CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

MAY/JUNE 2003

ECONOMICS

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CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

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GENERAL COMMENTS

The overall performance of the candidates at the June 2003 CAPE Economics examinations was satisfactory. This was expected as candidates dealt with familiar issues emanating from their own environment.

UNIT I

PAPER 01

Schools and candidates continue to make progress adjusting to CAPE Economics, Unit I, (Microeconomics). While there are some areas of the syllabus that continue to be challenging, some candidates have provided responses of an excellent standard.

This paper consisted of 15 questions, five per module, and each question was worth six marks.

PAPER 01 – SHORT ANSWERS

Module 1

This module focused on how the market allocates scarce resources to competing wants. Generally candidates preformed well on this Module with 87 per cent obtaining a passing grade. The mean mark on this Module was 14.97 and the standard deviation was 5.41.

Question 1

This question required knowledge and understanding of the concepts of scarcity and opportunity cost. Candidates were required to draw and explain a production possibilities frontier diagram. These concepts and skills are fundamental to an understanding of economics and many candidates had a good grasp of them. Candidates performed well on this question which had a mean of 4.05 and a standard deviation of 1.51.

Question 2

This question required knowledge and understanding of the tools of economic analysis and the ability to apply them. In order to do well on this question candidates were expected to have grasped the skills needed to construct demand, supply and cost schedules (tables), and convert the information contained in them into demand, supply and cost curves. The teachers should introduce the construction of diagrams and the calculation of slopes of straight lines early in the course. The mean on this question was 2.47 and the standard deviation was 1.30.

Question 3

This question required knowledge and understanding of the concepts of utility and indifference curves. It also required candidates to have a good understanding of the assumptions on which indifference curves are based. This question had a mean mark of 2.84 and a standard deviation of 1.68.

Question 4

This question required knowledge and understanding of various cost concepts and the ability to apply them. Candidates were expected to use and interpret devices such as tables and diagrams. Candidates performed very well on this question which had a mean of 3.45 and a standard deviation of 2.06.

Question 5

This question required knowledge and understanding of fundamental concepts of price, elasticity, the strength of the response to price changes, and the ability to apply the knowledge in the analysis of simple problems. The mean mark on this question was 2.15 and the standard deviation was 1.93.

Module 2

This module focused on market structures in the Caribbean, the ideal case of perfect competition, market structures that deviate from the ideal, multinational corporations in the Caribbean, output and pricing decisions of firms. The overall performance of candidates on this Module was excellent with 93 per cent obtaining a passing grade. The mean mark on this Module was 15.75 and the standard deviation was 4.72.

Question 6

This question required knowledge of the differences and similarities among the different types of market structures, in particular, perfect competition and monopolistic competition. Candidates were also required to apply this knowledge to businesses/industries in their country. Performance on this question was quite good. The mean mark was 4.02 and the standard deviation was 1.56.

Question 7

This question required a good knowledge and understanding of the marginal concept, as in economics most decisions are made at the margin. Candidates should be able to use the verbal, arithmetic and graphical approaches in order to ensure a full grasp of the concept. This question had a mean mark of 2.39 and a standard deviation of 1.92.

Question 8

This question required knowledge of multinational corporations that operate in the Caribbean, their modus operandi and the potential advantages and disadvantages Caribbean economies may experience from their presence. These issues are current in the Caribbean. Candidates should be encouraged to follow current economic issues discussed in the various media. This question had a mean mark of 3.43 and a standard deviation of 1.78.

Question 9

This question required candidates to show knowledge and understanding of market failure, to state what a monopoly is and explain why monopolies are inefficient compared to perfect competition. Candidates demonstrated a good grasp of the concepts of market failure and efficiency and were able to compare and contrast different market structures. Candidates performed best on this question in this Module. The mean mark was 4.17 and the standard deviation was 1.25.

