CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE CARIBBEAN ADVANCED PROFICIENCY EXAMINATION MAY/JUNE 2005

ECONOMICS

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CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

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GENERAL COMMENTS

The majority of candidates performed well in this year's examination. However, there are areas of the syllabus which continue to pose challenges to some candidates.

DETAILED COMMENTS

UNIT 01

Paper 01 – Short Answers

This paper consists of fifteen compulsory short-answer questions, each worth six marks. There are five questions to each module. Performance on Paper 01 was good.

Module 1

The questions on this module tested candidates' appreciation of the links between some fundamental concepts of economics such as scarcity, choice, opportunity cost and efficiency.

Question 1

This question tested candidates' knowledge and understanding of the concepts "scarcity" and "opportunity costs" and candidates' ability to conduct analyses using these concepts. Seventy-five per cent of the candidates scored between four marks and the maximum six marks. The concepts tested are part of the foundation of the discipline and teachers must make every effort to ensure that they are perfectly understood by the candidates.

Question 2

This question required knowledge and understanding of "production possibilities frontier," the ability to draw it and to explain its various parts. Performance on this question was satisfactory, but many candidates showed incomplete knowledge of the concept.

Question 3

This question required knowledge of the factors that influence the demand for commodities, coffee in this case, and the way in which each factor influenced demand. Performance on this question was satisfactory.

Question 4

This question required knowledge and understanding of "equilibrium" and how prices are determined in the market by the forces of demand and supply. Performance on this question was excellent.

Question 5

This question required knowledge and understanding of average total and average variable costs and marginal costs, and the relationship among them. Although some candidates performed well on the question, far too many did not score high marks on this question. Teachers must be aware that this topic remains one of the most challenging to teach as well as to learn and, therefore, must use appropriate devises to impart their knowledge to their students.

Module 2

The questions on this module dealt with the efficiency of the market system in the allocation of scarce resources, market structure and with market failure. The performance on this module was satisfactory.

Question 6

This question required knowledge and understanding of the characteristics of two main types of market structures and the ability to analyse and evaluate them in terms of “efficiency”. Some candidates found this question to be quite challenging. Teachers must continue to encourage students to list the market types along with their characteristics to conduct comparisons. Performance on the question was satisfactory.

Question 7

This question required knowledge of the structure, behaviour and performance of oligopolies and cartels. Performance on the question was satisfactory.

Question 8

This question required knowledge and understanding of the forces responsible for the kinked demand curve. Most candidates were challenged by this question, but some were able to perform well on it.

Question 9

This question required knowledge and understanding of the characteristics of “public goods”. Most candidates were well prepared for this question and performance was excellent.

Question 10

This question required knowledge and understanding of the effect of “externalities” on the efficiency on market allocation of resources. Candidates’ performance on this question was satisfactory.

Module 3

The questions on this module dealt with the market for resources, functional distribution of income and asymmetric information. Performance on the module was excellent.

Question 11

This question required knowledge and understanding of the link between the earnings of the factors of production and the cost of production. Performance on this question was excellent.

Question 12

This question required knowledge and understanding of “derived demand”. While some candidates found this question challenging, others performed quite well on it. Performance on this question was generally satisfactory.

Question 13

This question required knowledge and understanding of the concepts, “poverty” and “basic needs”. The candidates were adequately prepared for this question and their performance on it was excellent.

Question 14

This question required knowledge and understanding of the determination of wages and employment by the labour market. Eighty-one per cent of the candidates obtained between four and the maximum six marks.

Question 15

This question required knowledge and understanding of (i) the effects of migration on wages and (ii) “asymmetric information”, “moral hazard” and “adverse selection”. Performance on this question was excellent.

Paper 02 – Essays

Paper 02 required higher-level competencies. Candidates were required to use their knowledge and understanding of basic economic theories, concepts and tools to analyse 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 the factors that influence demand, supply, market equilibrium, price and quantities of commodities traded. It also dealt with the production function, various cost concepts and how the producer decides on the optimum combinations of inputs to employ and the profit maximizing levels of outputs to produce.

