

CARIBBEAN EXAMINATIONS COUNCIL

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

MAY/JUNE 2004

ECONOMICS

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ECONOMICS

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

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GENERAL COMMENTS

The overall performance of candidates was satisfactory. Some areas of the syllabus were quite challenging for the candidates, but even in those, many of the candidates' performances were quite excellent.

UNIT 01

PAPER 01

Overall performance in Unit 1 was satisfactory. Excellent responses were given to even the most challenging areas of the syllabus. Paper 01, microeconomics was challenging. It consisted of 15 questions, each worth 6 marks. There were three modules, each consisting of five questions.

PAPER 01- Short Answers

Module 1

This module addressed the some of the fundamental concepts of Economics such as scarcity, choice, opportunity cost, efficiency.

Question 1

This question required knowledge and understanding of the production possibilities frontier and the ability to conduct analysis using it. Most candidates, while exhibiting a satisfactory understanding of the production possibilities frontier, could not use it to calculate opportunity cost.

Question 2

This question required candidates to draw a diagram representing the market for a commodity and to use it to show their understanding of the effects of various factors on the demand, supply, quantity traded and price. Performance on this question was satisfactory.

Question 3

This question required understanding of consumer choice and the ability to analyse consumer choice using the utility theory. Many candidates performed well on this question, but others found it very challenging.

Question 4

This question required knowledge and understanding of total, average and marginal product. Many candidates performed well on this question, but some found that the arithmetic required in the response, very challenging.

Question 5

This question required knowledge and understanding of four fundamental concepts. Many candidates excelled in this question, but too many, while showing some acquaintance with these terms, could not give precise explanations of them.

Module 2

This module dealt with the efficiency with which the market system allocates scarce resources, including market failure. Performance in this module was satisfactory.

Question 6

This question required candidates to show knowledge and understanding of the main types of market structure and to compute two measures of concentration. Performance on this question was excellent.

Question 7

This question required knowledge of resource misallocation caused by externalities, and policy measures aimed at correcting the results of externalities. Candidates' performance was satisfactory, but too many could not give precise explanations of external benefits and external costs.

Question 8

This question required knowledge of how oligopolies operate in general and, in particular, the assumption made about price in the kinked demand model and in the leadership model. Performance in this question was satisfactory, but too many candidates showed little acquaintance with the models.

Question 9

This question required knowledge and understanding of the natural monopoly and the ability to analyse its behaviour when regulated and unregulated. Some candidates performed well, but many showed a lack of competence.

Question 10

This question required knowledge of the pricing strategies used in business. Of particular interest was discrimination, and the short-run and long-run profitability of competitive firms. This question was popular and many candidates performed well. Many candidates, however, could not distinguish between short- and long-run and between normal and above-normal profit.

Module 3

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

Question 11

This question required knowledge of the factors of production, the rewards and how these relate to the cost of production. Performance on the question was satisfactory, but some candidates could not relate factor rewards to the cost of production.

Question 12

This question required knowledge of the relationship between input and output, and understanding of the efficient use of resources. Many candidates could not calculate the marginal product and use the input/output information with the prices. They were required to analyse the behaviour of employers with regard to the number of workers employed and the quantity of the product produced.

Question 13

This question required knowledge of the composition of the labour force and labour supply; including the calculation of participation rates. Some candidates performed well on the question, but many found it challenging.

Question 14

This question required an understanding of the mobility of workers in the Caribbean Community, CARICOM. Performance on this question was satisfactory, though some candidates did not show a deep understanding of the term 'labour mobility'.

Question 15

This question required a knowledge of the types and causes of poverty. While candidates demonstrated an understanding of the causes of poverty, many were not clear about the 'poverty line'.

GENERAL COMMENTS

PAPER 02- Essays

Paper 02 required higher-level competencies. It gave candidates the opportunity to combine their knowledge and understanding of basic economic terms, concepts and tools with their ability to analyse economic issues and evaluate economic policies and programmes.

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

Module 1

Module 1 dealt with decision making by consumers or households combined with the inputs of firms, produce outputs and the cost of production.

Question 1

This question required candidates to:

- (a) demonstrate their understanding of indifference curves and budget lines;
- (b) explain how the consumer chooses from among different combinations of two products given their prices and his or her income; and
- (c) explain the income and substitution effects of a price change.

Performance on this question was good. However, some candidates found the analysis of the impact of a price change very challenging.

Question 2

This question required candidates to demonstrate an understanding of:

- (a) the cost concepts outlined in the syllabus;
- (b) the relationship between the marginal and average cost curve;
- (c) the shape of various cost curves;
- (d) the supply curve and the calculation and meaning of the elasticity of supply.

Performance on this question was good. Some candidates found explaining the relationship between the average cost curve and the marginal cost curve very challenging.