Question 10

This question required candidates to show knowledge and understanding of normal profit, the four-firm concentration ratio and the Herfindahl-Hirschman Index. The latter two are used to measure the level of competition. Candidates were expected to be familiar with the methods used to calculate these two measures and be able to use them to interpret the level of competition. Candidates did not perform well on this question which had a mean mark of 1.73 and a standard deviation of 1.71.

Module 3

This module dealt with the theory of income distribution, the market for resources and issues of poverty. This Module proved to be challenging to many candidates. Sixty-two per cent obtained a passing grade. The mean mark on the Module was 10.33 and the standard deviation was 4.71.

Question 11

This question required candidates to demonstrate knowledge and understanding of the concepts of derived demand and marginal revenue product. Candidates were required to derive the demand curve for factors of production or inputs. The marginal concept is pervasive in economics and must be well understood by candidates. Candidates did not perform well on this question. The mean mark was 1.43 and the standard deviation was 1.65.

Question 12

This question required definitions for the labour force, the potential labour force and the labour force participation rate and the ability to calculate the last. This question challenged many candidates. The mean mark was 1.30 and the standard deviation was 1.28.

Question 13

This question required knowledge and understanding of the Gini coefficient, the Lorenz curve and how they are used to measure the degree of inequality in the distribution of wealth, income and other variables. Candidates found this question challenging. The mean mark was 0.97 and the standard deviation was 1.61.

Question 14

This question required candidates to demonstrate their knowledge of levels of poverty, the causes of poverty and the potential impact of the free movement of labour in CARICOM. These are topical issues with which teachers should familiarize the candidates. The question was generally well done by candidates. The mean mark was 3.68 and the standard deviation was 1.48.

Question 15

This question required knowledge of the concept asymmetric information, social welfare and the ways in which governments help the needy, bypassed by the economic system. Candidates were expected to have an understanding how asymmetric information leads to market failure and that poverty, reduced by social welfare programmes, may be evidence of market failure. The overall performance of candidates on this question was good. The mean mark was 2.95 and the standard deviation was 1.87

GENERAL COMMENTS

PAPER 2 – ESSAYS

Paper 2 gave students the opportunity to demonstrate higher-level competencies through application of knowledge and understanding of economic concepts and tools, ability to analyze economic issues, and to evaluate economic policies and programmes. Candidates were required to answer one of the two questions in each of the three modules. Each question was worth 50 marks. The mean mark on this paper was 80.26 and the standard deviation was 24.12.

Module 1

Question 1

This question required candidates to demonstrate ability to trace the economic effects of a subsidy offered by a foreign government to its industry producing a product that competes with an identical or similar product produced in a CARICOM member state. Candidates were required to discuss the several important economic variables which are affected by such policy initiatives and demonstrate the usefulness of diagrams in helping to isolate some of the effects. The mean mark on this question was 22.88 and the standard deviation was 9.27.

Question 2

This question required candidates to demonstrate knowledge and understanding of consumers' problems and to discuss solutions to those problems. Candidates were required to know what the concept of indifference represents, how to use prices and income to draw budget lines, how changes in prices and income will affect the position of budget lines and the choices that consumers make. This question was generally well answered. The mean mark was 33.18 and the standard deviation was 11.36.

Module 2

This module required knowledge of the assumptions on which the model of perfect competition is built, knowledge of monopolies, the causes of market failure and how these cause inefficient resource allocation. Generally candidates performed well on this Module. The mean mark was 25.69 and the standard deviation was 12.93.

Question 3

This question required knowledge of the assumptions of the model of perfect competition and monopolies. Candidates were required to know the differences among the various types of monopolies and how they effect consumer surplus and producer surplus. Candidates were expected to reproduce the diagram showing deadweight loss due to a monopoly. Candidates found this question challenging. The mean mark was 17.61 and the standard deviation was 8.64.

Question 4

This question required knowledge and understanding of the causes of market failure and the policy measures that government may employ to deal with market failure. This topic is highly amenable to class discussion and debate, guided by the teacher. This question was very popular with candidates. The mean mark was 29.55 and the standard deviation was 12.79.

