

CARIBBEAN EXAMINATIONS COUNCIL

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

MAY/JUNE 2013

ECONOMICS

GENERAL COMMENTS

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)

The overall performance of candidates was satisfactory.

Unit 1 dealt with microeconomic theories, concepts and issues. Performance in Unit 1 was good. The mean mark was 165.61 out of 300 (55.20 per cent). The standard deviation was 42.44.

Unit 1 was divided into three modules:

Module 1 – Methodology of Economics and the Analysis of Demand and Supply

Module 2 – Market Structure, Market Failure and Intervention

Module 3 – Distribution Theory and Application of Recent Theoretical Developments

Module 1 tested candidates' basic understanding of demand and supply, and graphical representation of same. It also tested their analytical skills concerning the market model, as well as marginal and average costs. Candidates were required to analyse the supply side of the market and explain the relationship between the supply curve and marginal cost curve. Performance on this module was good. The mean mark was 63.36 out of 100. The standard deviation was 16.62.

Module 2 tested candidates' ability to analyse the efficiency with which the economy allocates scarce resources and to demonstrate understanding of economic concepts such as economic efficiency and market failure. Candidates were also required to explain how various factors contribute to market failure and how government intervention can correct market failure caused by public goods. Candidates were required to identify the major characteristics of perfect competition and draw comparisons between perfect competition and monopolistic competition. Performance on this module was unsatisfactory. The mean mark was 48.29 out of 100. The standard deviation was 17.27.

Module 3 required an understanding of the rewards for the factors of production. It dealt with a number of popular issues such as the effects of minimum wage laws and the impact of an imposition of the minimum wage on the labour market. The concepts tested included marginal productivity theory, transfer earnings and economic rent. Candidates were required to calculate the marginal product and marginal revenue product from the data given and to use the theory to determine the optimal level of employment and explain why that level is optimal. Performance on this module was fair. The mean mark was 50.26 out of 100. The standard deviation was 16.23.

Unit 2 dealt with macroeconomic theories, concepts and issues. Many candidates demonstrated a good grasp of the subject matter. Overall, performance was good. The mean for Unit 2 was 178.46 out of 300 (59.49 per cent). The standard deviation was 47.15.

Unit 2 was divided into three modules:

Modules 1 – Models of the Macroeconomy

Modules 2 – Macroeconomic Problems and Policies

Modules 3 – Growth, Sustainable Development and Global Relations

Module 1 required candidates to demonstrate knowledge and understanding of basic macroeconomic concepts, National Income, the Keynesian Consumption theory and the Classical Model. Performance was good. The mean mark was 59.18 out of 100. The standard deviation was 17.72.

Module 2 tested candidates' knowledge of Monetary Theory and Policy, and Fiscal Policy. Performance was fairly good. The mean mark was 54.76 out of 100. The standard deviation was 18.80.

Module 3 dealt with Growth and Development, International Trade, Exchange Rate and Foreign Direct Investments. Performance on the module was good. The mean mark was 60.35 out of 100. The standard deviation was 19.12.

DETAILED COMMENTS

UNIT 1 – MICROECONOMICS

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 60.16 (66.84 per cent) out of 90. The standard deviation was 16.72. Eighty two per cent of the candidates scored at least 50 per cent of the maximum available marks. Twelve candidates achieved the maximum mark.

Paper 02 – Essays

Paper 02 required candidates to employ higher-level competencies to analyse economic issues, apply economic theories in solving problems 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 25 marks. Performance on the paper was disappointing. The mean mark was 62.75 out of 150. The standard deviation was 41.83.

Question 1

This question was attempted by approximately 86 per cent of the candidates, 73 per cent of whom scored at least 50 per cent of the available marks. Part (a) required the candidates to define the terms *demand*, *supply* and *equilibrium*. In Part (b), candidates were required to calculate demand schedule from given data. Part (c) tested candidates' ability to draw a market diagram identifying *equilibrium*, *equilibrium price* and *equilibrium quantity*. In Part (d), candidates were required to analyse the effects of a tax on market supply and the effectiveness of such a policy.

Approximately 80 per cent of the candidates were able to state the definition for *demand*, *supply* and *equilibrium* in Part (a). Approximately 20 per cent of the candidates were unable to highlight key points in the definitions, for example, in the definition of demand, mentioning being both *willing* and *able* to purchase a good at various prices, would have afforded the candidates the maximum marks. In defining supply, some candidates defined it in terms of *production* of goods rather than *supplying* or *offering* goods on the market. Many did not use the word *price* in their definition.

In Part (b), most candidates were proficient in calculating market demand from the data given. This indicated that the candidates could distinguish between individual demand and market demand. In Part (c), most candidates were able to draw the market diagram showing the demand and supply curves, however a few incorrectly labelled the diagram.

Part (d) (i) proved to be the most challenging part of this question. Candidates were required to apply analytical skills. No candidate was able to score the maximum mark in this part. The minority scored a high of six out of a possible eight marks and the majority scored in the range two to four marks. Candidates focused on the demand side rather than the supply side despite the question explicitly stating that the analysis should be done from the perspective of the supply side. Many candidates did not correctly identify tax as a non-price factor affecting supply.