Question 1

This question required candidates to demonstrate knowledge and understanding of the “Law of Variable Proportions” and the “Law of Increasing Costs”. It also required knowledge of the decision rules governing output levels. Candidates’ performance on this question was excellent.

Question 2

This question required knowledge and understanding of the factors that cause demand and supply to change as distinct from the own-price that causes change in the quantities demanded and supplied to change. Candidates were required to conduct an analysis of the market for a commodity (digital cameras). Performance on this question was very good. However, some candidates did not give adequate definitions for demand and supply, while others confused factors that influence demand with those that influence supply. In addition, some candidates did not label the axes correctly.

Module 2

This module required candidates to demonstrate knowledge and understanding of market structure, the influence of market structure on the efficiency with which resources are allocated, and the role of governments when markets fail.

Question 3

This question required candidates to give definitions of key terms, to demonstrate understanding of the main types of market structures and to analyse the performance of these market structures. In some instances the definitions were too vague and candidates did not demonstrate enough familiarity with key economic terminologies, for example, economic profit and normal profit.

Performance on this question was good.

Question 4

This question required candidates to demonstrate their understanding of and their ability to use important economic concepts related to market failure. Candidates were required to analyse a current economic issue of importance to the Caribbean (escalating petroleum prices), and to discuss the role of governments in resource allocation.

Some candidates performed well on this question, but many did not demonstrate adequate knowledge and understanding of this part of the syllabus. Basic knowledge of the few factors that cause market failure and their role in this process were not adequately demonstrated.

Module 3

This module dealt with the distribution of income, measuring equity and the effect of inequality on the well-being of citizens. It also required candidates to demonstrate knowledge and understanding of the role of governments in improving the well-being of citizens, and the ability to analyse and evaluate welfare programmes. Candidates were also required to demonstrate understanding of the effects of asymmetric information on decision making.

Question 5

This question required candidates to demonstrate knowledge and understanding of inequality as one cause of poverty, the "Gini Coefficient" and "The Lorenz Curve". Candidates were also required to analyse and evaluate government programmes aimed at reducing poverty. Some candidates found part (a) quite challenging and demonstrated limited familiarity with the "Gini Coefficient" and the "Lorenz Curve". However, candidates' performance on this question was satisfactory.

Question 6

This question required knowledge and understanding of social welfare, social welfare programmes and the motivation for such programmes. Candidates were also required to demonstrate knowledge and understanding of information asymmetry on decision-making and to analyse and evaluate the effects of a legal minimum wage. Performance on this question was good. However, many candidates encountered strong challenges in defining some of the terms and demonstrated little knowledge and understanding of minimum wages and their effects.

Paper 03/1 - Internal Assessment - See page 12

UNIT 2

This Unit tested candidates' knowledge and understanding of macroeconomics concepts and issues, and their ability to conduct analyses and evaluation of economic policies and programmes. Performance on this Unit was satisfactory.

Paper 01 - Short Answers

This paper consists of fifteen compulsory short-answer questions, divided into three modules of five questions each. Each question is worth six marks. Performance on the paper was satisfactory.

Module 1

The questions on this module required candidates to demonstrate knowledge and understanding of national income accounting and the determination of national income equilibrium using the Keynesian framework. Candidates were also required to demonstrate knowledge and understanding of the MPC, the calculation of the multiplier, and inflationary and deflationary gaps.

Question 1

This question required candidates to demonstrate knowledge and understanding of nominal and real GDP. Forty-six per cent of the candidates achieved between four and the maximum six marks for the question. However, some candidates did not give clear and precise definitions of key terms, and demonstrated little knowledge of the term, "base year".

Question 2

This question dealt with the items that enter into the computation of the GDP, using the expenditure method. Performance on the question was excellent. Seventy-three per cent of the candidates achieved between four and the six maximum possible marks.

Question 3

This question required candidates to demonstrate the ability to calculate Savings, the MPC and the multiplier. Performance on this question was generally good, but some candidates found the calculations to be challenging.

