

FORM TP 2013167



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CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

23 MAY 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

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. Begin EACH question on a separate page.
5. You may use a silent, non-programmable calculator to answer questions.

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02116020/CAPE 2013



SECTION I

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) Demand [2 marks]

(ii) Supply [2 marks]

(iii) Equilibrium [2 marks]

- (b) The following table shows the individual demand schedules (pints per week) of three buyers of ice cream and the market supply of ice cream for a week.

Buyers	Price of Ice Cream				
	\$1	\$2	\$3	\$4	\$5
John	12	9	6	1	0
Anita	10	7	5	1	0
Kwesi	8	5	3	0	0
Market demand					0
Market supply	3	8	14	21	30

Copy the table above into your answer booklet and complete it to show the market demand for ice cream. [2 marks]

- (c) Carefully draw and label a graph showing

(i) equilibrium [2 marks]

(ii) equilibrium price [2 marks]

(iii) equilibrium quantity. [2 marks]

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- (d) To reduce obesity and raise revenue, the government imposes a specific tax on each pint of ice cream sold.
- (i) Referring to your graph in (c), explain how the increase in taxes will affect the market supply for ice cream. **[7 marks]**
 - (ii) State whether the government's objectives of reducing obesity and raising revenue have been achieved. **Justify your answer.** **[4 marks]**

Total 25 marks

2. (a) Define EACH of the following terms:
- (i) Marginal cost **[2 marks]**
 - (ii) Average variable cost **[2 marks]**
- (b) (i) Identify ONE factor that causes the supply curve to change by creating movement along the curve, and explain how the change is caused. **[4 marks]**
- (ii) Identify TWO factors that cause the supply curve to change by shifting to the left or to the right, and explain how the change is caused. **[8 marks]**
- (c) With the use of a correctly labelled graph, explain the relationship between the marginal cost curve and the supply curve in a competitive market. **[9 marks]**

Total 25 marks

SECTION II

Answer ONE question.

3. (a) Outline FOUR major characteristics of the market structure called perfect competition. [8 marks]
- (b) Compare the characteristics outlined in (a) above with those of the market structure called monopolistic competition. [8 marks]
- (c) Compare 'monopolistic competition' and 'perfect competition' in terms of
- (i) the way they compete with other businesses [3 marks]
 - (ii) their profit in the short run and long run [3 marks]
 - (iii) the efficiency with which they use resources. [3 marks]

Total 25 marks

4. (a) Explain EACH of the following terms:
- (i) Economic efficiency [4 marks]
 - (ii) Market failure [4 marks]
- (b) Explain how EACH of the following factors could lead to market failure:
- (i) Monopolies [4 marks]
 - (ii) Public goods [6 marks]
 - (iii) Negative externalities [4 marks]
- (c) Evaluate ONE measure used by the government of your country to deal with market failure caused by public goods. [3 marks]

Total 25 marks

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SECTION III

Answer ONE question.

5. (a) Outline the marginal productivity theory of factor demand. **[3 marks]**
- (b) The table below shows the units of labour and total product for a perfectly competitive market in which the price of the product is \$10 and the daily wage rate is \$14.

Number of Workers	Total Product	Marginal Product	Marginal Revenue Product
0	0		
1	5		
2	9		
3	12		
4	14		
5	15		

Copy the table in your answer booklet.

- (i) Calculate for EACH additional worker the
- a) marginal product **[3 marks]**
- b) marginal revenue product. **[3 marks]**
- (ii) Determine the quantity of labour that will be employed per day. **[1 mark]**
- (iii) Explain why more (or less) labour is NOT employed. **[5 marks]**
- (c) Evaluate the effects of a government minimum wage on the labour market. **[6 marks]**
- (d) Draw a demand and supply diagram of the labour market showing the decomposition of earnings into transfer earnings and rent. **[4 marks]**

Total 25 marks

6. (a) Differentiate between 'functional distribution of income' and 'size distribution of income'.
[3 marks]
- (b) Explain what is meant by the term 'income inequality'.
[3 marks]
- (c) Outline how EACH of the following methods is used to measure poverty:
- (i) The basic needs approach [5 marks]
 - (ii) The poverty line approach [5 marks]
- (d) (i) Draw a diagram of the Lorenz curve and use it to explain how income inequality is measured.
[6 marks]
- (ii) Explain how the gini coefficient is calculated from the Lorenz curve.
[3 marks]

Total 25 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.