CARIBBEAN EXAMINATIONS COUNCIL

CAPE® ECONOMICS UNIT I

Subject Report

May-June 2025

CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

MAY-JUNE 2025

ECONOMICS
UNIT 1

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INTRODUCTION

The CAPE Economics examinations consist of two units, each examined by the following papers.

Paper 01 — Multiple Choice
Paper 02 — Essay
Paper 031 — School-Based Assessment (SBA) — done by school candidates
Paper 032 — Alternative to School-Based Assessment — done by private candidates

Unit 1 deals with microeconomic theories, concepts and issues. The unit is divided into three modules.

Module 1: Methodology: Demand and Supply
Module 2: Market Structure, Market Failure and Intervention
Module 3: Distribution Theory

In 2025, 1571 candidates registered for the CAPE Economic Unit 1 examination. This represents an increase of 58 when compared with 2024; however, it is a decrease of 130 when compared with 2023.

The mean score for Unit 1 was 172.31 out of 300 (57.44 per cent) and the standard deviation was 40.07. The percentage of candidates achieving acceptable grades, Grades I–V, was approximately 90 per cent. This shows a consistent performance with 2024 when the percentage of candidates achieving acceptable grades stood at 89.9 per cent. However, it is a slight increase from the percentage in 2023 which was 88.8.

Of the three papers, Paper 032 showed an improvement over the comparative years — 15.4 per cent achieved acceptable grades this year while in 2023 and 2024, the percentage was 7.7 and 11.1 per cent respectively. Slight declines were experienced in the two other papers. For Paper 01, candidates achieving acceptable grades were 94.8 per cent in 2025 compared with 95.2 per cent in 2024 and 95.6 per cent in 2023. For Paper 02, 43 per cent achieved acceptable grades this year compared with 48.9 per cent in 2024. SBA performances were relatively consistent over the comparable years.

For Module 1, the mean mark was 60.75 out of 100 compared with 63.49 last year; the highest score by any candidate was 97 compared with 98 last year.

For Module 2, the mean mark was 59.67 out of 100 compared with 56.75 last year; the highest score by any candidate was 93 compared with 91 last year.

For Module 3, the mean mark was 51.92 out of 100 compared with 54.34 last year; the highest score by any candidate was 96 compared with 95 last year.

PAPER 01 – MULTIPLE CHOICE

Paper 01 consisted of 45 items, 15 on each module, spanning knowledge, comprehension, application and interpretation of information.

The mean mark was 68.14 out of 90 (75.71 per cent) compared with 71.99 out of 90 (79.98 per cent) last year. The standard deviation was 15.50.

PAPER 02 – STRUCTURED ESSAY

Paper 02 required candidates to employ higher-level competencies to analyse economic issues, apply economic theories in solving problems and evaluate economic policies and programs. Candidates were required to answer one question from each of the three modules. Each question was worth 25 marks. The mean mark on this paper was 55.52 out of 150 (37.01 per cent) compared with 57.78 out of 150 (38.52 per cent) last year. The standard deviation was 24.89. The highest mark was 122 out of 150. Last year, the highest mark was 124.

Question 1

Part (a)

Candidates had a basic understanding that opportunity cost is the next best alternative foregone. However, many tended to only state what is given up in each scenario but failed to identify the value or satisfaction lost by not choosing that alternative. Teachers should do the following.

- Teach students to not only state the alternative but also explain the value or benefit that is lost by not choosing a specified option.
- Incorporate practical, relatable examples that illustrate how opportunity cost involves a trade-off in value.
- Emphasize that opportunity cost measures the benefit sacrificed and that this requires comparing the value of alternatives, not merely listing them.
- Guide students in using terms like *satisfaction*, *benefit* or *value* when explaining opportunity cost in order to reflect a deeper understanding.

Part (b)

Candidates struggled with stating the law of diminishing marginal utility and explaining the limitations of marginal utility theory. Teachers should therefore incorporate the following strategies.