Module 3

This module required higher-level competencies and the ability to analyze and evaluate government policies. The overall performance of candidates on this Module was good. The mean Module mark was 26.05 and the standard deviation was 8.75.

Question 5

This question required knowledge and understanding of poverty, how it can be measured, and its causes, consequences and solutions. All the economies in the region are combating poverty and teachers will find that candidates have a high interest in the topic. Candidates were required to be acquainted with the way in which poverty is treated in the UNDP Human Development Report. This question had a mean mark of 26.03 and a standard deviation of 7.80.

Question 6

This question required knowledge and understanding of the minimum wage, why minimum wage laws are enacted, which categories of workers it covers and how it affects real wages, earnings, employment, unemployment and workers' welfare. The mean mark on this question was 26.12 and the standard deviation was 11.18.

GENERAL COMMENTS

UNIT II

Overall, this unit, which dealt with macroeconomic concepts and issues, was handled well by the candidates who demonstrated a good grasp of the subject matter. The responses to several of the questions in both Papers 1 and 2 were of a satisfactory standard.

PAPER 01 – SHORT ANSWERS

This paper consisted of 15 questions, five per Module. Candidates were required to answer all questions and each question was worth six marks.

Module 1

This module dealt with the identification of macroeconomic variables and required knowledge and understanding of the variables and relationships comprising the aggregate expenditure model. Candidates performed well on this Module. The Module mean mark was 13.14 and the standard deviation was 4.05.

Question 1

This question required candidates to distinguish between microeconomic and macroeconomic variables and concepts and to demonstrate knowledge of how they are measured. Many candidates were able to identify the variables, but some had difficulty explaining how inflation, unemployment and economic growth are measured. The overall performance of candidates on this question was quite good. The mean mark was 4.53 and the standard deviation was 0.97.

Question 2

This question required knowledge of Say's law and the relationship among savings, investment and the interest rate. Candidates were required to know the variables that affect the savings and investment schedules and determine the equilibrium level of interest rate. Many candidates found this question to be very challenging. The mean mark was 0.92 and the standard deviation was 1.21.

Question 3

This question required candidates to demonstrate the ability to use the 45^{o} line diagram, along with the consumption and investment functions, to show the equilibrium level of income and the levels of savings and dis-savings in the model economy. They were also required to use the marginal propensities to consume and save and to compute the multiplier and the amount by which the equilibrium level of income changed, given an injection. The mean mark on this question was 2.39 and the standard deviation was 1.81.

Question 4

This question required students to demonstrate knowledge of the major factors that influence investment spending and to state the likely effects of an increase in government spending on defence. Performance on this question was moderate. The mean mark was 2.04 and the standard deviation was 1.37.

Question 5

This question required candidates to demonstrate knowledge and understanding of the factors that influence export revenue and import expenditure and to state two ways in which Caribbean economies could reduce expenditure on imports. Candidates responded very well to the second part of the question, but found the first part challenging. Candidates performed well on this question. The mean mark was 3.25 and the standard deviation was 1.59.

Module 2

This module dealt with money and banking, money creation, monetary policy, the fiscal deficits and the burden of the national debt. The mean mark on this Module was 12.58 and the standard deviation was 4.06.

Question 6

This question required knowledge and understanding of Keynes' three motives for holding money, money market equilibrium and the factors that determine (i) the demand for money, (ii) the supply of money and (iii) the equilibrium interest rate. Candidates' answers to this question were generally satisfactory, but they found part (c) challenging. The mean mark on this question was 2.54 and the standard deviation was 1.03.

Question 7

This question required candidates to calculate the velocity of money, and to explain the effects of an increase in the money supply on three variables. The calculation presented no problem for an overwhelming majority of the candidates, but the analysis of the impact of an increase in the money supply presented great difficulty for many. Candidates were expected to understand the effects of changes in the money supply on real and financial variables. Performance on this question was good. The mean mark was 3.61 and the standard deviation was 1.73.