Therefore they incorrectly associated a rise in price due to the tax with an upward movement along the supply curve, that is an increase in the quantity supplied (the law of supply) rather than a shift in the supply curve to the left indicating an increase in the cost of producing the good.

In Part (d) (ii), approximately 60 per cent of the candidates correctly stated that the government objectives of increasing revenue and reducing obesity were accomplished by the imposition of the tax. However, too many candidates were unable to justify their reasons, in fact many gave reasons that went in direct opposition to the correct statement. This indicated that candidates do not thoroughly understand the concept.

Recommendations

Teachers are encouraged to delve into deeper analysis with students. Students should be taught to explain how the shift factors and movement factor cause the shift or movement. Teachers should also emphasize the difference between non price effects and price effects on supply. Students should be taught the effect of a tax on supply and the incidence of the tax borne by the producer and consumer. Teachers should employ exercises to show the impact that a tax has on a firm, they can draw from case studies in various texts on the subject.

Question 2

This question was attempted by approximately 14 per cent of the candidates, 18 percent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to define *marginal cost* and *average variable cost*. In Part (b), candidates' ability to identify a factor that causes a movement along the supply curve and two factors that cause the supply curve to shift was tested. Part (c) required candidates to draw a diagram of the marginal cost curve and the average variable cost curve and use the diagram to explain the relationship between the supply curve and the marginal cost curve.

In Parts (a) and (b), a significant number of candidates gave an imprecise definition of marginal cost with, some definitions being incomplete. Candidates however displayed more difficulty in defining average variable cost. The majority of candidates were able to identify the factors that caused a shift in the supply curve but a lesser amount knew that the price caused a movement along the curve. Though they were able to identify the factors they did not sufficiently explain how the change was caused. For example:

The movement along the curve as a result of a price increase is due to firms wanting to increase output in response to a higher price, the more the increase output is the more the extra cost of producing an extra unit will increase (marginal cost), firms are therefore willing to incur this higher cost since their cost will be covered by the higher price.

Many candidates simply pointed out that an increase in price will cause a movement up and along the supply curve which represents an increase in quantity supplied.

Part (c) presented a challenge to most candidates; they did not recognize that the supply curve is the marginal cost curve above the average variable cost curve in the perfectly competitive market. Some candidates drew a separate marginal cost curve and superimposed upon that a supply curve; the candidates thereby demonstrated that they did not understand the relationship between the two concepts. Although a few candidates were successful in drawing and labelling the diagram, they did not adequately explain the relationship between the supply and marginal cost curves. Many were also unable to correctly label the curves as well as the axes.

Recommendations

This part of the module tends to be particularly challenging for students. Teachers are encouraged to thoroughly explain *why* the marginal cost curve is the supply curve under perfect competition. Teachers are also encouraged to help students to understand not only the material in the subject but also to understand what is required based on the verbs used in the questions, for example, *evaluate*, *analyses*, these can be found in the glossary of the syllabus. It is believed that students have knowledge but often do not know what is required of them.

Question 3

This question was attempted by approximately 58 per cent of the candidates, 26 per cent of whom scored at least 50 per cent of the maximum available mark. This question tested candidates' knowledge of the theory of the firm. Part (a) required candidates to outline four major characteristics of perfect competition. Part (b) tested candidates' ability to compare the perfectly competitive firm with the monopolistically competitive firm based on the four major characteristics outlined in Part (a). Candidates were then required to compare both perfect competition and monopolistic competition in terms of competition, profits and efficiency.

In Part (a), the majority of candidates stated rather than outlined the characteristics and thus gained only half of the marks allocated. Candidates who attempted to outline scored no additional marks if they simply rephrased what was stated originally. A thorough understanding of the causes and consequences of the characteristics was absent and the typical candidate's response did not align with the mark scheme.

Part (b) required a direct comparison of the characteristics of the two structures. Again, the majority of candidates only stated the characteristics of monopolistic competition without any direct comparison to perfect competition. This allowed the candidates to gain only half of the allocated marks. Stronger candidates were able to make valid and direct comparisons and gain more marks. Some candidates confused the market structures of monopolistic competition with monopoly. Very few candidates scored the maximum available marks on this part of the question.

Part (c) called for a direct comparison of the two structures in terms of (i) competitive behavior, (ii) short run and long run profit level, (iii) efficiency of resource use.

Part (c) (i) was the most challenging part of the question and the majority of candidates gained very low marks. Candidates were very unclear about the concept of competitive behaviour, especially in regard to perfect competition, with many candidates explaining that 'firms competing in perfect competition were highly competitive, even more so than monopolistic competition'. Stronger candidates did not fully understand non-price competition and non-rivalry in perfect competition. Part (c) (ii) on profit levels was very well done. The majority of candidates was clear on the concept and scored well.

