

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2008**

**ECONOMICS
(REGION EXCLUDING TRINIDAD AND TOBAGO)**

ECONOMICS
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY - JUNE 2008
GENERAL COMMENTS

The candidates' overall performance this year was good though it could have been much better, attaining a higher level of excellence. Candidates' performance on Unit 1 was better than their performance on Unit 2. The syllabus provided an adequate degree of challenge to the candidates, notwithstanding, many of them performed creditably.

UNIT 1

PAPER 01

This overall performance in Unit 1, microeconomics, was satisfactory although parts of the syllabus provided great challenges for the candidates. Paper 01 consisted of 45 multiple choice questions, each worth 2 marks. There were three modules, each consisting of 15 questions.

PAPER 01

MULTIPLE CHOICE QUESTIONS

MODULE 1

This module tested candidates' understanding of the fundamental concepts of economics such as scarcity, choice, opportunity cost, efficiency, the market, demand, supply and equilibrium, and their ability to apply them. Performance on this module was very good.

MODULE 2

This module tested candidates' ability to analyse the efficiency with which the market system allocates scarce resources and required candidates to demonstrate understanding of the concepts such as market structure and market failure. Performance in this module was good.

MODULE 3

This module required understanding of the markets for productive resources and included a number of popular issues such as the functional and size distribution of income, inequality and poverty. Performance in the module was satisfactory.

GENERAL COMMENTS

PAPER 02

ESSAYS

Paper 02 required candidates to employ higher-level competencies; analysing economic issues, applying economic theories in solving problems and evaluating economics policies and programmes.

Candidates were given opportunities to choose one of two questions in each of the three modules. Each question was worth 50 marks.

MODULE 1

Module 1 dealt with fundamental economic concepts; scarcity, choice, opportunity cost and production possibilities curves, as well as the factors that influence demand, supply and elasticity of demand.

Question 1

Candidates were required to (a) demonstrate their knowledge and understanding of fundamental ideas in microeconomics. This was a popular question attempted by 70 per cent of the candidates. The parts of the question that presented the greatest challenge to the candidates were; d (i) requiring that candidates discuss the assumptions under which the PPF is drawn; d (ii) requiring candidates to explain that improvement of the production technology for food, one of the commodities, would cause the PPF to pivot outward at the axis on which the other commodity, capital goods, is measured, e (i) requiring candidates to calculate opportunity cost of increasing food production from 3 to 4; e (ii) requiring explanation of the main factor responsible for the increasing cost of food production; e (iii) dealing with the specialization of resources.

Question 2

This question required candidates to demonstrate knowledge and understanding of the factors that influence demand, supply and the elasticity of demand for commodities. About 30 per cent of the candidates answered this question. Many candidates performed satisfactorily on the question although some parts of the question were very challenging. In answering d (i) many candidates could not write the formula for cross-elasticity of demand and calculate the cross-elasticity coefficient. For e (i) candidates could not supply and explain three determinants of the elasticity of demand, for example, the number and closeness of substitutes. Rather, they discussed factors that influence demand. Candidates found (f) very challenging and could not explain the effect of time on elasticity. The other parts were well done.

MODULE 2

This module required the ability to compare three main types of market structures; perfect competition, monopoly and monopolistic competition and to analyse their effects on economic and normal profits and efficient resource allocation. Candidates were required to explain the causes of market failure and their effects on private and social costs and benefits and to evaluate the effectiveness of taxation, subsidies and legislation as corrective measures for the causes of market.

Question 3

This question required that candidates define market structure and identify, compare and contrast three major types of market structures. They were also required to list four barriers that protect monopolies and differentiate between normal and economic profits. Candidates' skills in constructing diagrams representing various market structures were also tested. Many candidates' performance in this question was good. They showed a reasonable amount of understanding and ability comparing and contrasting market structures.

The weakest response was in representing on a diagram a firm in monopolistic competition making economic profit. Generally axes, cost and revenue curves were not drawn and labeled correctly and many candidates did not shade the rectangle representing economic profit. Some candidates also could not explain why economic profits would decline to zero and the number of firms would increase in the long-run.

