Mr Durant

TEST CODE **02116020**

FORM TP 2009170

MAY/JUNE 2009

CARIBBEAN EXAMINATIONS COUNCIL

ADVANCED PROFICIENCY EXAMINATION

ECONOMICS

UNIT 1 – PAPER 02

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

(**21 MAY 2009 (a.m.)**)

9170

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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SECTION I

Answer ONE question from this section.

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

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

    (ii) Use a demand and supply diagram to explain how the market allocates scarce resources. Your explanation must include the following:

    a) Equilibrium [8 marks]

    b) Disequilibrium [8 marks]

    c) The effect on equilibrium of a fall in the demand for the commodity.
    [8 marks]

    (b) (i) With reference to the market for milk, explain the economic effect of an effective price floor. [6 marks]

    (ii) Explain how an effective price floor leads to inefficient resource allocation.
    [12 marks]

    (c) Governments impose price floors despite their negative effects. Justify governments' use of price floors. [6 marks]

    Total 50 marks

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

    (ii) Explain the law of supply. [6 marks]

    (iii) Explain how a change in supply differs from a change in the quantity supplied.
    [6 marks]

    (b) (i) Identify FOUR **major** factors, other than the price of eggs, that influence the supply of eggs. [4 marks]

    (ii) State how EACH of the factors identified in (b) (i) above influences supply.
    [12 marks]

    (c) Explain why EACH factor in (b) (i) influences supply the way it does.
    [20 marks]

    Total 50 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) Define the term 'market structure'. [2 marks]

    (ii) Identify FOUR types of market structures. [4 marks]

    (iii) Outline FOUR characteristics of the **most** efficient type of market structure.
    [16 marks]

    (b) (i) Compare the characteristics of the monopolistic market structure with those of the perfectly competitive market structure. [16 marks]

    (ii) Compare the conduct and performance of the monopolistic and the perfectly competitive market structure in terms of output, price and profit in the short and long run. [12 marks]

    Total 50 marks

4. (a) Select any THREE of the following pairs of concepts and distinguish between the concepts in EACH pair.

    (i) Private cost and social cost

    (ii) Merit good and public good

    (iii) Positive externality and negative externality

    (iv) Adverse selection and moral hazard [21 marks]

    (b) Using suitable examples, explain how EACH of the following cause market failure:

    (i) Public goods [6 marks]

    (ii) Externalities [6 marks]

    (iii) Moral hazards [6 marks]

    (c) Explain how governments can solve the problem caused by public goods.
    [11 marks]

    Total 50 marks

SECTION III

Answer ONE question from this section.

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

5.   (a)   (i)   State the formula for computing EACH of the following:

a)   Marginal Physical Product of Labour (MPP)   [2 marks]

b)   Average Physical Product of Labour (APP)   [2 marks]

c)   Value of Marginal Product (VMP).   [2 marks]

(ii)   **An insert is provided for this question.**

The table below shows the output and wage rate for six units of labour (input).

LABOUR PRODUCTIVITY AND WAGES

Labour Input (L)	Units of Output (Q)	Marginal Physical Product of Labour (MPP)	Average Physical Product of Labour (APP)	Value of MPP (VMP)	Wage Rate (W)
0	0	0	0	0	$200
1	8				$200
2	21				$200
3	27				$200
4	31				$200
5	33				$200
6	34				$200

(ii)   **On the answer sheet provided,** complete the table assuming that the price of the product is $100 per unit and the wage rate is $200.   [18 marks]

(b)   (i)   Plot the labour demand curve and the wage rate on the same diagram.   [15 marks]

(ii)   Determine the number of units of labour that the firm will employ and explain why.   [7 marks]

(iii)   If the workers become unionized, and their trade union successfully bargains for a wage rate of $400 (a 100% increase), how many workers will now be unemployed?   [4 marks]

Total 50 marks

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6. (a) (i) Using a suitable example, explain the term 'poverty'. **[6 marks]**

(ii) Distinguish between 'absolute poverty' and 'relative poverty'. **[8 marks]**

(b) Three popular approaches to measuring poverty are

(i) basic needs **[12 marks]**

(ii) poverty line **[12 marks]**

(iii) UNDP's Human Development Index. **[12 marks]**

Explain and critique EACH of the above approaches.

Total 50 marks

END OF TEST