Part (c) (iii) proved to be a challenge for the weaker candidates, many of whom could not explain efficiency in the market structures. Candidates stated that monopolistic competition was a more efficient structure or an equally efficient structure to perfect competition. This demonstrated that they were unable to transfer knowledge, as an understanding of the cost structure of the two market structures would be able to assist them in differentiating the efficiency with which they use resources, since the monopolistically competitive firm never operates at the minimum average total cost.

Recommendations

Teachers should not just list the various characteristics but should explain them and show how they are interrelated. Teachers are also encouraged to link the various characteristic (both main and subsidiary) to the diagrams so that students do not learn the diagrams in isolation (this contributes to

them viewing the diagrams as abstract). Linking the characteristics to diagrams also assists with explaining the characteristics well even if diagrams are not required by the question.

Question 4

This question was attempted by approximately 42 per cent of the candidates, only 9 per cent of them scored more than 50 per cent of the available marks. Part (a) required candidates to define the concepts *Economic Efficiency* and *Market Failure* while Part (b) tested their ability to explain how monopolies; public goods and negative externalities lead to market failure. In Part (c), candidates were required to evaluate how one government intervention measure could remedy market failure caused by public goods.

Most candidates were able to score in Part (a). However, not many scored the maximum mark as candidates expressed a vague understanding of what it means to be economically efficient and what it means when a market fails. For example, many candidates simply stated that: 'Economic efficiency refers to when a society makes the best of its scarce resources'. This definition is inadequate. Candidates needed to explain either productive efficiency or allocative efficiency.

In Part (b), many candidates were able to explain how monopolies, public goods and negative externalities lead to market failure. Those who scored well in this part of the question expounded as follows: *Public goods cause market failure due to its underproduction because of its two characteristics namely, non-excludability and non-rivalry.*

Part (c) posed the most challenge because most candidates apparently do not understand what is required of them when they are asked to *evaluate*. According to the syllabus, to evaluate means to, *appraise a matter in hand, citing both advantages and limitations*. Many candidates just expounded on the measure that they mentioned rather than citing the pros and cons. Some candidates gave solutions to market failure caused by other factors apart from non-provision of public goods. For example, many candidates cited 'taxation' as a remedy, when it is not logical to tax something that is under produced in the market.

Recommendations

Teachers need to emphasize that economic efficiency can be looked at from many perspectives:

- The economy perspective (Production Possibilities Frontier)
- The market perspective (demand and supply)
- The firm perspective (perfect competition and monopoly)
- The cost structure of a firm

Teachers should therefore support economic efficiency with more models. Teachers are also encouraged to separate the various causes of market failure and their remedies. They should encourage their students to read widely and take material from various credible sources, to be vigilant and not allow errors in texts to override what is known to be correct economic theory.

Question 5

This question was attempted by approximately 53 per cent of the candidates. Only 14 per cent of them scored more than 50 per cent of the marks. This question focused on the theory of distribution with emphasis on the labour market. Candidates were required to outline the marginal productivity theory of factor demand in Part (a). Part (b) tested candidates' ability to calculate marginal product and marginal revenue product. Candidates were also required to determine the optimal level of labour that the firm would employ and explain why that level is optimal. In Part (c), candidates were required to evaluate the effects of the minimum wage on the labour market. Part (d) required candidates to show the decomposition of earnings into transfer earnings and economic rent, using the market diagram.

In Part (a), candidates confused marginal productivity theory of demand with derived demand. Many of them explained marginal productivity instead of the theory which suggests that an individual firm pays a factor on the basis of its marginal revenue product or how much it adds to revenue.

Marginal product and marginal revenue product were correctly answered for the most part in Part (b). However, when candidates were asked to determine the quantity of labour that the firm would employ, many were unable arrive at the correct answer without surmising. This was made evident in the section Part (b) (iii) where candidates were asked to explain why more or less workers are not employed. Candidates demonstrated a lack of understanding of the resource employment rule and the marginal principle namely:

- To maximize net benefits, the managerial control variable should be increased up to the point where $MB = MC$.
- $MB > MC$ means the last unit of the control variable increased benefits more than it increased costs.
- $MB < MC$ means the last unit of the control variable increased costs more than it increased benefits.

Recommendations

Again candidates demonstrated that they did not understand what it means to evaluate, in Part (c). Their responses indicated that they were aware that a minimum wage is a price floor but this was insufficient as they were required to show that some workers benefited from the higher wages and explain how unemployment was caused, by explaining both the supply side and demand side. Most candidates were able to score at least one mark in Part (d) but many confused transfer earnings and economic rent on the diagram.

Teachers should see how best they can allocate time to this section of the syllabus. It is apparent that this is the underlying cause of students not scoring well on this question.

Question 6

This question was attempted by approximately 47 per cent of the candidates. Only 11 per cent of them scored more than 50 per cent of the maximum available marks. The question tested candidates' understanding of poverty and income inequality. Part (a) tested candidates' ability to differentiate between *functional distribution of income* and *size distribution of income*. In part (b), candidates were required to explain the term *income inequality*. In Part (c), candidates were required to outline how two approaches to measuring poverty — the *basic needs approach* and the *poverty line approach* are used to measure poverty. Part (d) required that candidates draw a diagram of a Lorenz curve and use the diagram to explain how inequality is measured. They were then to explain how the gini coefficient is calculated from the Lorenz curve.

