communities
- explain how informal savings can assist citizens in protecting themselves against the impact of hurricanes
- suggest the sector that would be mainly affected by a reduction in the crops produced in the country
- explain one way in which hurricanes could affect unemployment in the agricultural sector.

Candidate's Response to Part (a) (i)

(i) Suggest one informal method of savings that the citizens of Caribville could use to protect themselves financially in their local communities.

One informal method of saving that can be used is a sou sou.

(1 mark)

Examiner's Comments

The type of informal savings provided by this candidate was clear.

Most candidates received the allotted one mark as they were able to correctly identify a form of informal savings in their national community. However, a few candidates confused informal savings with access to a credit union account.

Candidate's Response to Part (a) (ii)

(ii) Explain how informal savings can assist citizens in protecting themselves against the impact of hurricanes.

Informal savings can allow them to have money on hand without need of going to the bank. After a hurricane money could be in short supply into banks as well as banks could be out of order leaving people who have only money in the bank with no way to access it. **(3 marks)**

Examiner's Comments

The benefits provided by this candidate were clear and demonstrated this method's utility when the formal sector is inaccessible.

Most candidates were able to link informal savings to access to funds to obtain essential items following a hurricane. However, fewer candidates were able to link access to savings through informal means to enhancing capacity of households who may not have easy access to funds through the formal financial sector or who may endure periods of unemployment following the natural disaster.

Candidate's Response to Part (b) (i)

(b) Caribville's local newspaper reported a decrease in the amount of crops produced in the country.

(i) Suggest which sector would be MAINLY affected by this reduction in production.

Agriculture Primary sector **(1 mark)**

Examiner's Comments

This candidate clearly stated the economic sector and provided an example.

Most candidates received the allotted one mark as they were able to identify the primary sector as the affected sector. Where *primary sector* was not identified, most candidates were able to correctly identify the agricultural sector.

Candidate's Response to Part (b) (ii)

(ii) Explain ONE way in which hurricanes could affect unemployment in the agricultural sector.

Hurricanes are ferocious weather systems that produce very strong winds and lots of rainfall which often leads to flooding. Unfavourable whether such as the above mentioned often destroy crops and kill livestock animals, which often put crop farmers and those involved in animal husbandry out of business or significantly reduce their viability (3 marks) which often leads to some level of unemployment. Also, it often takes some time for farmers to fully recover.

Total 8 marks

Examiner's Comments

This candidate provided a good explanation of the link between unemployment and the impact of the hurricane.

The mean score for this question was 2 marks out of 3. Most candidates were able to link the effects of a hurricane to the loss of jobs due to reduced agricultural output. However, many candidates failed to identify that for these workers to be considered unemployed, they must be actively seeking another job.

Question 4

This question was an interpretation and analysis-based question (P2). It tested candidates' ability to calculate economic growth and to link the effects of a natural disaster/hurricane on the economy using a Production Possibility Curve (PPC). This question was poorly done with many candidates obtaining less than 50 per cent of the allotted score. The mean score was 1.65 out of 10

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The inability of candidates to calculate economic growth accounts mainly for the low scores in this question.

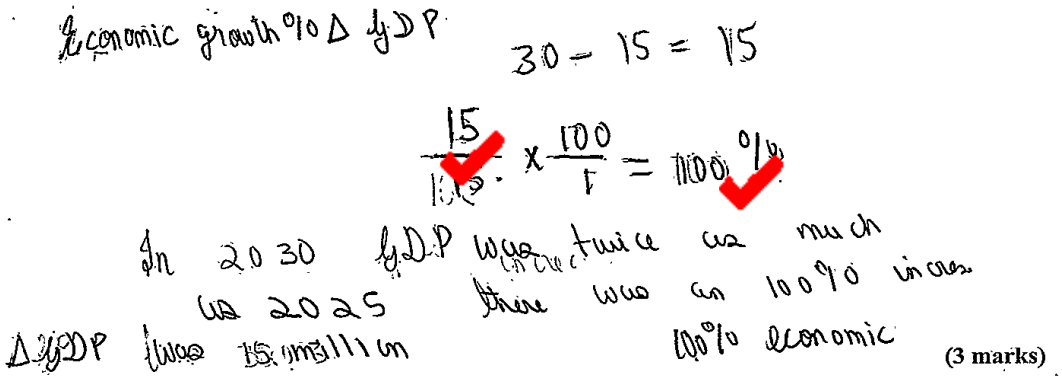
This question tested candidates' ability to

- calculate economic growth based on scenarios
- sketch a production possibility curve to show a loss of economic resources due to a hurricane.

Candidate's Response to Part (a) (i)

(a) Calculate the economic growth for 2030 in both scenarios.

