FORM TP 2016183

TEST CODE **02116020**

MAY/JUNE 2016

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1.   This paper consists of THREE sections: I, II and III.

2.   There are TWO questions in each section. Candidates MUST answer THREE questions, ONE from EACH section.

3.   Write your answers in the spaces provided at the end of each section in this booklet.

4.   Do NOT write in the margins.

5.   You may use a silent, non-programmable calculator to answer questions.

6.   If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

0211602003

SECTION I

MODULE 1: METHODOLOGY – DEMAND AND SUPPLY

Answer ONE question.

Draw ALL diagrams neatly and carefully, and clearly label ALL axes and curves.

1.   (a)   Define EACH of the following terms:

    (i)   Normal good   **[2 marks]**

    (ii)   Inferior good   **[2 marks]**

    (iii)   Giffen good   **[2 marks]**

  (b)   Explain EACH of the following approaches to understanding consumer behaviour:

    (i)   Ordinalist   **[3 marks]**

    (ii)   Cardinalist (marginalist)   **[3 marks]**

  (c)   Discuss, with the aid of diagrams, the ordinal approach to the derivation of the demand curve.   **[13 marks]**

Total 25 marks

2.   (a)   Define EACH of the following terms:

    (i)   Total product   **[2 marks]**

    (ii)   Average product   **[2 marks]**

    (iii)   Marginal product   **[2 marks]**

  (b)   Explain EACH of the following terms in the context of the manufacture of electric fans:

    (i)   The law of diminishing returns   **[3 marks]**

    (ii)   The concept of the short-run   **[3 marks]**

  (c)   Assess, with the aid of a diagram showing the **three** stages of production, the ideal production stage for electric fans.   **[13 marks]**

Total 25 marks

SECTION II

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

Answer ONE question.

3. (a) Identify THREE goals of a firm.   **[3 marks]**

    (b) Explain EACH of the following measures of industrial concentration:

        (i) Four firm concentration ratio   **[3 marks]**

        (ii) The Herfindahl–Hirschman Index   **[3 marks]**

    (c) (i) Outline TWO key features of the oligopolistic market structure.   **[4 marks]**

        (ii) Assess how any ONE of the two features mentioned in (c) (i) above can influence the mobile phone industry.   **[4 marks]**

    (d) Discuss, with the aid of the kinked demand curve (label elastic and inelastic portions), the pricing and output decision of the oligopolistic firm.   **[8 marks]**

                                                                    Total 25 marks

4. (a) Identify THREE characteristics of the perfectly competitive market structure.
                                                                    [3 marks]

    (b) Suggest TWO reasons why the perfectly competitive market structure is considered the most efficient market structure.   **[6 marks]**

    (c) Compare, with the aid of a diagram, the pricing and output decision of the perfectly competitive firm and the monopolist.   **[8 marks]**

    (d) (i) Explain how market failure is caused by a monopolist.   **[3 marks]**

        (ii) Assess governments' response to market failure caused by monopolies.
                                                                    [5 marks]

                                                                    Total 25 marks

02116020/CAPE 2016

0211602010

SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5. (a) Draw a labour market diagram, and show on your diagram how EACH of the following events will affect the equilibrium wage and level of employment:

    (i)   A surge of migrants into the country   **[5 marks]**

    (ii) World demand for tourism increases   **[5 marks]**

    (b) The following table shows the number of belts that can be produced daily by a given number of workers. One belt sells for $70 and the daily wage is $500.

Number of Workers	Output	Marginal Product	Value of Marginal Product
1	25		
2	45		
3	60		
4	72		
5	80		
6	85		

    (i)   Copy and complete the table to show the marginal product and the value of the marginal product.   **[6 marks]**

    (ii) Sketch the firm's labour demand curve.   **[3 marks]**

    (c) (i)   Determine the number of workers who will be hired if the government sets a minimum wage of $1000 per day.   **[3 marks]**

    (ii) Justify the manager's employment of FIVE workers per day in the manufacture of belts.   **[3 marks]**

    Total 25 marks

6.   (a)   Define EACH of the following terms:

            (i)   Income inequality

                                                                              [2 marks]

            (ii)   Poverty

                                                                              [2 marks]

     (b)   (i)   Outline THREE factors that could contribute to poverty.   **[6 marks]**

            (ii)   Critique the human development index (HDI) as a measure of poverty.

                                                                              [3 marks]

     (c)   Justify, with the aid of diagrams, why a legal minimum wage will alleviate poverty in a monopsonic labour market but not in a perfectly competitive labour market.

                                                                                 [12 marks]

                                                                                  Total 25 marks

0211602017