

FORM TP 2015173



TEST CODE **02116020**

MAY/JUNE 2015

CARIBBEAN EXAMINATIONS COUNCIL
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 1 – Paper 02

2 hours 30 minutes

21 MAY 2015 (a.m.)

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. 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 2015

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. Table 1 shows the quantity of chocolate bars that Romain consumes in a given period of time, the total utility and marginal utility associated with the consumption of the chocolate bars.

TABLE 1

Chocolate Bars	Total Utility	Marginal Utility
0	0	
1		20
2	35	
3	47	
4		0
5	45	

- (a) (i) Copy Table 1 into your answer booklet and complete it to show the total utility and the marginal utility derived from the consumption of 1 to 5 chocolate bars. **[5 marks]**
- (ii) Define EACH of the following terms:
- a) Total utility **[2 marks]**
 - b) Marginal utility **[2 marks]**
 - c) Law of diminishing marginal utility **[2 marks]**
- (iii) State the point at which Romain
- a) begins to lose satisfaction from his consumption of each additional chocolate bar **[1 mark]**
 - b) maximizes his satisfaction from consuming chocolate bars. **[1 mark]**

- (b) Assume that the maximum amount that Romain is willing to pay for a chocolate bar is \$5.00 and the current market price is \$2.50. At this price Romain is willing and able to purchase 6 chocolate bars.
- (i) Define the term 'consumer surplus'. **[2 marks]**
 - (ii) Draw Romain's demand curve. **[4 marks]**
 - (iii) On the demand curve in (b) (ii) above, shade and label the TOTAL consumer surplus. **[2 marks]**
- (c) With reference to marginal utility theory, justify the shape of Romain's demand curve for chocolate bars. **[4 marks]**

Total 25 marks

2. The following equations are for the demand and supply curves in the market for pens.

Demand: $Q_d = 20 - 2P$

Supply: $Q_s = 5 + 3P$,

where Q_d is the quantity demanded, Q_s is the quantity supplied, and P is the price per pen, in dollars.

- (a) (i) Define the term 'market equilibrium'. **[2 marks]**
- (ii) Copy Table 2 into your answer booklet and complete it to show the quantity of pens demanded and the quantity supplied.

TABLE 2

Price per Unit	Quantity Demanded	Quantity Supplied
1		
2		
3		
4		

[5 marks]

- (iii) Use the information from the completed Table 2 to draw a diagram that shows
- a) the demand curve and supply curve for pens **[3 marks]**
- b) the equilibrium price and quantity. **[2 marks]**
- (iv) a) If the government sets a price of \$2 per pen, state the name of this type of intervention. **[1 mark]**
- b) Explain, giving details, the market outcome at this price. **[3 marks]**
- (b) In an effort to balance the budget, the government has decided to apply a specific tax of \$1 per pen levied on the producer.
- (i) Illustrate this change on the diagram in (a) (iii) above. **[5 marks]**
- (ii) Analyse the total welfare effect (consumer surplus, producer surplus, government revenue and deadweight loss) of the tax. Refer to the diagram in (b) (i) above to support your analysis. **[4 marks]**

Total 25 marks

SECTION II

MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION

Answer ONE question.

3. (a) (i) a) Define the term 'price discrimination'. **[2 marks]**
b) Outline ONE form of price discrimination that may be used by a firm. **[2 marks]**
(ii) Outline TWO conditions that are necessary for price discrimination. **[4 marks]**
(iii) Explain ONE reason why a firm would opt to apply price discrimination. **[3 marks]**
- (b) List TWO types of market structures that exist in CARICOM and give **one** example of EACH. **[4 marks]**
- (c) (i) Illustrate, using a diagram, the profit maximizing output and price for a monopolistic firm. **[6 marks]**
(ii) Analyse why a perfectly competitive firm is more efficient than a monopolistic firm. **[4 marks]**

Total 25 marks

4. (a) Define EACH of the following terms:
- (i) Market failure **[2 marks]**
(ii) Pareto efficiency **[2 marks]**
(iii) Productive efficiency **[2 marks]**
- (b) (i) State THREE reasons why the competition or regulatory authorities may prevent a merger of TWO major companies in an industry. **[3 marks]**
(ii) Explain how EACH of the following types of goods contributes to market failure, stating an example of EACH.
- a) Public **[4 marks]**
b) Merit **[4 marks]**
- (c) Discuss TWO measures used by governments to correct market failure. **[8 marks]**

Total 25 marks

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SECTION III

MODULE 3: DISTRIBUTION THEORY

Answer ONE question.

5. (a) (i) Define the term 'wage differentials'. **[2 marks]**
- (ii) Identify TWO factors that may cause imperfections in the labour market on the
- a) demand side **[2 marks]**
- b) supply side. **[2 marks]**
- (b) (i) Distinguish between 'geographical mobility' and 'occupational mobility'. **[4 marks]**
- (ii) Discuss TWO effects of labour mobility on wages across different CARICOM territories. **[8 marks]**
- (c) Using a well-labelled diagram, analyse the effect of a monopoly trade union in determining wages and the level of employment under perfect competition. **[7 marks]**

Total 25 marks

6. (a) (i) Explain the concept of 'income inequality'. **[3 marks]**
- (ii) Identify THREE measures used to reduce income inequality. **[3 marks]**
- (b) (i) List TWO ways of measuring poverty. **[2 marks]**
- (ii) Explain THREE economic costs of poverty. **[9 marks]**
- (c) The main aim of the Millennium Development Goals is to alleviate poverty. In support of this aim most governments in CARICOM have expended millions of dollars in resources to attempt to alleviate poverty.

Assess TWO economic benefits of this expenditure by CARICOM governments.

[8 marks]

Total 25 marks

END OF TEST

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