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) Explain the difference between real Gross Domestic Product (GDP) and nominal GDP. [6 marks]

(b) Discuss TWO methods of measuring national product. [20 marks]

(c) Given the following diagram:

![Diagram]

(i) Identify the type of approach used in the above diagram. [3 marks]

(ii) What type of gap exists in the economy above? [3 marks]

(iii) How wide is the gap? [2 marks]

(iv) How can the gap be closed? [6 marks]
(d) Calculate equilibrium aggregate income (Y) from the following information.

\[
\begin{align*}
\text{Consumption} &= 0.8Y \\
\text{Investment} &= 100 \\
\text{Government spending} &= 80 \\
\text{Exports} &= 500 \\
\text{Imports} &= 180 \\
\end{align*}
\]

Total 50 marks

2. (a) According to the classical model, when the economy is in equilibrium some amount of unemployment still exists.

(i) State the level of unemployment referred to in the statement above. [3 marks]

(ii) Draw a graph showing equilibrium employment. [9 marks]

(iii) On the same graph show disequilibrium unemployment. [3 marks]

(b) Explain why disequilibrium employment exists according to the classical model. [5 marks]

(c) Explain how, according to the classical view, the economy goes back to equilibrium employment from a position of disequilibrium. [10 marks]

(d) Describe FOUR types of unemployment. [20 marks]

Total 50 marks
SECTION II

Answer ONE question from this section.

3. (a) (i) Define ‘money’ in economic terms. [2 marks]

(ii) State THREE functions of money. [6 marks]

(b) Describe FOUR tools used by the Central Bank to influence the supply of money. [16 marks]

(c) (i) Explain what is meant by the ‘money multiplier’. [4 marks]

(ii) Outline the first FOUR rounds in the process by which banks create money, assuming an initial deposit of $100 and a required reserve ratio of 10%. [12 marks]

(d) (i) State the equation for the quantity theory of money. [2 marks]

(ii) State what EACH symbol in (d) (i) above represents. [8 marks]

Total 50 marks

4. (a) Explain how monetary policy can have a positive impact on:

(i) Inflation [5 marks]

(ii) Aggregate demand [5 marks]

(iii) Unemployment [5 marks]

(b) Explain how fiscal policy can have a negative impact on:

(i) Budget deficit [5 marks]

(ii) Aggregate demand [5 marks]

(iii) Employment [5 marks]

(iv) Inflation [5 marks]

(c) (i) Explain what is meant by ‘automatic stabilizers’. [5 marks]

(ii) Identify TWO examples of automatic stabilizers. [4 marks]

(d) (i) Explain what is meant by ‘national debt of a country’. [5 marks]

(ii) Explain why ‘national debt’ is a burden for the country. [6 marks]
SECTION III

Answer ONE question from this section.

5. (a) (i) Outline TWO benefits of exporting goods and services. [6 marks]

(ii) Outline TWO problems resulting from the importation of goods and services. [6 marks]

(iii) Explain what is meant by the ‘commodity terms of trade’. [3 marks]

(iv) Identify TWO factors that determine export revenue. [4 marks]

(b) Outline THREE factors that influence economic growth. [9 marks]

(c) Discuss, using TWO determinants of economic growth in (b) above, why some Caribbean countries may NOT always have high rates of growth. [10 marks]

(d) Describe FOUR structural characteristics of Caribbean economies. [12 marks]

Total 50 marks

6. (a) Define the following terms:

• Balance of trade
• Trade deficit
• Trade surplus [6 marks]

(b) Explain what is meant by EACH of the following:

(i) Absolute advantage [3 marks]

(ii) Comparative advantage [3 marks]

(iii) The exchange rate [3 marks]

(c) Discuss TWO types of exchange rates and give examples in EACH case of Caribbean countries that use them. [10 marks]

(d) Discuss TWO policy options that a country can use in order to correct a trade deficit. [10 marks]

(e) Discuss the THREE lower levels of economic integration preceeding the level to be attained by the CARICOM Single Market and Economy. [15 marks]

Total 50 marks

END OF TEST