- Use a table to calculate total and marginal utility. This shows that while total utility may rise, marginal utility (the extra satisfaction from each additional unit) declines. This reinforces that *diminishing* applies to marginal utility, not total. Teachers should also use accurate terminology, stating that *marginal utility decreases* rather than saying 'utility falls"; this would help students distinguish between the two concepts clearly.

- Use realistic examples when explaining marginal utility theory and associated concepts. For instance, show how people often buy goods out of habit, impulse, or due to advertising, rather than making rational decisions. This challenges the theory's assumption of rational consumer behavior. By seeing how theory and real-life behaviour differ, students better understand why this is considered a limitation of the theory.

Part (c)

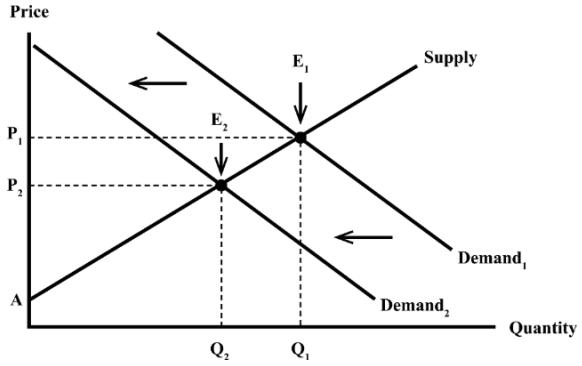
Candidates tended to struggle with correctly drawing diagrams and analysing them. Teachers can help improve students' responses for such questions by doing the following.

- Guide students in the drawing and labelling of the demand and supply graph, clearly identifying producer surplus.
- Give students practice in drawing diagrams showing decreases in demand (inward shift) and the resulting change in producer surplus. The use of arrows to show direction of movement should also

be taught. It should be emphasized to students how to clearly shade (or otherwise differentiate) and label the before and after surplus areas.

- Reinforce the importance of titles, axis labels, equilibrium points and shaded regions. Furthermore, teachers can model a well-annotated graph and provide checklists for students to follow.

The diagram for this part of the question should have looked like the sample below. One mark was awarded for labelling each of the following: original supply and demand curves, old market equilibrium, left shift of the labelled demand curve, new market equilibrium, old producer surplus and new producer surplus.



In explaining the diagram, candidates should have noted that the producer surplus is the difference between the price the seller receives and the minimum price the seller is willing to accept for the good. The leftward shift of the demand curve reduces the equilibrium price and equilibrium quantity. The sellers receive this lower price which shrinks the producer surplus from triangle AP1E1 to AP2E2.

Question 2

Part (a)

Some candidates could not provide the economically sound goals of a firm and those who tried were unable to articulate the goals using economic jargon. The goals of a firm include the following.

- Satisfying internal and external stakeholders (owners/shareholders, management, customers, etc.)
- Sales maximization (or revenue maximization)
- Profit maximization (or cost minimization)
- Business growth
- Increased market share (or market dominance)
- Social and/or environmental accountability

During their classroom sessions, teachers need to discuss a list of common goals firms would have.

Part (b)

Candidates struggled to define the term *marginal cost pricing* and explain the market impact of monopoly price setting. A correct definition is provided below.

> Marginal cost pricing is setting the price of a good equal to the extra cost of producing an additional unit of the good.

In the case of monopoly pricing, candidates knew the characteristics of a monopoly and could show the impact on price and output; however, they could not discuss the impact on welfare.

Teachers should compare various pricing strategies that firms use and ensure they cover marginal cost pricing. They should also engage students in comprehensive in-class discussions about the impact of monopolies.

Part (c)

Some candidates did not understand corporate code of conduct, corporate social responsibility, and voluntary agreements. These concepts are in the syllabus and have been tested before; therefore, teachers are expected to cover these topics/concepts in detail and to use real-world examples in discussing these concepts.

Teachers also must be more precise in distinguishing among corporate code of conduct, corporate social responsibility and voluntary agreements. Teachers must specify how these concepts differ from government regulations (like tradable permits) as it relates to correcting market failure.

