INSTRUCTIONS TO CANDIDATES

1. This paper consists of FIFTEEN questions. Candidates must attempt ALL questions.

2. Candidates MUST write answers in the answer booklet provided.

3. ALL working MUST be CLEARLY shown.

4. Candidates may use silent non-programmable calculators.
1. (a) Explain briefly why scarcity affects both the rich and the poor. [2 marks]

(b) List TWO of the major choices that a country must make because of scarcity. [2 marks]

(c) A country can build two schools and thirty miles of roadway or three schools and twenty miles of roadway.

State the opportunity cost of building the third school. [2 marks]

Total 6 marks

2. The table below shows the quantity of compact discs demanded and the quantity supplied at different times.

<table>
<thead>
<tr>
<th>Price in Dollars</th>
<th>Quantity Demanded</th>
<th>Quantity Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>$2</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>$3</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>$4</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>$5</td>
<td>2</td>
<td>10</td>
</tr>
</tbody>
</table>

(a) Calculate the slope of the supply curve. [2 marks]

(b) Determine the equilibrium price using the data in the table above. [2 marks]

(c) Explain why there will be a shortage of compact discs if they are sold at a price of $2.00 each. [2 marks]

Total 6 marks
3. (a) When the price of compact discs changes from $4.00 to $3.00, the quantity of compact discs demanded changes from 3 to 6. Calculate the elasticity of demand for compact discs using the mid-point formula. [2 marks]

(b) Determine whether the demand for compact discs is elastic, inelastic or unit elastic. Explain your answer. [2 marks]

(c) List TWO factors that determine the elasticity of demand for compact discs. [2 marks]

Total 6 marks

4. (a) Define the term 'marginal utility'. [2 marks]

(b) Explain how the purchase of additional units of a commodity will affect the following:

(i) Total utility [2 marks]

(ii) Marginal utility [2 marks]

(c) Explain why a consumer may purchase more of a commodity if its price is less than its marginal utility, all things being equal. [2 marks]

Total 6 marks
5. The table below shows the production costs of sugar in a certain country.

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Output '000 tons</strong></td>
<td><strong>Total Fixed Costs $ 000</strong></td>
<td><strong>Total Variable Costs $ 000</strong></td>
<td><strong>Total Costs $ 000</strong></td>
<td><strong>Average Total Costs</strong></td>
<td><strong>Marginal Costs</strong></td>
</tr>
<tr>
<td>0</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>5</td>
<td>8</td>
<td>13</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>18</td>
<td>23</td>
<td>23</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>26</td>
<td>31</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>5</td>
<td>32</td>
<td>37</td>
<td>37</td>
<td>5</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
<td>37</td>
<td>42</td>
<td>42</td>
<td>5</td>
</tr>
</tbody>
</table>

Complete columns 4, 5 and 6 in your answer booklet. **Total 6 marks**

**SECTION II**

6. (a) Define the term 'market structure'. **[2 marks]**

(b) In a market there are many firms producing identical goods. Explain whether this is a case of monopolistic competition or perfect competition. **[2 marks]**

(c) In which market structure are there price leaders and price followers? **[2 marks]**

**Total 6 marks**
7. The diagram below shows the operation for a perfectly competitive firm.

(a) (i) State the level of output at which the firm is producing.  
(ii) Which intersection, A, B, C or D indicates the output level?  

(b) Explain whether the firm is likely to experience normal profits, economic profits or a loss.  

(c) Explain what will happen to output in the long run.  

Total 6 marks

8. (a) Define the term ‘multinational corporation’.  

(b) List TWO resources that a multinational corporation may contribute to your country or to any member state of CARICOM.  

(c) State TWO reasons why a multinational corporation might want to establish itself in any CARICOM country.  

Total 6 marks
9.  (a) Define the term ‘market failure’.                      [2 marks]
(b) State TWO factors that account for market failure.        [2 marks]
(c) State the type of market structure in an industry that is likely to  
     (i) produce greater output                                   [2 marks]
     (ii) charge a higher price.                                 [2 marks]
Total 6 marks

10. (a) List TWO measures of industrial concentration.        [2 marks]
     (b) Explain how ONE of the measures, listed in 10 (a) above, is calculated. [2 marks]
     (c) Explain why a good with positive externality should be subsidised. [2 marks]
Total 6 marks

SECTION III

11. (a) Explain briefly the difference between interest and profits. [2 marks]
     (b) John told Jane that the price of sugar is an important factor influencing the price of land
         on which sugar cane is planted. Explain why this may be so. [2 marks]
     (c) List TWO factors of production and explain how the reward of any ONE of them relates
         to the cost of production. [2 marks]
Total 6 marks

12. (a) Define the term ‘value of the marginal product of labour’ (marginal revenue product of labour). [2 marks]
     (b) Explain why a perfectly competitive firm will pay a wage equal to the value of the marginal
         product of labour. [2 marks]
     (c) A worker’s wage may be divided into (i) transfer earnings and (ii) rent. Define the terms
         ‘transfer earnings’ and ‘rent’. [2 marks]
Total 6 marks
13. (a) Define the following terms:
   (i) Labour supply
   (ii) Labour force participation rate

(b) Identify TWO of the following who are NOT included in the labour force.
   (i) Self employed persons
   (ii) Housewives
   (iii) Bus conductors
   (iv) Discouraged workers
   (v) Maids

Total 6 marks

14. (a) Explain how relative poverty differs from absolute poverty.

(b) List TWO causes of poverty in your country.

(c) The Gini coefficient for land distribution in your country is 0.65 and that for functional distribution of income is 0.56.

   Explain whether land is more or less equally distributed than income in your country.

Total 6 marks

15. (a) Explain the following terms:
   (i) Moral hazards
   (ii) Adverse selection

(b) State TWO measures which the government of your country can implement to alleviate poverty.

Total 6 marks

END OF TEST