Question 8

This question dealt with the money creation and the money distribution processes. This question was not well done because some candidates could not calculate excess reserves and many candidates did not know at what stage a deposit created money. This question had a mean mark of 2.24 and a standard deviation of 1.21.

Question 9

This question dealt with the effect of budget deficits on the economy, the effects of a large national debt and ways in which a country can reduce its debt burden. While candidates could state the adverse effects of the national debt, most of them encountered difficulty drawing the diagram in part (a) and in stating one way in which a country can reduce its debt burden. The mean mark on this question was 2.57 and the standard deviation was 1.46.

Question 10

This question required candidates to state the effects of expansionary monetary policy on employment, output and the price level, when the economy is at full employment, and the effects of a balanced budget on employment, output and the price level, when the economy has a lot of excess capacity. Many candidates found this question challenging. Candidates are required to know that the effects of monetary and fiscal policy depend on the state of the economy. The mean mark on this question was 1.62 and the standard deviation was 1.30.

Module 3

This module dealt with trade and protection, the advantages and disadvantages of membership in CARICOM and the Single Market and Economy, the computation and analysis of balance of payments accounts, exchange rate management, and globalization and its likely effects on Caribbean economies. This Module had a mean mark of 10.71 and a standard deviation of 5.06

Question 11

This question required knowledge and understanding of comparative advantage, its computation, the ability to use it to determine which commodities would be exported and which would be imported, and the infant industry argument. Candidates handled sections (b) and (c) well, but many could not calculate opportunity cost. This question had a mean mark of 2.66 and a standard deviation of 1.75.

Question 12

This question required knowledge of the benefits derived from membership in CARICOM and the disadvantages associated with the free movement of labour under the CARICOM Single Market and Economy (CSME). Candidates knew the benefits of membership in CARICOM, but were less familiar with the disadvantages that might be associated with the free movement of labour. The mean mark on this question was 3.11 and the standard deviation was 1.90.

Question 13

This question required knowledge and understanding of balance of payments accounting and the reasons why persistent payment deficits are undesirable. Candidates were comfortable with section (b) of the question, but many candidates found the computations difficult. Candidates need to develop their skills in computation. Many candidates found difficulty with this part of the question. The mean mark was 1.13 and the standard deviation was 1.44.

Question 14

This question required knowledge and understanding of the determination of exchange rates, the effect of a country's inflation on its exchange rate and the measures the country's monetary authorities may take to maintain the value of their currency. Candidates responded very well to section (b) regarding the policy measures, but encountered difficulty using the demand and supply diagram to explain the effect of inflation on the exchange rate. Many candidates found this question very challenging. The mean mark was 0.63 and the standard deviation was 0.99.

Question 15

This question required knowledge and understanding of globalization and the potential dangers it holds for the Caribbean economies. The vast majority of candidates were able to produce good responses to this question, however, they should be encouraged to read and follow the news on debates on the issue of stabilization. The question had a mean mark of 3.17 and a standard deviation of 2.57.

PAPER 2 - ESSAYS

This paper consisted of six questions, two per Module. Candidates were required to answer one of the two questions on each of the three Modules. Generally candidates performed well on this paper. The mean mark was 80.62 and the standard deviation was 22.67.

Module 1

Question 1

This question required candidates to demonstrate knowledge and understanding of (i) the consumption function, (ii) the ability to explain the factors that affect consumption and (ii) the ability to explain the Permanent Income and Life-Cycle hypotheses of consumption, their assumptions and implications. Some candidates wrote good responses for some parts of the question, for example, section (a) (ii), but other parts presented serious difficulty. It appeared that candidates were not exposed adequately and given in-depth explanations of these hypotheses. The mean mark for this question was 27.12 and the standard deviation was 8.42.