Question 3

Part (a)

Some candidates could not distinguish between transfer earnings and economic rent. When giving definitions, teachers must emphasize that transfer earnings and economic rent are payments for the factors of production. While it was clearly established for transfer earnings, most candidates stopped at economic rent as the excess over transfer earnings, omitting the fact that it is also payment for factors of production.

Part (b)

Candidates struggled to differentiate across the types of wage differentials and explain each one. They should have been able to note the following.

- Occupational wage differential is the extra payment to compensate a worker for the nonwage characteristics of the job (such as a risky or unpleasant job) to convince that worker to fulfil that role.
- Geographical wage differential is the difference in wages paid to workers located in different regions to provide incentives for workers to take up jobs in harsh conditions.
- Industry wage differential refers to the difference in wages paid to workers in the same occupation but in different industries due to differences in the industry conditions.

Teachers must discuss wage differentials in detail and use many real-world examples in such discussions.

Part (c)

Most candidates had a basic understanding of the poverty measurement methods; however, they could not evaluate them, as they appeared not to know the advantages and disadvantages of each method. The evaluation of each method was worth four marks — one mark for how the method works, one mark for an advantage of the method, one mark for a disadvantage of the method and a fourth mark for one other advantage or disadvantage of the method. Instead of providing an evaluation, candidates tended to make up abstract examples. An evaluation of one of the methods is provided below.

Absolute poverty line

- A universal baseline that indicates the minimum level of basic needs. It serves as a good indicator of the minimum survival requirement; however, it does not indicate the quality of life of these households; neither does it measure the issue of unequal access to opportunities.
  Additional advantage: Allows for comparison across several countries.
  Additional disadvantage: Does not account for the impact of inflation on the purchasing power of the dollar.

Teachers should emphasize the importance of discussing advantages and disadvantages of each of these poverty measurement methods.

PAPER 031 – SCHOOL BASED ASSESSMENT

Generally, students presented topics and aims/objectives that were relevant to the unit and the data collected were well organized and presented.

The mean mark was 48.49 out of 60 (80.82 per cent). This is consistent with last year's 48.37 out of 60 (80.61 per cent) The standard deviation was 7.85.

Overall Comments

Most students selected topics appropriate for Unit 1 modules and employed mixed methodologies relevant to their projects. Students demonstrated competence in organizing and presenting primary and secondary data, using a range of appropriate formats. While there were attempts to apply relevant economic theories, principles, and concepts, the connection between theoretical frameworks and data analysis was not consistently evident. Strengthening this integration is essential for students to produce clear, evidence-based conclusions that meet expected academic standards.

Strengths

- Projects featured comprehensive graphic representations including pie charts, bar graphs, line graphs and tables.
- There were detailed explanations of research instruments (interviews and questionnaires) with clear justifications for sampling techniques.
- Many projects demonstrated very good data interpretation and evaluation skills.
- Students showed full awareness of research project requirements and organizational standards.
- Investigated problems reflected authentic scenarios, demonstrating the course's practical value through real-life applications.
- There were strong analysis and interpretation of data, with appropriate use of economic principles.
- Students demonstrated excellent citation practices for both websites and publications, complete with all required details.

Weaknesses

- Many projects failed to adequately connect presented data to economic concepts, principles, and theories, resulting in work that appeared non-economic in nature.
- Projects lacked critical engagement with economic theories, missing opportunities to agree or disagree with established concepts based on data.
- Connections between data analysis results and relevant economic theories were inadequately developed.
- In most projects, students failed to acknowledge constraints and limitations of the data used.
- Many students made absolute evaluations and recommendations without considering data limitations.
- Questionnaires often contained questions yielding qualitative responses when quantitative data was required for calculations.
- Unclear titles led to ambiguous objectives and reduced project coherence.
- Objectives were pulled directly from syllabus materials rather than reflecting specific research intentions.
- There was poor understanding of appropriate sample populations, for example, investigating demand without assessing actual users.
- Projects that spanned multiple modules lacked smooth transitions between topics.
- There were consistent grammatical errors throughout projects.
- Students failed to adhere to specified word count requirements
- Interview details were frequently missing from References/Bibliography sections.
- Graphs appeared to be copied from secondary sources rather than created from original project data.
- Literature reviews that were not required were included and consumed valuable word count.
- Analysis sections consisted merely of interview information instead of analytical interpretation.
- Methodologies frequently omitted a discussion of study limitations.
- In some cases, too many aims and objectives were given.