Module 2

This Module examined candidates' ability in the following areas:

- (a) the ability to analyse short-run and long-run profitability of competitive firms;
- (b) economic efficiency and market failure;
- (c) behaviour and performance of unregulated and regulated natural monopolies.

The responses indicated that candidates found Question 4 more challenging than Question 3.

Question 3

This question required candidates to demonstrate an understanding of key economic concepts and the ability to analyse the impact of changes in key variables on short and long-run decisions of competitive firms. The performance in this question was good, but some candidates were not familiar with the terms 'normal profit' and 'zero economic profit'.

Question 4

This question was one of the most challenging questions. It required:

- (a) knowledge and understanding of the economic terms outlined in the syllabus;
- (b) the ability to analyse output and pricing decisions in a natural monopoly when unregulated and when regulated;
- (c) the impact of different forms of regulation on a firm's decisions.

Candidates were also required to analyse

- (i) the issue of external costs and their effects on efficient resource allocation
- (ii) policy measures implemented to address the inefficient resource allocation caused by external costs.

Some candidates performed well on the question, but many found it very challenging.

Module 3

In Module 3 candidates were required to analyse and evaluate issues surrounding the 'resources' market, and in particular, the labour market, the influence of trade unions on employment and wages in the labour market. It also required knowledge and understanding of concepts and issues associated with income distribution and the measurement of inequality and factors that contribute to poverty.

Question 5

In this question, candidates were required to analyse and evaluate the influence of trade unions on the labour market. Candidates' performance on this question was good. Candidates responded to the challenges posed in this question very well.

Question 6

This question required:

- (a) knowledge and understanding of poverty;
- (b) discussion about the causes of poverty;
- (c) an understanding of the Lorenz Curve and the Gini coefficient as measures of inequality;
- (d) an evaluation of the effect of information asymmetry on efficient resource allocation.

Candidates' performance on this question was very satisfactory.

GENERAL COMMENTS

UNIT 2

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

PAPER 01 - Short Answers

This paper comprised 15 questions, divided into five questions per module. Each question was worth 6 marks. Performance on the paper was satisfactory.

Module 1

This module required candidates to demonstrate an understanding of

- (a) national income accounting;
- (b) the components of aggregate demand (expenditure) ;
- (c) the classical and Keynesian economic models; and
- (d) national income equilibrium, recessionary and inflationary gaps.

Question 1

This question required candidates to distinguish between microeconomic and macroeconomic variables and issues. Candidates' performance on this question was good.

Question 2

This question required knowledge and understanding of Gross Domestic Product and its measurement. Candidates were required to demonstrate a good understanding of terms such as intermediate goods, final goods and double counting. Performance in the question was good.

Question 3

This question required knowledge and understanding of:

- (a) the disposal of income between consumption and saving;
- (b) investment and the consumption function; and
- (c) the MPC and the derivation of the multiplier from it.

Candidates' performance on parts (a) and (c) was fair, but part (b) was very challenging.

Question 4

In this question candidates' ability to distinguish between the classical and Keynesian aggregate supply curves and the effect on equilibrium, output and the price level of a shift in the aggregate demand curve was assessed. Some candidates performed well on the question, but many could not identify the effects of changes in investment expenditure on other variables.

Question 5

This question required an understanding of the recessionary gap, the ability to identify equilibrium quantity and a discussion about the effects of an increase in investment on aggregate expenditure. Candidates performed satisfactorily on this question, but some found calculating the size of the gap quite challenging.

Module 2

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

Question 6

In this question candidates were required to demonstrate an understanding of the functions of money, the components of M_1 and M_2 and the precautionary motive, for holding money. Performance on this question was good. Some candidates were severely challenged by the constituents of M_1 and M_2 but the other topics were well treated.

Question 7

This question required a knowledge of the major instruments used by central banks in the implementation of monetary policy and an understanding of how an increase in the interest rate affects the demand for money. This question was well done by the majority of candidates.

Question 8

This question required knowledge and understanding of fiscal policy, a budget deficit, and a balanced budget. Some responses lacked the required precision, nevertheless, performance on this question was fair.

Question 9

In this question candidates calculated the debt service ratio and the effect of an increase in the ratio on export earnings. Candidates' responses indicated that this was one of the most challenging questions, nevertheless some candidates performed well on it.

Question 10

This question required knowledge and understanding of the equation of exchange. Some candidates could not adequately express the quantity theory of money, otherwise, performance on the question was good.

Module 3

This module dealt with foreign trade and commercial policy, the terms of trade, the balance of payments, the foreign exchange market, globalization and foreign direct investment.

Question 11

This question required a knowledge of comparative advantage, gains from trade, tariffs and quotas. Performance on this question was good. The majority of candidates demonstrated a good understanding of the topics.