Question 4

This question required candidates to demonstrate knowledge and understanding of the Keynesian explanation of the determination of national income equilibrium. Performance on this question was good, but many candidates did not reproduce the "Keynesian Cross" nor were they able to identify the consumption function, dis-saving and saving correctly.

Question 5

This question tested candidates' knowledge and understanding of two major economic problems, inflationary and deflationary gaps. Performance on this question was good.

Module 2

The questions on this module covered issues relating to money and banking, monetary and fiscal policy, the burden of the national debt and its alleviation. Candidates performed well on the module.

Question 6

This question required candidates to demonstrate knowledge and understanding of the constituents of money, the relationship between the interest rate and money demand and the relationship between changes in the quantity of money and the price level. Performance on this question was good, although some candidates could not identify fiat money.

Question 7

This question required candidates to demonstrate knowledge and understanding of relationship between (i) budget deficits and the national debt and (ii) the MPS and the multiplier and to explain the relationships. Performance on the question was good, but some candidates did not give clear explanations of the relationships.

Question 8

This question required candidates to demonstrate knowledge and understanding of the tools at the Central Bank's disposal to expand the money supply, and how it uses the tools. Candidates were also required to calculate the reserves and excess reserves of a bank, given the deposits and the required reserve ratio. While some candidates performed well on this question, others were not familiar with how the tools at the disposal of the Bank are used to expand the money supply.

Question 9

This question required knowledge and understanding of fiscal policy lags, the balanced budget multiplier and budget deficits. Some candidates performed well on the question, but many were not knowledgeable about the fiscal policy lags and could not define the balanced budget multiplier.

Question 10

This question required knowledge and understanding of the national debt, the severity of the debt and debt rescheduling. Candidates performed well on this question. However, many of them were not well acquainted with the term "debt rescheduling".

Module 3

This module dealt with the meaning, measurement and benefits of economic growth and economic development. It also required knowledge and understanding of comparative advantage as the basis of international trade and reasons for restricting international trade. Candidates were also required to demonstrate knowledge and understanding of the balance of payments, foreign exchange regimes and the determination of exchange rates by the market.

Question 11

This question required candidates to demonstrate knowledge and understanding of the role of capital accumulation in economic development and the characteristics of Caribbean economies that act as hindrances to economic development. Performance on this question was good.

Question 12

This question required candidates to demonstrate knowledge and understanding of economic growth and development, how the growth rate is measured and the costs and benefits of economic growth. Performance on the question was satisfactory. The major weakness demonstrated by candidates was that the definitions they gave were incomplete. There were also some candidates who were unable to say how growth was measured and to identify different types of capital.

Question 13

This question tested candidates' knowledge and understanding of comparative advantage, the types of restrictions that countries put on trade and the reasons for doing so. Performance on the question was good with most of the candidates getting fifty per cent or more of the marks.

Question 14

This question required candidates to demonstrate knowledge and understanding of entries in the balance of payments, of the accounts making up the balance of payments and their calculation. Performance on this question was excellent.

Question 15

This question required candidates to demonstrate knowledge and understanding of exchange rate regimes and the calculation and determination of exchange rates. Performance on this question was good, however many candidates did not demonstrate an adequate grasp of the concepts, "appreciation and depreciation".

Paper 02 – Essays

This paper consisted of six questions, two per module. Candidates were required to answer one question from each module. Performance on this paper was satisfactory.

Module 1

This module dealt with issues surrounding, (i) national income accounting and (ii) using a small model of the economy to derive the equilibrium amounts of income, expenditure and some key parameters of the economy.

Question 1

This question required that candidates demonstrate knowledge and understanding of the calculation of GDP using the income and expenditure approach, and the concept of "double counting". Although performance on this question was good, some candidates did not demonstrate adequate knowledge and understanding of the approaches.

Question 2

This question tested candidates' knowledge and understanding of how to use a small model to derive the equilibrium amounts of income and expenditure, the MPS, MPC, and the multiplier. Candidates were also required to plot the consumption function. Performance on the question was unsatisfactory. Several candidates were not able to perform the calculations and plot the consumption function accurately.

