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.

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

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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.

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Price of Ice Cream</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1</td>
</tr>
<tr>
<td>John</td>
<td>12</td>
</tr>
<tr>
<td>Anita</td>
<td>10</td>
</tr>
<tr>
<td>Kwesi</td>
<td>8</td>
</tr>
<tr>
<td>Market demand</td>
<td></td>
</tr>
<tr>
<td>Market supply</td>
<td>3</td>
</tr>
</tbody>
</table>

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]
(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
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.

<table>
<thead>
<tr>
<th>Number of Workers</th>
<th>Total Product</th>
<th>Marginal Product</th>
<th>Marginal Revenue Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.