In Part (a), only a few candidates were aware of the distinction between functional and size distribution of income. Many were able to offer a definition of the two but could not definitively pinpoint the difference. Weaker candidates confused *functional* with 'function' and as such related functional distribution of income to persons being paid according to job-related duties.

Most candidates correctly defined income inequality in Part (b), but failed to adequately explain causes and effects of income inequality. Illustrations such as 90 per cent of the population earns 10 per cent of total income and 10 percent of the population earn 90 per cent of total income was lacking. Some candidates resorted to using the gini coefficient and the Lorenz curve to explain the concept. Part (c) proved to be the most challenging, candidates who knew definitions for both the basic needs and the poverty line, could not explain how the approaches were used to measure poverty. Candidates

mostly focused on how the government tries to eradicate poverty rather than explain how these methods were used to measure poverty, for example:

“The basic needs approach selects a number of commodities that are considered essential needs of individuals and households, then it is determined if these needs are met or unmet, then the households are classified as poor if all the needs are not met and classified as non-poor if they are met.”

Many candidates incorrectly explained the basic needs approach as households having income equivalent to essential needs. The basic needs approach does not require a valuation of the goods but whether these goods are accessible to households. This is important to note since individuals may not have the income to purchase food, shelter, clothing and drinkable water, yet they access these because of subsistence and communal living. While candidates identified that persons can fall above or below the poverty line, they failed to follow through on their argument to show specifically which level identified poor and non-poor. There was evidence of confusion between minimum wage and the poverty line.

Candidates performed reasonably well in Part (d) (i) in comparison with the previous sections. Many candidates were able to draw and label the diagram but were unable to use it to explain how income inequality is measured. Others had a correct explanation even though the diagram was incorrect. Many who did not score the maximum available mark for the diagram had some semblance of the correct diagram. Generally, candidates failed to present the precise diagram because of a mathematical knowledge gap, which includes lack of understanding that the distribution is a cumulative distribution. Candidates performed reasonably well on Part (d) (ii). Weaker candidates mentioned that the gini coefficient ranges from 0 to 1 but were unable to interpret the coefficient. Inadequate diagrams led to inadequate conclusions about the formula used to calculate the gini coefficient $\left(\frac{A}{A+B}\right)$. Many stated that the denominator represented the area under the Lorenz curve rather than the area under the line of equality.

Recommendations

Teacher should employ projects and group assignments as teaching techniques for this section of the syllabus. This section of the syllabus lends itself to real-world applications that students can relate to and find data on. Doing this will not only help to complete the syllabus in the required time but will also help students to understand what is thought to be a very manageable and straight forward topic. Concerning the Lorenz curve, teachers should gather data and have students plot the Lorenz curve and explain what each coordinate means, this should assist students in drawing the correct curve.

Paper 032 – Alternative to School-Based Assessment

Performance on this paper was generally unsatisfactory. Fifty-four candidates wrote the exam. The mean mark was 19.19 out of 60 (31.98 per cent). The standard deviation was 7.53.

Question 1

Part (a) (i) required candidates to explain the term *Effective Demand* and part (a) (ii) required them to explain the term *Price Ceiling*. Part (b) required candidates to identify TWO goods on which governments are likely to impose a price ceiling and to explain why a price ceiling would be preferred. Part (c) required candidates to analyse the impact of a price ceiling on the market for milk, with the use of a demand and supply diagram.

Candidates did not fully explain the meaning of both terms in Part (a). Responses had some key words, but omitted important points to earn the maximum mark. Candidates were able to identify two goods on which governments are likely to impose a price ceiling. They were less able to explain why

a price ceiling might be preferred for these goods. The responses in Part (c) showed that candidates were unable to analyse the impact a price ceiling would have on the market for milk. The mean was 7.94 out of 20. The standard deviation was 3.73.

Recommendations

Students need to improve their understanding of demand and supply concepts. This is especially important since demand and supply is the foundation for many topics in economics. The focus should include, but not be limited to, the meaning of price ceilings, price floors and the reasons why they are implemented by governments. Students should also practise analyzing various situations that require demand and supply diagrams.

Question 2

Part (a) required candidates to define the term *Monopoly* in Part (i) and the term *Average Revenue* in Part (ii). Part (b) tested candidates' ability to compare the characteristics of perfect competition and monopoly with respect to output levels in Part (i), pricing decisions in Part (ii) and consumer surplus in Part (iii). In Part (c), candidates were required to state three reasons why a monopoly is more likely to cause a less equitable income distribution than a competitive industry.