Recommendations to Students

- Work towards developing well-defined aims that address goods or services which are closely aligned with specific syllabus objectives.
- Concentrate on stated aims while avoiding irrelevant sections, content and calculations.
- Restrict projects to one overarching aim and two or three specific objectives maximum.
- Investigate one topic from one module rather than attempting to cover multiple areas.
- Link generated data to appropriate economic models and theories through substitutions into formulas, demand curve illustrations, market equilibrium analysis, indifference curve analysis and marginal utility theory.
- Discuss specific limitations of economic theories when interpreting associated data, before drawing conclusions.
- Evaluate whether findings align with or contradict economic theory and provide explanations for these relationships.
- Ensure objectives directly support project titles.
- Carefully choose data collection methods (questionnaire, interview, observation), sample populations (consumers, employees, managers), and data types (quantitative versus qualitative).
- Select appropriate graphs and charts that accurately represent collected data.
- Combine data presentation with analysis in one cohesive section rather than separating them.
- Align references/bibliography with methodology statements, including complete interview details and textbook references.
- Use proper grammatical structures and adhere to word count requirements throughout.
- Ensure questionnaires contain appropriate questions that generate data necessary to meet stated objectives.
- Develop charts and graphs from project data rather than from generic secondary source materials.
- Replace interview transcripts with analytical interpretation and theoretical application.

PAPER 032 – ALTERNATIVE TO THE SCHOOL BASED ASSESSMENT

For Paper 032, which was written by private candidates only, the mean mark was 14.69 out of 60 (24.49 per cent) compared with last year when the mean score was 11.62 out of 60 (19.36 per cent). The standard deviation was 12.98. The highest mark was 47.

Question 1

Part (a)

Some candidates ably defined market equilibrium. However, instructors must clearly indicate to students that market equilibrium occurs where quantity demanded equals quantity supplied (and not just demand and supply).

Part (b)

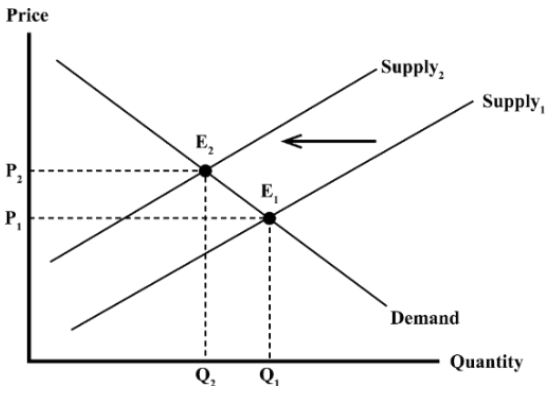
Most candidates could not make the connection between the scenarios given and the economic theory.

For the scenario of increased hurricane damage to many hotels, candidates could have noted that this would affect the market for Caribbean hotel rooms by leading to a reduction in the supply of hotel rooms. That decreased supply of rooms increases the equilibrium room price and decreases the equilibrium quantity of rooms. For the scenario of travellers choosing destinations with lower hurricane risk, candidates could have noted that as travellers choose to vacation outside the Caribbean, it leads to a reduction in the demand for hotel rooms. This decreased demand for rooms decreases the equilibrium price and the equilibrium quantity of rooms.

Instructors need to spend more time teaching students how to apply market equilibrium dynamics to real-world situations.