Question 4

This question required candidates to demonstrate knowledge and understanding of the causes of market failure, in particular, public goods and externalities, both positive and negative. Candidates were required to explain how the free-rider problem resulted in market failure and the effects of externalities on costs and benefits. They were also required to explain how government could use taxation, subsidies and legislation to deal with the problems caused by externalities.

Most candidates could say what market failure, social benefit and Pareto Efficiency meant but some could not state the two key characteristics of public goods or why the free rider problem leads to market failure. Most candidates were acquainted with the idea of externalities and could explain their effects on costs and benefits, but not on output of goods and services. Many candidates found it a challenge to identify and explain other major causes of market failure, but did well explaining how government could use taxation, subsidies and legislation to deal with the adverse effects of externalities.

MODULE 3

Module 3 required understanding of the production function and the ability to employ distribution theory to analyse and evaluate issues surrounding the combining of factors of production and the size and functional distribution of income. It also required knowledge and understanding of concepts and issues associated with income distribution, the measurement of inequality and factors that contribute to social welfare and poverty such as health, education and unemployment.

Question 5

Candidates were required to demonstrate knowledge and understanding of the factors of production and rewards earned by their owners. Candidates were also required to calculate the marginal product of labour and its values and draw labour demand and labour supply curves. Candidates were also required to analyse the effects of the CSME on migration and wages in CARICOM member states.

Many candidates performed well on the factors of production and the reward going to their owners, but many could not draw the labour demand and labour supply curves correctly, or explain the relationship between the value of the marginal product of labour curve and the demand curve for labour, or explain the idea of "derived demand." Candidates were severely challenged to calculate the labour force and the labour participation rate from data supplied. Some candidates could not explain that wages would rise in CSME states losing workers and fall in CSME states receiving workers.

Question 6

This question required candidates to (i) distinguish between the functional and the size distribution of income; (ii) describe the Lorenz curve and distinguish between absolute and relative poverty, (iii) explain how health, education and unemployment affect poverty (iv) explain the terms 'welfare programme', 'moral hazard' and 'adverse selection.'

Candidates' performance on this question was satisfactory. Many candidates were not prepared to give a clear distinction between absolute and relative poverty. Most candidates exhibited good knowledge of the Lorenz curve, but many could not say how the Gini coefficient was derived from it. Candidates performed below expectation in their explanation of the relationship between each of health, education and unemployment and poverty. Most candidates did well explaining moral hazard and adverse selection.

GENERAL COMMENTS

UNIT 2

Unit 2 dealt with macroeconomic theories, concepts and issues. Many of the candidates demonstrated a good grasp of the subject matter. Overall the responses were good.

PAPER 01

MULTIPLE CHOICE

This paper comprised 45 questions, divided into 15 questions per module. Each question was worth 2 marks. Performance on the paper was good.

MODULE 1

This module required candidates to demonstrate a good understanding of (a) national income accounting, (b) the components of aggregate demand (expenditure) (c) the classical and Keynesian economic models and (d) national income equilibrium, recessionary and inflationary gaps.

MODULE 2

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

MODULE 3

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

PAPER 02**ESSAYS**

This paper consisted of 6 questions, two per module. Candidates were required to answer one of two questions on each of the modules.

MODULE 1

This module dealt with Classical and Keynesian views of inflation and unemployment, interest rates, the accelerator hypothesis and the difference between the marginal efficiency of capital (MEC) and the marginal efficiency of investment (MEI). The module also dealt with key aspects of consumption functions.

Question 1

This question required knowledge of inflation, its causes and measurement, the rate of unemployment and the types of unemployment, inflation rates, the accelerator hypothesis, the MEC and the MEI.

The overall response to this question was fair. Candidates understood the causes of inflation and knew the types of unemployment, while many could distinguish between real and nominal interest rates. Some, however, could not distinguish between the Keynesian and Classical views. Many found the concepts of the accelerator, the MEC and the MEI very challenging and teachers would have to spend more time ensuring that these ideas are better grasped by candidates.

Question 2

Overall the candidates performed well on this question. Most candidates could draw the diagram showing the consumption function and define the propensities to consume and save. Candidates also gave a good exposition of the influences on consumption and savings, the permanent income hypothesis and the life cycle hypothesis.