Candidates were generally able to define *Monopoly*. However, they were not able to define *average revenue*. A wide cross section of candidates did not provide suitable responses to Part (b). This part of the question was quite challenging for many candidates. Candidates were unable to provide comparisons within the contexts of output levels, pricing decisions, and consumer surplus. Responses were in general a list of things characterizing either market structure, but no real comparison was done. In Part (b), candidates were required to compare and contrast, but most of them simply listed the characteristics of perfect competition and then those of the monopoly. In Part (c), many candidates were unable to provide reasons why monopoly results in a more inequitable distribution than a competitive industry; responses were not grounded in economic theory. The mean was 4.5 out of 20. The standard deviation was 3.23.

Recommendations

Candidates are urged to consider the characteristics of each market structure more carefully. They should compare and contrast each market structure with respect to various contexts, such as the ones given in the question, along with several others, for example, level of profit, cost structure, and so on. In this regard candidates should ensure that they take into account that *compare* means to discuss the similarities, while *contrast* means to discuss the differences.

Question 3

Part (a) (i) required candidates to define the term *Income Inequality*; Part (a) (ii) required them to distinguish between *absolute poverty* and *relative poverty*; and Part (a) (iii) required candidates to identify four factors that contribute to poverty in their country. Part (b) required candidates to assess the distribution of income in a country taking into account the percentage received by households and where households fall in the income distribution in relation to the mean income in the distribution. The final part of the question, part (c), required candidates to assess the effectiveness of any two strategies used by governments to alleviate poverty from the given list (health, education or housing).

Part (iii) of (a) was the only Part of (a) that candidates answered reasonably well. In Part (b), candidates had difficulty assessing the income distribution as they did not establish the main point which was that a small fraction at the top of the distribution controls a disproportionately high level of income, while the larger fraction at the bottom controls a disproportionately low level of income. Candidates' responses in Part (c) were more descriptive. They gave examples of policies that could

alleviate poverty, but did not assess how effective they might be. The mean was 6.70 out of 20. The standard deviation was 2.40

Recommendations

Candidates should increase their knowledge and understanding of topics in Module 3. In addition, they should improve their higher order skills from merely identifying to evaluating

Paper 031-School—Based Assessment (SBA)

The majority of students performed well on the SBA component of the examination, this is evidence of improved teacher supervision of students' projects. Generally, the projects selected were properly formulated and the objectives were related to the topics. The aims were clearly stated and the methodologies were appropriate. The data collected were well organized, presented and analysed and warranted conclusions were drawn. Many students demonstrated an excellent understanding of the concepts, principles and theories. The mean for the SBA was 40.02 out of 60. The standard deviation was 7.99.

Strengths

- Students selected topics that were more suitable for microeconomic objectives and which were better aligned to the scope of the syllabus.
- The aims and objectives were plausible and achievable in the presentation of the reports.
- The general layout of the projects was commendable.
- Students' ability to select appropriate sources for data collection have shown great improvement.
- Most students incorporated the use of tables, charts and graphs in their projects.

Weaknesses

- Students must be discouraged from plagiarism. They did not cite sources from which they garnered information. In addition, on occasions when the citation was done it was done incorrectly.
- Quite often diagrams were not incorporated in the discussions.
- Diagrams were poorly labelled and therefore did not add much value to the project.
- Recommendations and conclusions did not support the analysis of some projects.

Recommendations

- Students' presentation of the projects should be organized in the prescribed format and based on the criteria outlined in the syllabus.
- Students need to synthesize and analyse data by using the charts and tables. This should be done by incorporating the charts, graphs and theories in their presentations – then evaluating how well the theories fit with the research conducted. It is very acceptable to agree or disagree with the theories.
- Students' research and findings should be based on the problem statement or objectives.

UNIT 2 – MACROECONOMICS

Paper 01 – Multiple Choice

This paper consisted of 45 items, 15 questions on each module. The items spanned knowledge, comprehension and application. Performance on the paper was good. The mean mark was 63.82 out of 90 (70.91 per cent). The standard deviation was 14.71. Approximately 88 per cent of the candidates scored at least 50 per cent of the maximum available marks on this paper. One candidate scored the maximum mark while 25 scored 44 out of 45.

Paper 02 – Essays

This paper consisted of six questions, two per module. Candidates were required to answer one question from each module. Each question was worth 25 marks. The mean score was 70.87 out of 150 (47.25 per cent). The standard deviation was 32.09.

Question 1

This question was attempted by approximately 11.69 per cent of the candidates, 37 per cent of whom scored 50 per cent of the maximum available marks. Part (a) required candidates to explain the term *gross domestic product (GDP) deflator* and state its purpose. Part (b) required candidates to state one reason for a particular transaction being included in or excluded from the GDP calculations of a country. Part (c) required candidates to identify autonomous consumption and the marginal propensity to consume (MPC) from a consumption function, to calculate the equilibrium level of real GDP, and to calculate the spending multiplier and state with justification whether the multiplier will be smaller or larger than the government spending. Part (d) required candidates to briefly describe net national product (NNP) and personal disposable income (PDI) and to state how each is measured.

