

FORM TP 2018187



TEST CODE 02116020

MAY/JUNE 2018

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 questions, one from each module. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. Do NOT write in the margins.
4. You may use a silent, non-programmable calculator to answer questions.
5. 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.**
6. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**

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

Copyright © 2017 Caribbean Examinations Council  
All rights reserved.

02116020/CAPE 2018



0211602003



Answer ALL questions.

**MODULE 1: METHODOLOGY – DEMAND AND SUPPLY**

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

(i) The law of equi-marginal utility

.....  
.....  
.....  
.....  
.....  
.....

[2 marks]

(ii) Producer surplus

.....  
.....  
.....  
.....  
.....  
.....

[2 marks]

GO ON TO THE NEXT PAGE



DO NOT WRITE IN THIS AREA

(b) Table 1 shows an individual's utility from consuming units of chocolate bars and candy bars.

**TABLE 1: AN INDIVIDUAL'S UTILITY FROM CONSUMING UNITS OF CHOCOLATE BARS AND CANDY BARS**

Units of Chocolate Bars/ Candy Bars Consumed	Total Utility		Marginal Utility		Marginal Utility Per Dollar	
	Chocolate Bar	Candy Bar	Chocolate Bar	Candy Bar	Chocolate Bar	Candy Bar
0	0	0				
1	40	22				
2	72	42				
3	96	60				

- (i) Complete Table 1 given that the price of one chocolate bar is \$4 and the price of one candy bar is \$2. **[8 marks]**
- (ii) Explain why the optimal bundle of the two goods would be 1 unit of chocolate bars and 2 units of candy bars.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

**[3 marks]**

GO ON TO THE NEXT PAGE



DO NOT WRITE IN THIS AREA



- (c) With the aid of a well-labelled diagram, assess the total welfare effect of the imposition of an indirect tax on candy bars.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

[10 marks]

Total 25 marks

GO ON TO THE NEXT PAGE



**MODULE 2: MARKET STRUCTURE, MARKET FAILURE AND INTERVENTION**

2. (a) List FOUR measures used by the government to control market failure.

.....  
.....  
.....  
.....  
.....  
.....  
.....

**[4 marks]**

- (b) Explain the role of advertising in monopolistic competition and perfect competition.

Monopolistic competition.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

**GO ON TO THE NEXT PAGE**



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

Perfect competition .....

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

[6 marks]



- (c) With the aid of a well-labelled diagram, explain how negative externalities lead to market failure.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

[6 marks]

GO ON TO THE NEXT PAGE



DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA



(d) With the aid of a diagram, analyse the pricing and output decision of the monopolist.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

[9 marks]

Total 25 marks

GO ON TO THE NEXT PAGE





**MODULE 3: DISTRIBUTION THEORY**

3. (a) Distinguish between EACH of the following pairs of concepts:

(i) 'Transfer earnings' and 'economic rent'

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

**[4 marks]**

(ii) 'Absolute poverty' and 'relative poverty'

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

**[4 marks]**

**GO ON TO THE NEXT PAGE**



DO NOT WRITE IN THIS AREA





DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

DO NOT WRITE IN THIS AREA

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

[8 marks]

(c) Analyse the effects of geographical mobility and occupational mobility on wages.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

GO ON TO THE NEXT PAGE

