CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

2 ½ hours

(**19 MAY 2010 (a.m.)**)

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.

SECTION I

Answer ONE question from this section.

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

1. (a) Using suitable examples, explain EACH of the following concepts:

    (i)   Total utility   [3 marks]

    (ii) Marginal utility   [3 marks]

    (iii) The law of diminishing marginal utility   [3 marks]

    (b) Table 1 below is an incomplete table showing utility maximization for bread and buns. The price of bread is $1 per loaf and the price of buns is $1 per bag.

Table 1: UTILITY MAXIMIZATION

Unit of Goods (loaves of bread/bag of buns)	Total Utility		Marginal Utility		Marginal Utility Per Dollar (MU/Price)	
	Bread	Bun	Bread	Bun	Bread	Bun
0	0	0	0	0	0	0
1	6	5				
2	11	9				
3	15	12				
4	18	14				
5	20	15				

    (i)   Copy and complete the table in your answer booklet.   [5 marks]

    (ii) Using the information from the Table 1, draw the consumer's demand curve for bread.   [5 marks]

    (iii) If the consumer has a budget of $5 to spend, determine how many loaves of bread and how many bags of buns she can buy to maximize her satisfaction. Explain your answer.   [4 marks]

    (iv) If the price of a loaf of bread rises to $2, what combination of bread and buns will maximize the consumer's utility?   [2 marks]

                                                                    Total 25 marks

2. (a) (i) Define the term 'demand'. [2 marks]

(ii) Explain the 'law of demand'. [4 marks]

(iii) Explain how a 'change in demand' differs from a 'change in the quantity demanded'. [4 marks]

(b) (i) Identify THREE factors, other than the price of beef, that influence the demand for beef. [3 marks]

(ii) Discuss why EACH factor identified in (b) (i) above influences the demand for beef. [12 marks]

Total 25 marks

SECTION II

Answer ONE question from this section.

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

3. (a) (i) Compare the characteristics of monopolistic competition with those of oligopoly, focusing on the following: the number of firms, entry and exit barriers, and the nature of the product. [9 marks]

(ii) Assess the role of advertising in monopolistic competition. [4 marks]

(b) With the aid of a short-run diagram and a long-run diagram, explain output level, pricing (in relation to average revenue, average total cost and marginal cost) and the profits of the firm in monopolistic competition in both the short run and the long run. [12 marks]

Total 25 marks

4. (a) (i) Explain the term 'market failure' with special emphasis on the efficiency criterion. [4 marks]

(b) Using suitable examples, explain how market failure is caused by

(i) public goods [8 marks]

(ii) monopolies. [8 marks]

(c) Assess government's response to market failure caused by public goods and monopolies. [5 marks]

Total 25 marks

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SECTION III

Answer ONE question from this section.

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

5. The table below shows the units of labour and total product.

Units of Labour	Total Product	Marginal Product	Value of Marginal Product ($)
0	1		
1	10		
2	30		
3	60		
4	100		
5	136		
6	146		
7	150		

(a) Calculate for EACH unit of labour

    (i) the marginal product **[4 marks]**

    (ii) the value of the marginal product if the price of the product is $1.50.

[4 marks]

(b) Assuming that the wage rate is $15.00:

    (i) Draw a diagram showing the value of the marginal product curve and the wage rate.

[12 marks]

    (ii) State how much labour will be employed and why. **[5 marks]**

Total 25 marks

6. (a) With the aid of a competitive labour market diagram, discuss how wage rate and employment level are determined in a labour market. (Ensure that you discuss the details of your diagram: the demand and supply curves, equilibrium, disequilibrium and shifts of the demand and supply curves.) **[19 marks]**

    (b) Explain the role of EACH of the following in the determination of wage rates:

        (i)   Governments   **[2 marks]**

        (ii)   Trade unions   **[2 marks]**

        (iii) Employers' associations   **[2 marks]**

                                        Total 25 marks

END OF TEST