Candidates demonstrated a clear understanding of the transactions that were to be included in and those that should be excluded from the GDP calculations of a country. Candidates knew the formula for the deflator but could not properly explain the term. They were familiar with autonomous consumption but failed to identify the MPC. The calculation of the equilibrium level of real GDP and the multiplier proved to be a challenge for many candidates. Candidates were only familiar with the simple spending multiplier and did not know that GDP was equivalent to 'Y', the variable for income in the expenditure identity. As it relates to the NNP, candidates knew the formula but could not define the term. They were better able to define the PDI, but were unfamiliar with the actual deductions from income which would result in the PDI. The mean mark was 11.78 out of 25. The standard deviation was 5.03.

Recommendations

Teachers should strike a better balance between the qualitative and quantitative aspects of national income accounting. They should ensure that all three variations of the multiplier are taught: the simple multiplier; the multiplier including government (tax leakage); and the multiplier in an open economy (imports leakage). They need to expose students to more problems involving calculations of equilibrium GDP.

Question 2

This question was attempted by approximately 31 per cent of the candidates, 42 per cent of whom scored 50 per cent of the maximum available marks. Part (a) required candidates to identify four major determinants of investment. Part (b) required candidates to use the Keynesian 45° graph to explain the difference between a *recessionary gap* and an inflationary gap. Part (c) required them to explain how the Classical and Keynesian schools recommend responding to a recessionary gap.

A minority of candidates were able to identify four determinants of investment; most identified just two or three. They were not proficient at drawing, labelling and analysing the *inflationary gap* and the *recessionary gap*. Part (c), while widely known, still proved to be challenging for some candidates as they were unable to say how the Classical and Keynesian schools respond to a recessionary gap. The mean mark was 11.85 out of 25. The standard deviation was 6.83.

Recommendations

Teachers should specify the type of approach that students should use in the explanation of the *inflationary gap* and *deflationary gap*. It is recommended that these gaps be drawn on separate diagrams, as when candidates drew both gaps on one diagram, they experienced problems in properly identifying them. More attention should be placed on clearly distinguishing between the Classical and Keynesian schools of thought in relation to their prescriptions for recessionary and inflationary conditions in an economy.

Question 3

This question was attempted by approximately 68 per cent of the candidates, 37 per cent of whom scored 50 per cent of the maximum available marks. Part (a) required candidates to define the term *money*, describe two types of money and distinguish between the M1 and M2 definitions of money. Part (b) required candidates to discuss three tools of monetary policy that any central bank in the region can use to help control inflation. Part (c) required candidates to use the Keynesian liquidity preference framework to illustrate how the contractionary policies discussed in Part (b) would impact interest rates and the demand for money.

Most candidates knew the definition of money and were able to describe the types of money. However, they were unable to adequately distinguish between M1 and M2. Most candidates were able to list the monetary tools and discuss how each tool could aid in controlling inflation. However, in their discussions they could not differentiate between the *discount rate* and the *repurchase rate*'. Many candidates listed 'interest rate' as a tool of monetary policy when it is truly a consequence of these policies (discount rate and repurchase rate in particular). It was challenging for candidates to show the effect of tight monetary policies; however, most of them were able to state the desired effect of the policies. Several candidates showed a rightward shift for the tight monetary policy instead of a leftward shift. The mean mark was 11.25 out of 25. The standard deviation was 6.80.

Recommendations

Teachers should do more discussions of this topic to prevent regurgitation of rote answers. They should use more realistic situations where students can transfer theoretical knowledge, as this will be more meaningful and relevant to them. Students need more practice drawing diagrams to assess both monetary and fiscal policies.

Question 4

This question was attempted by approximately 32 per cent of the candidates, 28 per cent of them scored at least 50 per cent of the maximum available marks. Part (a) required candidates to define the term *Fiscal Policy* and discuss three ways in which fiscal policy can be used by Caribbean governments to increase the level of employment and output in their economies. Part (b) required candidates to outline three reasons why some fiscal measures will not work (have the desired effect) in the small open economies of the Caribbean. Part (c) required candidates to explain the concept *crowding out effect* and state how this effect can be avoided.

Candidates were able to define the term *Fiscal Policy* and discuss three ways in which fiscal policy can be used by Caribbean governments to increase the level of employment and output in their economies. However, candidates had the tendency to eliminate the impact of the policies on aggregate demand and failed to identify examples of fiscal policy (taxes and government spending). Many

candidates incorporated tariffs in their answer and other supply-side policies, rather than focusing on government fiscal policies, which are targeted at changing aggregate demand. Candidates were unable to outline the reasons for fiscal measures not working in the small open economies of the Caribbean. Responses were vague and general. In Part (c) candidates demonstrated significant weaknesses in the description of *the crowding out effect*. For instance, candidates would explain that in order for the government to finance a budget deficit or some other project, they would borrow from local banks. They needed to have said that an increase in the demand for limited loanable funds, brought about by the competition between the government and the private sector for these funds, leads to an increase in the interest rate, which discourages private investment. The mean mark was 10.07 out of 25. The standard deviation was 5.90.