Question 2

This question required knowledge and understanding of (i) inflationary and deflationary gaps and the economic conditions they represent, (ii) the MPC, MPS and the multiplier, (iii) the policy measures that are available to the decision-maker to close the gaps, and (iv) the implications of the balanced budget multiplier. Many candidates wrote satisfactory responses to the question. Most could identify the gaps, but did not know what policies would close them. Given the MPC, candidates should be able to calculate the multiplier and the change in expenditure required to close the gaps. The mean mark on this question was 24.65 and the standard deviation was 15.73

Module 2

Question 3

This question required candidates to demonstrate their knowledge and understanding of money and banking, the characteristics of good money and the money creation process. Most candidates knew the characteristics of good money, but displayed weak knowledge of how a banking system works. Teachers should focus on this aspect of banking to ensure that candidates are familiar with the way the system works and can use that knowledge to analyze and evaluate monetary measures. The mean mark on this question was 26.88 and the standard deviation was 10.32.

Question 4

This question required knowledge and understanding of the measurement of money, the ways in which inflation affects the functions of money and how the Central Bank regulates the money supply. Most candidates knew the difference between narrow and broad money and their functions, but many lacked knowledge of the monetary base and how the Central Bank uses changes in the reserve requirement and the discount rate to impact on monetary policy. This question had a mean mark of 27.73 and a standard deviation of 10.89.

Module 3

Question 5

This question required the ability to draw and use a diagram to explain and analyze the effect of tariffs on a country's production, consumption and importation of milk, and to show the net consumers' losses, producers' gain, and government revenues from taxation. Candidates were also required to demonstrate knowledge of globalization and the arguments for and against protectionism. Most of the candidates knew the meaning of globalization and were well acquainted with the arguments for and against globalization, however, they could not use the diagram as required by the question. The mean mark on this question was 22.90 and the standard deviation was 9.33.

Question 6

This question required knowledge and understanding of various exchange rate regimes. Candidates were also required to demonstrate knowledge of the measures used by the monetary authorities to maintain the value of the currency under a fixed exchange rate regime. Candidates could distinguish among the three exchange rate regimes, but had difficulty using the diagram as required by the question. The mean mark on this question was 29.43 and the standard deviation was 9.47.

GENERAL / SPECIFIC RECOMMENDATIONS TO TEACHERS

Teachers have been doing a commendable job preparing candidates for the CAPE examinations and, as a result of their efforts, candidates' performances have shown improvement. They are urged to maintain their efforts and strive to find ways to make the subject more candidate-friendly.

Also, teachers are well advised to ensure that candidates are adequately prepared. They should ensure that candidates are absolutely comfortable drawing and interpreting diagrams and calculating the slopes of straight lines, elasticity coefficients, and multipliers.

INTERNAL ASSESSMENTS (IAs)

This year, open examinations were offered for both Units I and II. As a result, candidates writing both Units were required to prepare two internal assessments. In general, there was some improvement in the projects submitted. However, the Unit II projects were done much better than Unit I projects. In the case of Unit I, candidates seem unable to analyze chosen issues at the micro-level. More teacher guidance is required to assist students in overcoming this weakness.

The topics selected were generally suited to the level of the candidates but too many students are still trying to fit the topics of the entire syllabus into their projects rather than focus on the relevant sections from each of the three modules. If this can be done, the quality of the projects would improve significantly.

Also, the projects are still too long with no reference to the material outlined in the appendices. The use of empirical evidence is also scant and one gets the impression at times, that the students are merely repeating the general opinion in their society regarding the issue at hand without the necessary justification. Further, candidates are still not using footnotes or giving credit to authors' works that they have used. This is called plagiarism and should not be tolerated. Teachers should ensure that this practice is discontinued.

Finally, both Unit I and Unit II projects showed a marked deficiency in the knowledge of the topics in Module 3. As such, candidates' knowledge of this segment of the syllabus was weak and this weakness was manifested in almost all of the projects. This may be due to the fact that teachers are unable to complete teaching of the entire syllabus.