CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ECONOMICS
UNIT 1 – PAPER 02

$2\frac{1}{2}$ *hours*

26 MAY 2005 (a.m.)

READ INSTRUCTIONS CAREFULLY

1. This paper consists of **THREE** sections.

2. Each section consists of **TWO** questions. 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.

1. The following table shows labour inputs for different levels of output at John and Sons Ltd.

Labour (L)	Output (Q)	Average Physical Product (APP)	Marginal Physical Product (MPP)	Average Variable Cost (AVC)	Marginal Cost (MC)
0	0	0	0	0	0
1	30	–	–	–	–
2	70	–	–	–	–
3	120	–	–	–	–
4	200	–	–	–	–
5	260	–	–	–	–
6	300	–	–	–	–

Annual wages, which are the only variable costs (VC), amount to $10 000 annually. The price of the product is $200.
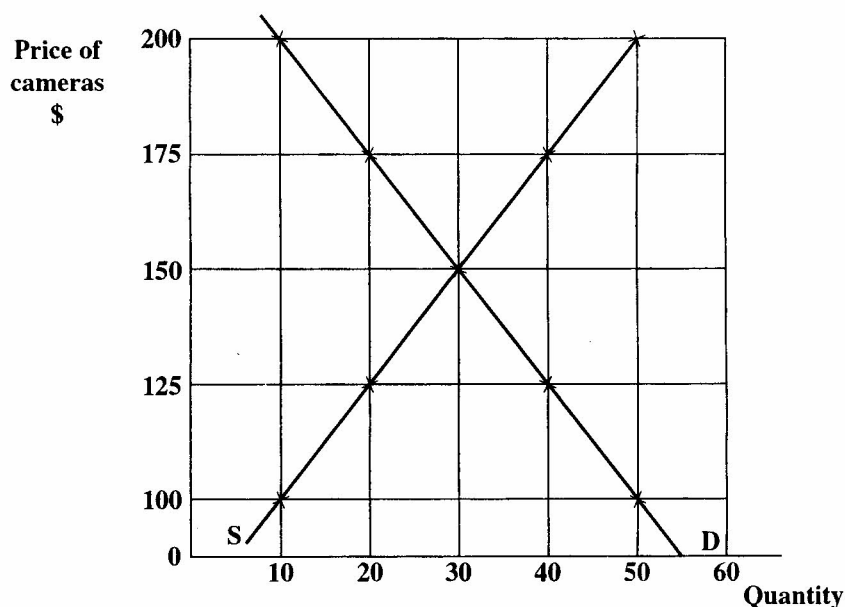
(a) Copy the table above in your answer booklet and complete it. **[12 marks]**

(b) Define EACH of the following OR write the formula for calculating it.

    (i) Average physical product (APP)

    (ii) Marginal physical product (MPP)

    (iii) Average variable cost (AVC)

    (iv) Marginal cost (MC) **[8 marks]**

(c) State what happens to average physical product (APP) and marginal physical product (MPP) as output increases. **[2 marks]**

(d) State what happens to average variable cost (AVC) and marginal cost (MC) as output increases. **[2 marks]**

(e) (i) How will output be affected when a variable input is added to a fixed input? **[4 marks]**

    (ii) How do increasing levels of output affect costs? **[4 marks]**

(f) Draw a diagram showing the marginal cost curve (MC) and the price ($200) of the product. **[12 marks]**

(g) What level of output will the firm produce?
State how you arrived at your answer. **[6 marks]**

Total 50 marks

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2. (a) Define the following terms:

(i) Demand

(ii) Supply **[4 marks]**

(b) Briefly explain the difference between a 'change in demand' and a 'change in the quantity demanded'. **[2 marks]**

The diagram below represents the demand for digital cameras.

(c) (i) Copy the diagram above in your answer booklet. **[2 marks]**

(ii) Identify the equilibrium price and state the quantity of digital cameras traded at that price.

[2 marks]

(d) (i) List FIVE factors that will influence the **demand** for digital cameras.