Recommendations

Teachers should encourage students to format their responses in a logical manner to improve clarity. It should be stressed that the objective of fiscal policy is to influence aggregate demand. Students should to be encouraged to read widely. Specific efforts should be placed on skills of analysis, synthesis and evaluation to improve candidates' performance.

Question 5

This question was attempted by approximately 52 per cent of the candidates, 33 per cent of whom scored 50 per cent of the maximum available marks. Part (a) required candidates to distinguish between *economic growth* and *economic development*, and to describe three determinants of economic growth. Part (b) required candidates to explain the concept of *human development index* (HDI) and outline three main indicators of the HDI. Part (c) required candidates to discuss two impediments to economic growth faced by Caribbean economies.

Most candidates were able to provide a conceptual as opposed to a rigorous definition of the term *economic development*. However, candidates were unable to define economic growth and failed to mention *real GDP* in their definitions. Many candidates confused economic growth indicators namely, GDP, GNP and NNP with economic growth *determinants*. Additionally, several candidates identified determinants but were unable to state how each determinant led to economic growth. Many candidates were able to identify literacy rates/educational attainment and life expectancy as indicators of the HDI but very few candidates mentioned GDP per capita as an indicator. Additionally, candidates were unable to explain each indicator. As it relates to Part (c), candidates erred by discussing the economic cost of growth rather than impediments to economic growth. Many candidates stated technology and multinational cooperation activity as factors which impede economic growth and unemployment and inflation as barriers to economic growth which are inaccurate. The mean was 10.68 out of 25. The standard deviation was 6.42.

Recommendations

Candidates must refer to real GDP when explaining economic growth. Teachers must encourage students to pay attention to the directives in the question. In many instances, candidates identified key words and wrote all they knew, instead of tailoring responses to questions asked. To distinguish between two concepts is not merely the provision two definitions. Therefore, candidates should provide two definitions and then clearly show how each concept is different from the other. It is not sufficient to state that economic development is qualitative and economic growth is quantitative. Candidates should not confuse the determinants of growth with the indicators of growth. Students need to be advised that there are only three indicators of the HDI, which includes life expectancy, GDP per capita and literacy rate. There is a need for this area to be emphasized.

Question 6

This question was attempted by 48 per cent of the candidates, 63 per cent of whom scored at least 50 per cent of the maximum available marks. Part (a) required candidates to define the terms *tariffs*, *quotas* and *non-tariff barriers*. Part (b) required candidates to identify four factors that determine a country's export revenue. Part (c) required candidates to describe fixed and floating exchange rates and to identify one Caribbean country that uses either type of exchange rate. Part (d) required candidates to discuss two advantages and two disadvantages of foreign direct investment (FDI) in the Caribbean.

The majority of candidates were able to define the terms *tariffs*, *quotas* and *non-tariff barriers*. Most candidates were able to identify factors which directly determine a country's export revenues. Weaker candidates mentioned 'variety of good/services exported', 'taxes', 'interest rates' or even 'balance of payments'. Several candidates omitted Part (b). Part (c) presented the most challenge to candidates, as they were unable to describe fixed and floating exchange rates. Too many candidates used synonyms for the description of the fixed and floating exchange rates. Part (d) was well known, as most candidates were able to discuss the advantages and disadvantages of FDI in the Caribbean. The mean mark was 15.30 out of 25. The standard deviation was 5.37.

Recommendations

Teachers should emphasize government intervention in relation to the description of a fixed exchange rate and their efforts to keep it fixed, and for the floating exchange rate the forces of demand and supply for the currency in determining the rate. Students should be taught the economic advantages and disadvantages of FDI, in addition to the social and cultural ones.

Paper 032 – Alternative to School–Based Assessment

Performance on this paper was less than satisfactory. Twenty-nine candidates wrote the paper. The mean was 27.31 of 60 (45.52 per cent). The standard deviation was 14.33.

Question 1

In Part (a) (i), candidates were required to define the term *aggregate demand* and in Part (ii) state the equation for aggregate demand when the economy is open or has a trade sector. In Part (b), they were required to analyse how a decrease in aggregate demand can impact the aggregate employment and output of an economy. For Part (c), they were required to explain how the economy goes back to equilibrium employment from a position of disequilibrium, according to the classical view.

In Part (a) (i), some candidates were able to properly define *aggregate demand* and *aggregate supply*. However, some candidates defined demand and supply from a microeconomic perspective as opposed to a macroeconomic one. In Part (ii), as most candidates correctly identified the components of aggregate demand for an open economy, inclusive of net exports. In Part (b), candidates for the most part, knew that a decrease in aggregate demand would have a negative impact on output and employment. However, candidates struggled with making the necessary linkages to show how a fall in aggregate demand would affect different sectors of the economy and lead to increased unemployment and lower output. Part (c) presented the most challenge for candidates. While candidates knew that the classical view of the economy is self-correcting, they did not understand the process by which equilibrium would be restored in the economy and therefore had difficulty explaining this process. The mean was 7.52 out of 20. The standard deviation was 5.07.

