

FORM TP 2011167



TEST CODE **02116020**

MAY/JUNE 2011

**CARIBBEAN EXAMINATIONS COUNCIL**  
**ADVANCED PROFICIENCY EXAMINATION**

**ECONOMICS**

**UNIT 1 – PAPER 02**

*2 ½ hours*

**19 MAY 2011 (a.m.)**

1167

**INSTRUCTIONS TO CANDIDATES**

1. This paper consists of **THREE** sections.
2. There are **TWO** questions in each section. Candidates **MUST** answer **THREE** questions, **ONE** from **EACH** section.
3. Answers for **ALL** questions must be written in the answer booklet provided.
4. Candidates may use silent non-programmable calculators.



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02116020/CAPE 2011

**SECTION I**

**Answer ONE question from this section.**

**Draw all diagrams neatly and carefully and clearly label all axes and curves.**

- 1.** (a) (i) Carefully draw and label a production possibility frontier (PPF) diagram. **[4 marks]**
- (ii) Use your diagram to explain the following concepts:
- a) Scarcity **[3 marks]**
- b) Choice **[3 marks]**
- c) Opportunity cost **[3 marks]**
- (b) (i) State THREE assumptions on which the PPF is based. **[3 marks]**
- (ii) Use the PPF diagram to distinguish among the following levels of production.
- a) Efficient **[3 marks]**
- b) Inefficient **[3 marks]**
- c) Unattainable **[3 marks]**
- Total 25 marks**
- 2.** (a) (i) With the aid of indifference curves, explain consumer equilibrium. **[10 marks]**
- (ii) Using the indifference curves drawn in (a) (i), explain how consumer equilibrium changes when consumer income increases. **[3 marks]**
- (b) (i) Draw a demand and supply diagram for a good. **[4 marks]**
- (ii) Use the diagram, in (b) (i) above, to explain the effect on equilibrium price and quantity of an
- a) increase in consumer income **[4 marks]**
- b) improvement in the technology used in producing a good. **[4 marks]**
- Total 25 marks**

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## SECTION II

Answer ONE question from this section.

Draw all diagrams neatly and carefully and clearly label all axes and curves.

3. (a) (i) Explain the concept 'market structure'. [2 marks]
- (ii) Identify FOUR types of market structures. [4 marks]
- (iii) List FOUR characteristics used to distinguish among the types of market structures. [4 marks]
- (b) Compare monopoly and monopolistic competition in the short-run and long-run in terms of
- (i) the major characteristics [6 marks]
- (ii) conduct [3 marks]
- (iii) profitability [3 marks]
- (iv) the efficiency with which they use resources. [3 marks]

**Total 25 marks**

4. (a) With the use of examples, distinguish between the following pairs of concepts:
- (i) Private costs and social costs [8 marks]
- (ii) Public goods and private goods [8 marks]
- (b) Identify THREE pricing options that government can employ to deal with a natural monopoly and state the effect of EACH pricing option. [9 marks]

**Total 25 marks**

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### SECTION III

**Answer ONE question from this section.**

5. (a) Identify the rewards accruing to the owners of EACH of the following factors of production:
- (i) Land
  - (ii) Labour
  - (iii) Capital
  - (iv) Enterprise **[4 marks]**
- (b) (i) Define EACH of the following and explain its importance to a firm:
- a) Wage rate
  - b) Marginal product **[6 marks]**
- (ii) With the aid of a diagram, explain how the wage rate and the value of the marginal product of labour are combined to determine the quantity of labour hired by a firm. **[10 marks]**
- (c) Explain the relationship between the value of the marginal product of labour and the firm's labour demand curve. **[5 marks]**
- Total 25 marks**
6. (a) (i) Distinguish between 'wage differentials' and 'compensating wage differentials.' **[4 marks]**
- (ii) State FOUR causes of wage differentials. **[4 marks]**
- (iii) Using TWO of the causes identified in (a) (ii) above, explain why wages differ. **[4 marks]**
- (b) (i) Define the concept 'poverty'. **[2 marks]**
- (ii) Distinguish between 'absolute poverty' and 'relative poverty'. **[4 marks]**
- (c) Explain why a legal minimum wage will alleviate poverty in a monopsonic labour market but NOT in a perfect market. **[7 marks]**
- Total 25 marks**

**END OF TEST**