[5 marks]

(ii) Explain how FOUR of the factors listed in (d)(i) above, will affect the demand for digital cameras. **[12 marks]**

(e) With the aid of a diagram show how an increase in ONE of the four factors in (d) (ii) above will affect the demand curve. **[6 marks]**

(f) (i) List FIVE factors that will influence the **supply** of digital cameras.

[5 marks]

(ii) Explain how FOUR of the factors listed in (f)(i) above will affect the supply of digital cameras. **[12 marks]**

Total 50 marks

SECTION II

Answer ONE question from this section.

3. (a) Define the term 'market structure'. [3 marks]

    (b) List FOUR types of market structures that exist in the CARICOM region and give ONE example of EACH type. [8 marks]

    (c) Select TWO of the market structures listed in (b) above and compare them with respect to EACH of the following:

    (i) Barriers to entry

    (ii) Number of firms and buyers

    (iii) Nature of the goods they produce

    (iv) Market power and control over price

    (v) Profit in the long-run [25 marks]

    (d) (i) Define the following terms:

    (a) Efficiency
    (b) Consumer surplus
    (c) Producer surplus [6 marks]

    (ii) Discuss the efficiency with which resources are used in

    (a) a monopoly

    (b) perfect competition. [8 marks]

    Total 50 marks

4. (a) Define the term 'market failure'. [2 marks]

    (b) 'The price of oil is rising due to political instability in some oil-producing countries.' Explain why this is NOT an indication of market failure. [6 marks]

    (c) Define EACH of the following and explain how EACH causes market failure.

    (i) Monopolistic power

    (ii) Externalities

    (iii) Public good [24 marks]

(d)   Explain EACH of the following:

      (i)   How regulation can be used to remove the effects of monopoly power

                    [6 marks]

      (ii)   How taxation **or** subsidy can be used to remove the effects of externalities

                    [6 marks]

      (iii)   How government intervenes to ensure optimal production of public goods

                    [6 marks]

                    Total 50 marks

SECTION III

Answer ONE question from this section.

5.   (a)   Explain the meaning of EACH of the following terms:

      (i)   Functional distribution of income

      (ii)   Inequality

      (iii)   Gini co-efficient

      (iv)   Lorenz curve   **[8 marks]**

    (b)   (i)   What is the range of values of the Gini co-efficient?   **[3 marks]**

      (ii)   What do the values of the Gini co-efficient indicate about the equal OR unequal distribution of income?   **[6 marks]**

    (c)   (i)   List THREE measures that government can take to achieve an equal distribution of income.   **[3 marks]**

      (ii)   Explain how EACH of the measures listed in (c)(i) is used to achieve the goal of income equity.   **[9 marks]**

    (d)   (i)   Define the term 'poverty'.   **[3 marks]**

      (ii)   What is the difference between absolute poverty and relative poverty?

                    [6 marks]

    (e)   How does the **unequal** distribution of income affect the standard of living of the citizens in a country?   **[6 marks]**

    (f)   Discuss the role of education in the elimination of poverty.   **[6 marks]**

                    Total 50 marks

6.　(a)　Define the term 'social welfare'.　　　**[2 marks]**

　　　(b)　List FOUR services that governments in the region provide for their citizens free of charge OR at below cost.　　　**[8 marks]**

　　　(c)　Discuss how EACH of the following influences governments' decision to provide the welfare services listed in (b) above.

　　　　　(i)　Vote getting

　　　　　(ii)　Welfare equity

　　　　　(iii)　Beneficial externality　　　**[15 marks]**

　　　(d)　Define EACH of the following.　Give an example of EACH.

　　　　　(i)　Asymmetric information

　　　　　(ii)　Moral hazard

　　　　　(iii)　Adverse selection　　　**[15 marks]**

　　　(e)　(i)　Define the term 'minimum wage rate'.　　　**[2 marks]**

　　　　　(ii)　Discuss TWO effects that the minimum wage rate may have on the welfare of workers.

　　　　　　　　[8 marks]

　　　　　　　　Total 50 marks

END OF TEST