Module 2

This module dealt with monetary and fiscal policy and the effect of a country's national debt on several variables. Performance on the question was satisfactory.

Question 3

This question required that candidates demonstrate knowledge and understanding of monetary concepts and theory, the role of the central bank in the management of the economy and determinants of the transactions demand for money. Performance on this question was satisfactory. However, some candidates could not explain how leakages impact the money expansion process.

Question 4

This question dealt with measurement of the national debt, measures to reduce the debt burden and the effect of the debt on the other economic variables. Candidates were also required to demonstrate knowledge and understanding of the formulation and goals of fiscal policy. Performance on the question was unsatisfactory. Several candidates were not clear about the effect of deficits on other economic variables.

Module 3

This module dealt with sources of economic growth, the effect of globalization on Caribbean economies, the balance of payments and exchange rate regimes. Performance on the module was satisfactory.

Question 5

This question required candidates to demonstrate knowledge and understanding of the sources of economic growth, the major features of globalization, and their effects on Caribbean economies. Performance on this question was satisfactory, although some candidates encountered difficulties analysing and evaluating the issues.

Question 6

This question required that candidates demonstrate knowledge and understanding of the items that comprise the accounts of the balance of payments and exchange rates. Candidates were also required to analyse and evaluate issues surrounding the exchange rate regimes and the balance of payments. Performance on this question was satisfactory. However, some candidates encountered difficulties computing the balance of payments.

Paper 03 - Internal Assessment for Units 1 and 2

There was an improvement in the quality of the internal assessment samples moderated this year. However, there were some projects which did not measure up to the expected standard. While it is appreciated that some candidates offer several subjects at the CAPE, and that the three elements of each subject could impose heavy demands on the candidates, efforts must be made to exploit the synergies among the elements of the examination, by treating them as complementary rather than conflicting.

The good projects were characterized by excellent organization and presentation. For some projects, the topic was either absent or unclear, as were the objectives of the research and the issues addressed. Some candidates submitted statistics and tables which were not used in the analyses.

Another area of concern is plagiarising and not acknowledging the work done by others.

Teachers have a critical role to play in ensuring that candidates produce projects of the highest quality. This can be achieved by monitoring, guiding and advising candidates. Candidates should be assisted to choose their topics and to develop an outline the road map that guides the candidate along the way to the final product. This approach would help candidates avoid topics that are too broad in scope and unfocused.

Teachers too should follow the guidelines in all aspects of the exercise; ensuring that attention is paid to each module, in awarding marks, completing the moderation forms and submitting forms and papers.

Some further recommendations for the improvement of the papers are as follows:

Candidates should adhere strictly to word limit of the project.
Certain skills should be emphasized; analysis, synthesis, application and evaluation.
Candidates should make greater use of primary data.
The three modules should be closely integrated, rather than be presented as stand alone essays.

RECOMMENDATIONS TO TEACHERS

Teachers have adjusted admirably to the demands of the CAPE in Economics. There is evidence of some degree of improvement in candidates' performance. Teachers are encouraged to make learning more attractive.

Economics is based on robust logical reasoning and may be deceptive to the unwary person. Candidates need to pay close attention to the terms, concepts and theories, so that they could develop a facility in explaining them.

Economics requires strong quantitative tools and teachers should invest time in developing these tools, which should be put to use throughout the course of study. Tabular, numerical and graphical techniques should be emphasized. Students must be trained to label axes and curves when drawing diagrams. Increasingly there will be the requirement to plot curves.

There are some terms, concepts and theories which are the tools of the trade: the calculation of slopes, elasticity coefficients, multipliers, percentages, rates of growth, demand, supply, equilibrium price and quantity, the Keynesian Cross (the 45 degree line diagram) used to show national income equilibrium must be thoroughly understood.

The decision rules must be understood. Students should not only know that output occurs where MR = MC, or that the MC curve cuts AR curve at its lowest point, but they should know why.

Teachers should ensure that adequate assignments targeting the most challenging aspects of the subject matter are done by their students.