

FORM TP 2016186



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MAY/JUNE 2016

CARIBBEAN EXAMINATIONS COUNCIL
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ECONOMICS

UNIT 2 – 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.**

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SECTION I

MODULE 1: MODELS OF THE MACROECONOMY

Answer ONE question.

1. (a) (i) Define the term 'equilibrium level of output'. **[2 marks]**
(ii) Outline TWO factors that could account for the volatility of investment spending. **[4 marks]**
- (b) Differentiate between the 'investment curve' and the 'investment demand curve' for an economy. **[4 marks]**
- (c) Table 1 shows the expected rate of return and the volume of investment, in millions, for a country.

TABLE 1

Expected Rate of Return of Return (%)	Volume of Expected Investment (millions) (\$)
11	55
10	75
8	90
5	125
3	150
1	190

- (i) Explain why the information in Table 1 essentially describes an investment demand curve. **[3 marks]**
- (ii) Using the information in Table 1, graph the investment demand curve. **[4 marks]**
- (d) Discuss TWO ways in which businesses adjust their level of inventory investment if the level of GDP is in disequilibrium. **[8 marks]**

Total 25 marks

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SECTION II

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

Answer ONE question.

3. (a) (i) Define the term 'inflation' and state how it is measured. [3 marks]
(ii) State FOUR challenges in measuring inflation accurately. [4 marks]
(b) Differentiate between 'cost-push inflation' and 'demand-pull inflation'. [4 marks]
(c) Describe TWO ways in which inflation impacts a country's balance of payments. [6 marks]
(d) Discuss ONE positive and ONE negative effect of inflation on an economy. [8 marks]

Total 25 marks

4. (a) (i) State THREE functions of money. [3 marks]
(ii) Outline TWO motives for holding money. [4 marks]
(b) Explain TWO ways in which the fluctuating value of money affects an economy. [6 marks]
(c) Outline TWO ways in which a surplus of money affects the money market. [4 marks]
(d) The widespread use of credit cards has resulted in huge debts as people spend far more than they earn. Discuss TWO potential economic consequences of a large increase in consumer spending. [8 marks]

Total 25 marks

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SECTION III

MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT
AND GLOBAL RELATIONS

Answer ONE question.

5. (a) Explain what is meant by a 'current account deficit'. [3 marks]
- (b) Explain TWO ways in which Caribbean countries could improve performance on their current account. [6 marks]
- (c) Outline TWO ways in which EACH of the following policies may be used to correct balance of payments disequilibrium.
- (i) Expenditure-switching [4 marks]
- (ii) Expenditure-reducing [4 marks]
- (d) Discuss ONE positive and ONE negative effect of a current account deficit on a country. [8 marks]

Total 25 marks

6. (a) (i) Explain the theory of comparative advantage. [3 marks]
- (ii) Describe the trade patterns in the Caribbean. [2 marks]
- (b) Describe TWO advantages and TWO disadvantages of regional trading groups, such as North American Free Trade Agreement (NAFTA). [12 marks]
- (c) Discuss the effectiveness of devaluation and quota policies in addressing trade deficits. [8 marks]

Total 25 marks

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