Part (c)

Some candidates appeared not to know how to draw the market equilibrium diagram. Others could draw some aspects of it, but failed to correctly analyse the scenario. Instructors must show students how to use the market equilibrium diagram to analyse real-world scenarios and also demonstrate what happens to equilibrium price and quantity when the demand curve shifts left or right and when the supply curve shifts left and right.



Analysis

Sea level rise threatens the tourism facilities with beach erosion which damages existing buildings and makes it hard to create new structures. This means a reduction in the supply of these facilities, causing the supply curve to shift left; this also changes the market equilibrium. This shift decreases the equilibrium quantity of facilities and with the demand unchanged, it also increases the equilibrium price.

Question 2

Part (a)

Many candidates could not define the term *abnormal profit*. The definition: *Abnormal profit is the excess profit a firm makes above the minimum return required to keep that firm in business.*

Teachers are advised to cover all aspects of the syllabus in detail.

Part (b)

Candidates were unable to respond in any significant way to this question. In preparation for the examination, instructors must discuss the factors that lead to imperfect competition. In such discussions, they should also focus on using real-world examples. For factors that may cause the non-renewable energy market in a given Caribbean country to be imperfectly competitive, candidates could have given the following.

- Cost structure: High fixed costs are an entry barrier that keeps competitors out of the energy market.
- Market size: Some islands have a small population (or customer demand) so they can only accommodate one energy supplier.
- Control of a physical resource: If a company controls most of the oil fields and plants in a country, then it becomes the sole non-renewable energy supplier.
- Legal restrictions: In some instances, governments may use licenses to restrict entry of competitors into the energy market.

Part (c)

Most candidates could not define the terms *subsidies*, *legislation* and *anti-trust policy*. Knowing that government subsidies are incentives to encourage renewable energy firms to develop their products; or that it is through legislation that laws and regulations can be implemented in the energy sector to incentivize activity in renewable energy and disincentivize activity in non-renewable energy; or that antitrust policy is where governments discourage or even block mergers and acquisitions, which is quite useful in the energy market, candidates would have been able to engage in a discussion of the economic concepts in relation to the case. However, without such knowledge, candidates were unable to discuss how Caribbean governments could use such measures to protect the environment and improve competitiveness in the energy market.

Instructors must explore these topics in class and show students how to apply them to real-world situations.

Question 3

Part (a)

Income inequality is the uneven distribution of income throughout a population but most candidates offered only a partial definition of the term. Instructors must ensure that students can define key economic concepts in each module.

Part (b)

Some candidates could not differentiate between the Lorenz curve and the Gini coefficient. Candidates were expected to say that the Lorenz curve is a graph that shows the extent of income inequality across various income levels within a population and that It does so by illustrating the gap between the actual income distribution curve and the 45-degree line of perfect income equality. Candidates were then expected to draw the a fully labelled Lorenz curve.

For the part regarding the Gini coefficient, candidates were expected to indicate that it is a measure of the income inequality in a population and that it ranges between 0 and 1 where 0 means perfect income equality and 1 means perfect income inequality. Candidates were then expected to give the formula for the Gini coefficient and attempt to calculate the Gini coefficient using the Lorenz curve.

Once again, instructors must carefully explain these crucial microeconomic concepts and diagrams.

Part (c)

Most candidates could not define the terms *subsidies* and *transfer payments*. Some could define the term *taxes*. Therefore, their discussions were either very limited in the analysis or failed to analyse these economic concepts in relation to the case. They were expected to mention that policy tools can reduce income equality in the region's recovery efforts by

- governments giving subsidies as lifelines to businesses entities as COVID-19 reduced their business hours and earnings. The businesses would then be able to keep people employed and therefore alleviate some of the income inequality.
- governments issuing transfer payments during COVID-19 to unemployed and low-income people who were not able to take care of their living expenses and were disadvantaged. These payments helped to address income inequality and lead to improvement in the recovery efforts.
- governments taxing people in higher income thresholds and using the taxes to fund educational and social development programs that benefit low-income households. This reallocation of income would improve income inequality concerns.

Instructors must carefully discuss these topics in class and show students how to apply them to real-world scenarios.