Question 12

This question required candidates to calculate the terms of trade and demonstrate an understanding of trade liberalization and the process of economic integration in CARICOM. Candidates performed well on this question.

Question 13

This question required an understanding of the computation of the balance of payments and the ability to distinguish between a deficit and a surplus. Most candidates performed well on the question; but a few candidates could not calculate the terms of trade.

Question 14

This question required a knowledge and understanding of the foreign exchange market and different types of exchange rate systems. Some candidates understood part (a) of the question, but did not use the information given. However many responded accurately. Performance on the other parts of the question was good.

Question 15

This question required a knowledge of transnational corporations, the advantages of foreign direct investment and the effects of globalization on trade and investment flows in the Caribbean. Performance on this question was good.

PAPER 02 - Essays

This paper consisted of six questions, two per module. Candidates were required to answer one of two questions on each of the modules.

Module 1

This module dealt with national income accounting, the calculation of the growth rate of GDP, national income equilibrium, the consumption function, the multiplier and aggregate demand and supply.

Question 1

In this question candidates' ability to calculate percentage changes in national income, identify recessionary and inflationary gaps and identify the stages of the business cycle was assessed. Some candidates did not know how to perform the calculations, but most did the calculations correctly. Overall, performance on the question was satisfactory.

Question 2

This question required an understanding of the consumption function and the ability to calculate

- (a) the MPC;
- (b) the multiplier; and
- (c) the equilibrium level of income.

It also required an analysis of the effects of changes in the values of the variables that affect aggregate demand, supply and the price level. Some candidates found answering parts of this question very challenging. It appears that they did not grasp how to perform the calculations, draw and interpret the diagrams. Performance on the question was, however, satisfactory.

Module 2

This module dealt with money and banking, budget deficits and the national debt.

Question 3

This question required a knowledge of the nature, role and functions of money. The question required an understanding of the process by which the banking system created credit and the relationship between the interest rate and the quantity of money supplied. Candidates responded well to the question except in two areas:

- (i) many encountered difficulty giving two examples of money;
- (ii) some could not calculate the money multiplier and show how the banking system creates \$900 of credit from a deposit of \$100.

Performance on the question was satisfactory.

Question 4

This question required knowledge and understanding of fiscal policy, the relationship between budget deficits and the national debt and the burden the national debt places on future generations. Several parts of the question were done well, but some candidates could not state the relationship between budget deficits and the national debt. Some candidates had difficulty explaining how fiscal policies stimulate employment. Some candidates also could not explain the effect of a balanced budget on the equilibrium level of output. Overall performance on the question was good.

Module 3

Module 3 dealt with growth versus development, the factors that cause economic growth and the costs and benefits of growth. This module also dealt with the determination of exchange rates.

Question 5

This question required an understanding of economic growth and development and the ability to analyse and interpret information on growth and development. Candidates performed well on several parts of the question but two areas proved to be very challenging. Candidates had difficulty

- (i) discussing two benefits and two costs of growth; and
- (ii) listing and discussing three constraints to economic development of low income countries.

Performance on this question was fair.

Question 6

This question required knowledge of the different types of exchange rates systems and the ability to analyse exchange rate issues. Many candidates scored full marks for Part (a) of this question, while several others did well on Part (b) which required higher-level competencies. Some candidates found the analysis of exchange rate movements very challenging. Overall performance on the question was satisfactory.

GENERAL/SPECIFIC RECOMMENDATION TO TEACHERS

Teachers have achieved a great deal of success in the preparation of candidates for the Caribbean Advanced Proficiency Examinations in Economics.

Teachers are urged to seek methods of delivery that would make learning easier.

Teachers should ensure that the candidates taking the examination are fully prepared. Candidates should be made to understand the demands of the course from the inception and serious work should begin on the first day of the class. Teachers will find that it is a good investment to spend much of the first two or three weeks of the class on the quantitative techniques.

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

INTERNAL ASSESSMENTS (IAs)

Internal assessments required an extra effort from both teachers and candidates. In some cases candidates were required to do several projects, and some teachers are required to supervise a large number of SBAs. The link between Papers 01 and 02 and the SBA should be established so that the two are seen as reinforcing each other and not as conflicting. That is, the synergy between the two should be exploited.

- Teachers should exercise greater control over the topics chosen, assist the candidates in preparing an outline and exercise greater supervision of the project.
- Teachers should be guided by the rules set down in the syllabus.
- Some candidates did not comply with the word limit, but wrote lengthy papers. Some reports were not well presented. They lacked page numbering, a content page, a proper bibliography/references, headings and appendices. The font size was small (less than 12) and the spacing single (rather than double).

In many instances no attempt was made to evaluate the data presented and the modules were not integrated to form a whole.

Overall, performance in the SBAs was satisfactory and there was correlation between the teachers' marks and the moderators. With greater teacher guidance the SBAs should continue to improve.