(i) Scenario 1: There is no hurricane



(3 marks)

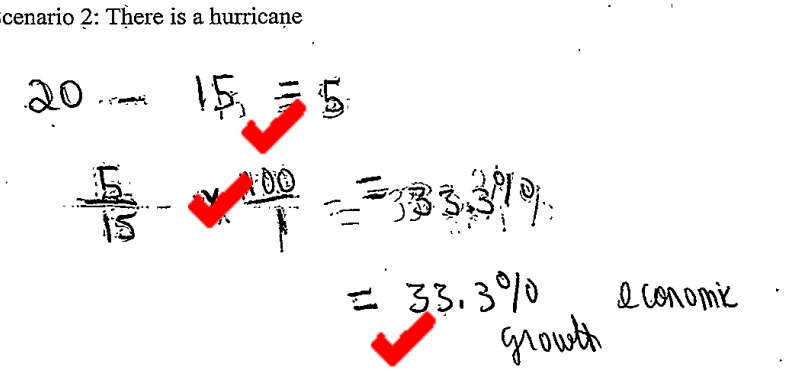
Examiner's Comments

In this candidate's response to scenario 1, the formulation and calculations were very clear.

Most candidates obtained a zero score for this question. Candidates were asked to calculate (average) economic growth if a hurricane did not occur but they were unable to do so.

Candidate's Response to Part (a) (ii)

(ii) Scenario 2: There is a hurricane



(3 marks)

Examiner's Comments

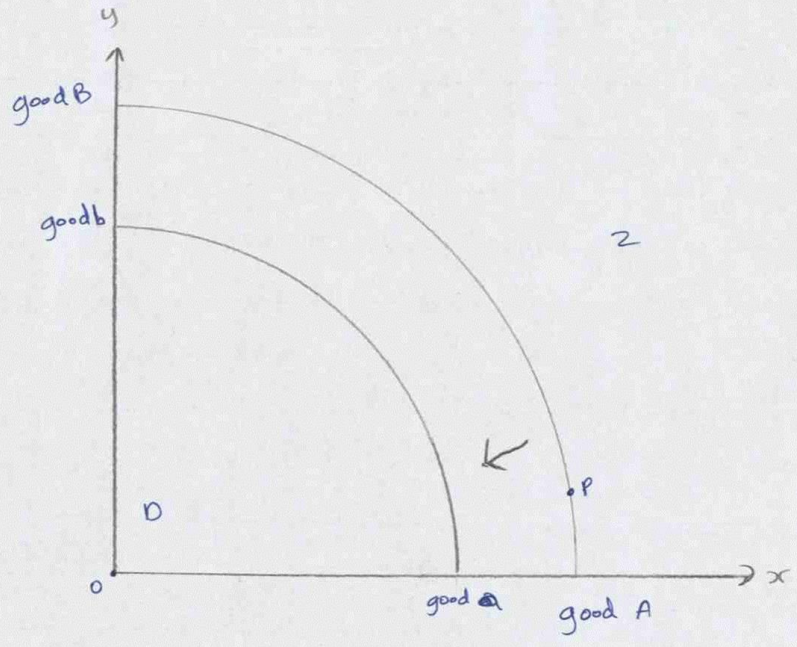
In this candidate's response, the formulation and calculations for scenario 2 were very clear.

Most candidates obtained a zero score for this question. Candidates were asked to calculate (average) economic growth if a hurricane did occur but they were unable to do so.

Candidate's Response to Part (b)

(b) Sketch a production possibility curve to show a loss of economic resources as a result of a hurricane.

Diagram: depicting a Production Possibility Curve for Caribville.



As a result of the hurricane their was a decline in population causing an inword shift of the production possibility curve.

D - inefficiency
Z = unattainable
P = efficiency

(4 marks)

Examiner's Comments

In this candidate's response, the PPC was well drawn, properly labelled and clearly illustrated the effects on the economy.

While many candidates were able to draw a PPC and correctly label the graph, there were several candidates who demonstrated some difficulties. In some cases where the PPC was correctly drawn, candidates were unable to demonstrate the inward shift to illustrate the negative impact of the hurricane on the economy. Also, in some cases, candidates mistook the demand curve for a PPC.

Recommendations

Teachers are encouraged to do the following:

- Introduce techniques that will enhance students' knowledge of basic economic concepts, for example, increase in-class assessment of basic concepts
- Focus on more in-class practice of calculations of key economic variables (in this paper, the calculation of economic growth was tested). Where possible, knowledge transfer techniques for concepts taught in mathematics should be applied.
- Focus on more in-class practice of drawing graphical illustrations to avoid misinterpretation of basic and fundamental graphical tools in economics. Increased practice will also help with the quality of the graphical illustrations.