Recommendations

Students should be taught to distinguish between demand and supply in microeconomics and aggregate demand and aggregate supply in macroeconomics. Candidates should place greater emphasis on analysis rather than learning definitions and concepts. Candidates need to be able to analyse the impact of an event, by demonstrating how it affects certain sectors or groups within the economy and then collating those impacts to see the overall effect on the economy. Candidates need to be able to explain not only the features of the Classical school but also how to demonstrate how equilibrium will be restored from a situation of disequilibrium in different markets.

Question 2

In part (a), candidates were required to distinguish between *unemployment* and *underemployment*. In part (b), they were required to outline three costs of unemployment. Part (c) had two sections. Candidates were asked to solve the problem of high and rising unemployment using two fiscal policy measures in Part (i) and monetary policy in Part (ii).

Most candidates gave a satisfactory definition of unemployment in Part (a); however, they struggled with the definition of underemployment and as a result were unable to make a comparison between the two terms. The majority of candidates were able to identify costs of unemployment in Part (b); however, most of them stuck to social costs as opposed to economic costs and could not go beyond identification. In Part (c), candidates performed poorly mainly because they identified monetary policy measures whereas fiscal policy measures were required and vice versa. In cases where candidates correctly identified the policy measure, they had difficulty explaining how the policy could correct the unemployment problem. The mean was 10.66 out of 20. The standard deviation was

Recommendations

Candidates' responses showed that they focused heavily on unemployment and may have overlooked underemployment. Candidates should ensure that they adequately cover the objectives of the syllabus, especially, specific objectives. While candidates were familiar with the concept of unemployment, it is essential for them to be able to analyse the problem not only from a social but also an economic perspective. Candidates should use their own country as an example to consider both the social and economic costs of unemployment. Similarly, candidates can consider different policy measures employed by their country to explain the intended impact of policies employed and the resultant effectiveness, to appreciate the role of governments in reducing unemployment.

Question 3

Part (a) required candidates to define several concepts: *balance of trade* in Part (i); *trade deficit* in Part (ii); *trade surplus* in Part (iii); and *commodity terms of trade* in Part (iv). In Part (b) candidates were required to outline two ways in which Caribbean countries benefit from increased exports in Part (i) and to explain why high levels of imports can be a challenge for Caribbean countries in Part (ii). Part (c) required candidates to discuss two policy options that a country may adopt to correct a trade deficit and boost unemployment in the local economy.

In Part (a), some candidates were able to adequately define balance of trade, trade deficit and trade surplus, however the majority of candidates were unable to define *commodity terms of trade*. In Part (b), many candidates were able to identify benefits that countries derive from imports but struggled in explaining why large amounts of imports may pose a challenge to the importing country. In Part (c), candidates were able to see the benefits mainly from a consumer perspective but could not identify with producers and therefore struggled to see the challenges imports may pose to the economy. They were able to identify policy measures but were unable to show how they could be used to correct a trade deficit or help with unemployment. The mean was 9.14 out of 20. The standard deviation was 5.36.

Recommendations

Candidates need to focus on both the advantages and disadvantages of imports and exports. Once again it is important that country examples from throughout the region are considered to demonstrate the impact both exports and imports have on consumers and producers. Candidates must develop their higher order skills, since the responses showed that they could define and identify but could not evaluate or analyse. For example, candidates could identify proper policy measures but were deficient in their ability to apply the policy to correct specific problems within the economy.

Paper 031 – School –Based Assessment (SBA)

The majority of students performed well on the SBA component of the examination, this is evidence of improved teacher supervision of students' projects. Generally, the projects selected were properly formulated and the objectives were related to the topics. The aims were clearly stated and the methodologies were appropriate. The data collected were well organized, presented and analysed and warranted conclusions were drawn. Many students demonstrated an excellent understanding of the concepts, principles and theories. The mean for the SBA for Unit 1 was 40.02 out of 60. The standard deviation was 7.99. The mean for was 42.53 out of 60. The standard deviation was 8.76.

Strengths

- The titles formulated were appropriate to the unit as they were in alignment with the criteria outlined in the syllabus.
- The economic concepts used were related to the topics chosen.
- Economic theories were appropriately used.
- There was evidence of improvement in the analysis and interpretation components of the data.
- Some students correctly demonstrated good referencing of the data sources from which information was gathered.

Weaknesses

- It was evident that some students were still struggling to formulate appropriate topics.
- Students were not able to properly analyse secondary data.
- Students have a tendency to refer examiners to the syllabus by stating a number rather than stated aims and objectives they used.

Recommendations

- Some teachers need to adhere to the marking criteria set out in the syllabus as the marks appear to be inconsistent and subjective.
- Students should be guided in formulating topics which are appropriate to the unit to be examined.
- Students should be encouraged to show limitations encountered in using the instruments selected to carry out the research and the methodology employed in the report.
- Methodology should speak specifically to design instruments and validate the reasons why they are suitable for the specific research.