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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SECTION I

MODULE 1: MODELS OF THE MACROECONOMY

Answer ONE question.

1. (a) (i) Define the term ‘gross domestic product (GDP)’. [2 marks]
(ii) Explain why certain final goods and services are NOT included in the measurement of GDP. [3 marks]
(iii) Explain why economists use ‘real GDP’ rather than ‘nominal GDP’ to gauge economic wellbeing. [3 marks]

(b) Consider the data on GDP presented in Table 1.

### TABLE 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GDP (millions)</th>
<th>Real Potential GDP (2005 dollars)</th>
<th>GDP Deflator (base year = 2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>9,269</td>
<td>7,730</td>
<td>113</td>
</tr>
<tr>
<td>2014</td>
<td>9,873</td>
<td>10,145</td>
<td>118</td>
</tr>
</tbody>
</table>

N.B. For this question, round all numerical answers to one decimal place.

(i) Calculate real GDP in 2013 and 2014, respectively. [4 marks]
(ii) Calculate the growth (in percentage terms) of nominal GDP between 2013 and 2014. [2 marks]
(iii) Calculate the growth (in percentage terms) of the real GDP between 2013 and 2014. [2 marks]
(iv) Explain the difference between ‘the growth of nominal GDP’ and ‘the growth of real GDP’. [3 marks]
(v) Calculate the output gap (in percentage terms) in 2013 and in 2014, respectively. [4 marks]
(vi) State whether the output gap was recessionary or inflationary in 2013 and 2014, respectively. [2 marks]

Total 25 marks
2. (a) (i) Identify the **most** important determinant of consumer spending and personal saving. [1 mark]

(ii) Define EACH of the following terms:

a) Marginal propensity to consume (MPC) [2 marks]

b) Marginal propensity to save (MPS) [2 marks]

(iii) Describe the relationship between MPC and MPS. [2 marks]

(b) Use the following information to answer Parts (i) and (ii).

Consider the Keynesian consumption function:

\[ C = 2000 + 0.8 \, (Y-T) \]

where \( C \) = personal consumption

\( Y \) = personal income

\( T \) = income taxes

Also, suppose \( Y = 40000 \) and \( T = 0.25Y \).

(i) Calculate

a) the average propensity to consume (APC) [2 marks]

b) the average propensity to save (APS). [3 marks]

(ii) Calculate the multiplier and interpret its value. [4 marks]

(c) Distinguish between the ‘investment demand curve’ and the ‘investment curve’. [4 marks]

(d) (i) Using the accelerator model of investment, calculate the change in investment if firms desire to hold 25% of output as inventory and output falls by $500 million. [3 marks]

(ii) Calculate the change in investment if firms’ desire to hold inventories rise to 30%, with all else remaining constant. [2 marks]

Total 25 marks
SECTION II

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES

Answer ONE question.

3. (a) (i) Define EACH of the following terms:
   a) National budget deficit [2 marks]
   b) National debt [2 marks]

   (ii) State FOUR causes of national debt. [4 marks]

(b) (i) Explain why the size of national debt is commonly expressed as a ratio to GDP. [3 marks]

   (ii) Evaluate the statement “public debt is a burden on future generations”. [4 marks]

(c) Table 2 shows government spending and tax revenue for a hypothetical economy over a four-year period. All figures are in millions.

   TABLE 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Government Spending</th>
<th>Tax Revenue</th>
<th>Budget Balance</th>
<th>Deficit/Surplus/Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$800</td>
<td>$825</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>$850</td>
<td>$850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>$900</td>
<td>$875</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>$950</td>
<td>$900</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

   (i) Copy Table 2 into your answer booklet and complete it to show the budget balance indicating whether it is a deficit, surplus or neither. [8 marks]

   (ii) Calculate the public debt in this economy over the four-year period. [2 marks]

Total 25 marks
4.  (a)  
   (i) Define the term ‘fiscal policy’. [2 marks] 
   (ii) Explain, using TWO examples, the term ‘automatic stabilizers’. [5 marks] 
   (iii) Distinguish between ‘discretionary fiscal policy’ and ‘non-discretionary fiscal policy’. [4 marks] 

(b) Analyse how monetary policy can be used to address 
   (i) the problem of recession or slow growth [4 marks] 
   (ii) inflation. [4 marks] 

(c)  
   (i) Define the term ‘stagflation’. [2 marks] 
   (ii) With the use of a labelled Phillips curve, explain how the use of fiscal and monetary policies to solve problems of inflation and unemployment can further compound the problems. [4 marks] 

Total 25 marks
SECTION III

MODULE 3: GROWTH, SUSTAINABLE DEVELOPMENT
AND GLOBAL RELATIONS

Answer ONE question.

5. (a) Table 3 shows data on income and population differences among groups of countries for 2013. Use this information to answer the following questions.

<table>
<thead>
<tr>
<th>TABLE 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
</tr>
<tr>
<td>Income Groups by GDP per capita (2013)</td>
</tr>
<tr>
<td>Low ($1 350 or less)</td>
</tr>
<tr>
<td>Lower-Middle ($1 351–$5 390)</td>
</tr>
<tr>
<td>Upper-Middle ($5 391–$16 710)</td>
</tr>
<tr>
<td>High ($16 711 or more)</td>
</tr>
<tr>
<td>World</td>
</tr>
</tbody>
</table>

(i) Copy Table 3 into your answer booklet and complete it by calculating the percentage of World GDP earned by EACH income group. **Round your answers to one decimal place.** [4 marks]

(ii) List FOUR factors which could explain the inequality in income amongst all groups in the table. [4 marks]

(iii) Identify the income group in which the majority of CARICOM countries fall and state TWO structural peculiarities of CARICOM countries which might justify them being in that group. [3 marks]

(iv) Outline THREE implications for CARICOM economies that might result from the structural peculiarities identified in (a) (iii) above. [6 marks]

(b) Discuss ONE benefit of economic growth and ONE cost of economic growth. [8 marks]

Total 25 marks

GO ON TO THE NEXT PAGE
6. (a) (i) Identify THREE factors which may affect the levels of imports and exports of a country. [3 marks]

(ii) Explain EACH of the following concepts:

   a) Comparative advantage [3 marks]

   b) The effects of foreign exchange earnings on small open economies [3 marks]

(b) (i) Define the term ‘protectionism’. [2 marks]

(ii) Discuss the infant industry’s argument for protection. [4 marks]

(c) (i) Define ‘trade liberalization’. [2 marks]

(ii) Discuss TWO benefits of trade liberalization. [8 marks]

Total 25 marks

END OF TEST

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