INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE sections.

2. Each section consists of TWO questions. Candidates MUST answer THREE questions, ONE from EACH section.

3. Answers for ALL questions must be written in the answer booklet provided.

4. Candidates may use silent non-programmable calculators.
SECTION I

Answer ONE question from this section.

1. (a) Define EACH of the following macroeconomic variables and state how it is measured.
   
   (i) Inflation
   
   (ii) Economic growth
   
   (iii) Unemployment rate
   
   (iv) Balance of payments

   (b) The following information relates to the economy of Country Y.

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>AMOUNT ($Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries paid to labour</td>
<td>800</td>
</tr>
<tr>
<td>Consumption expenditure</td>
<td>600</td>
</tr>
<tr>
<td>Taxes</td>
<td>250</td>
</tr>
<tr>
<td>Transfer payments</td>
<td>50</td>
</tr>
<tr>
<td>Profits</td>
<td>200</td>
</tr>
<tr>
<td>Investment</td>
<td>150</td>
</tr>
<tr>
<td>Government spending</td>
<td>200</td>
</tr>
<tr>
<td>Exports</td>
<td>300</td>
</tr>
<tr>
<td>Imports</td>
<td>275</td>
</tr>
<tr>
<td>Rents</td>
<td>75</td>
</tr>
</tbody>
</table>

   (i) a) Explain how Gross Domestic Product (GDP) is calculated using the expenditure approach. [4 marks]

   b) Use the expenditure approach to calculate the GDP for Country Y. [6 marks]

   (ii) a) Explain how GDP is calculated using the income approach. [4 marks]

   b) Use the income approach to calculate the GDP for Country Y. [6 marks]
(c) State **ONE** reason why EACH of the following transactions will OR will NOT be included in the calculation of a country's GDP.

(i) An individual buys a used textbook.
(ii) A merchant sells United States currency on the black market.
(iii) A meat processing plant builds a new factory. [9 marks]

(d) Explain why GDP per capita is NOT an adequate measure of the standard of living of a country. [5 marks]

Total 50 marks

2. (a) (i) Distinguish between the Marginal Propensity to Consume (MPC) and the Average Propensity to Consume (APC). [4 marks]

(ii) State how the APC and the MPC are calculated. [4 marks]

(b) Using the simple Keynesian consumption theory, explain the effect of a rise in income on the MPC and the APC. [8 marks]

(c) (i) Define the term 'autonomous consumption'. [2 marks]

(ii) Draw a graph illustrating the concept of autonomous consumption and explain the Keynesian consumption function. [8 marks]

(d) (i) State FOUR determinants of consumption, other than income. [8 marks]

(ii) Explain how EACH of the **four** determinants impacts on consumption. [16 marks]

Total 50 marks
SECTION II

Answer ONE question from this section.

3. (a) Define EACH of the following concepts:
   (i) $M_1$
   (ii) $M_2$
   (iii) Monetary transmission mechanism
   (iv) Velocity of money
   (v) Currency substitution  [10 marks]

(b) State THREE reasons for holding money.  [6 marks]

(c) Inflation has recently been a major problem for several Caribbean economies. Identify FOUR tools of monetary policy and explain how the Central Banks in the region can use these tools to help control inflation.  [16 marks]

(d) Use the Keynesian liquidity preference framework to illustrate how monetary policies can impact on interest rates and the demand for money.  [8 marks]

(e) With the use of examples, outline TWO reasons why the Central Bank monetary policies to combat inflation may only achieve limited success.  [10 marks]

Total 50 marks
4. (a) Define EACH of the following terms:

(i) Balanced budget multiplier [3 marks]
(ii) Fiscal policy [2 marks]
(iii) Balanced budget [2 marks]
(iv) Unbalanced budget [2 marks]

(b) Explain how an ‘equal’ or ‘balanced’ change in government spending and tax revenues may cause income to rise. [5 marks]

(c) Discuss how government’s borrowing to finance fiscal deficits can have a negative impact on EACH of the following:

(i) Domestic interest rates [5 marks]
(ii) Domestic investment [5 marks]
(iii) Inflation [5 marks]
(iv) The value of the country’s currency in relation to the United States dollar [5 marks]

(d) Explain, using a graph, the relationship between investment and the rate of interest. Show on the graph how expansionary fiscal policy can have a negative impact on the level of investment. [10 marks]

(e) Explain what is meant by the ‘national debt’ of a country and state ONE reason why the national debt is a burden to a country. [6 marks]

Total 50 marks
SECTION III

Answer ONE question from this section.

5.  (a)  (i)  Describe THREE determinants of economic growth.  [9 marks]
       (ii)  Explain what is meant by ‘economic development’.  [3 marks]
       (iii) Explain what is meant by ‘human development index’.  [3 marks]
       (iv)  Describe THREE main indicators of ‘human development index’.  [9 marks]

       (b)  Using suitable examples, discuss THREE potential costs of economic growth.  [15 marks]

       (c)  Discuss TWO impediments to economic growth faced by Caribbean economies.  [10 marks]

Total 50 marks

6.  (a)  Define EACH of the following terms:
       (i)  Tariffs  [6 marks]
       (ii)  Quotas
       (iii) Non-tariff barriers

       (b)  State FOUR factors that determine a country’s export revenue.  [8 marks]

       (c)  Discuss TWO types of exchange rates and for EACH type, name ONE Caribbean country that uses it.  [10 marks]

       (d)  Discuss TWO major benefits of EACH type of exchange rate discussed in (c) above.  [16 marks]

       (e)  Analyse ONE positive and ONE negative consequence of a devaluation of your country’s currency.  [10 marks]

Total 50 marks

END OF TEST