MODULE 2

This module dealt with money, interest rate and monetary policy. It also dealt with fiscal policy, the relative potency of monetary and fiscal policy, budget deficits and the national debt.

Question 3

This question required knowledge and understanding of the equation of exchange, and how this equation could be used to explain the power of expansionary monetary policy to cause inflation and the effect of inflation on the major functions of money. Candidates were also required to explain the demand for money.

Many candidates were able to distinguish between M1 and M2, define the “velocity of money,” explain how monetary expansion can result in inflation and the effects of inflation on the functions of money. Some candidates were unacquainted with currency substitution, and some could not explain the positive relationship between the speculative demand for money and the direct relationship between money demand and income. Overall performance on the question was good.

Question 4

This question required the drawing of diagrams explaining how interest was determined in the Keynesian model and the relationship between investment and the interest rate. Candidates were also required to explain factors affecting the potency of monetary policy, fiscal policy, the balanced budget multiplier, automatic stabilisers, national debt and the debt service ratio. Candidates were also required to say how a budget deficit could be financed without raising taxes. This question proved challenging for many candidates. Many candidates found representing graphically, the determination of the interest rate and the relationship between investment and interest rate challenging. Most candidates could explain the meaning of lags in monetary policy but many could not give a plausible explanation of the effect of lags on the potency of monetary policy. Many candidates wrote weak responses to the national debt and debt service ratio and could not come up with four ways of financing a budget deficit. Overall performance on this question was good.

MODULE 3

Module three dealt with foreign direct investment (FDI), the balance of payments, economic growth and development.

Question 5

This question required knowledge and understanding of the advantages and disadvantages of FDI and the difference between the current and capital accounts. Candidates were also required to show understanding of the causes of balance of payments. Many, however, could not clearly distinguish between the current account and capital account transactions. While many candidates did well on potential causes of balance of payments and approaches to solving them, some performed weakly on this part of the question. Performance on this question was fair.

Question 6

This question required knowledge and understanding of economic growth and development, the determinants and the benefits of growth. Candidates were also required to outline four basic indicators of development, explain how each is measured and discuss the difference between growth and development. Candidates were able to distinguish between growth and development, explain three factors that determine economic growth and explain two benefits of growth. Most candidates were able to outline four indicators of development, but found explaining how each was measured challenging. Overall performance on the question was good.

RECOMMENDATIONS TO TEACHERS

Teachers have made great strides in preparing candidates for the Caribbean Advanced Proficiency Examination (CAPE) in economics as is evidenced in many excellent answers. Some candidates were not fully acquainted with some fundamental concepts and there were some areas in which candidates lacked the ability required to answer some questions accurately even though they had a good grasp of the basic concepts. Higher level competencies involving application, analysis, synthesis and evaluation required for excellent performance were lacking in many of the candidates.

Students should be provided with repeated opportunities to practice new concepts; such as drawing and interpreting diagrams, calculating the slopes of lines, elasticity coefficients, multipliers, percentage changes. The diagram of the market demand and supply and equilibrium price and quantity are fundamental economic concepts and should be fully understood by candidates. Teachers should insist on proper labeling of axes and curves, since candidates are awarded marks for neat and accurate diagrams.

INTERNAL ASSESSMENT (IA)

Candidates performed well on the Internal Assessment (IA) component of the examination, reflecting close teacher supervision of many candidates' projects. The synergies among Papers 1 and 2 and the IA were exploited fully to the advantage of the candidates.

The marks allotted by teachers were generally fair and were more or less consistent with moderators' marks, though in some cases there were sizable disparities.

There is however room for improvement in some areas including the following:

- Candidates should make use of empirical data in supporting their findings. The data presented must be relevant and must be discussed. Data not discussed should not be included in the report.
- There has been a significant improvement in communication with a reduction in spelling and grammatical errors which often detract from the work.
- Candidates continue to perform below expectations in the higher level competencies such as analysis, synthesis and evaluation. Teachers should re-emphasise these skills.
- Many candidates are guilty of not giving credit to all of their secondary sources. Teachers can assist them in this area.
- Candidates should be encouraged to include in their report their primary data collection.