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. Candidates may use silent, non-programmable calculators.

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

Answer ONE question from this section.

1. (a) Explain the difference between ‘Gross Domestic Product (GDP)’ and ‘Gross National Product (GNP)’. [4 marks]

(b) Define EACH of the following approaches for measuring GDP, and outline how EACH approach is used.

(i) Income approach

(ii) Expenditure approach [6 marks]

(c) Discuss TWO ways in which growth in a country’s GDP may negatively impact the country’s standard of living. [6 marks]

(d) (i) Distinguish between ‘marginal propensity to consume’ (MPC) and the ‘average propensity to consume’ (APC) and state how EACH is calculated. [4 marks]

(ii) Using the simple Keynesian consumption theory, explain the effect of a rise in income on the MPC and APC. [5 marks]

Total 25 marks

2. (a) Using the classical economic model, explain why disequilibrium employment exists. [6 marks]

(b) Analyse, using aggregate demand and supply curves, how a global recession may impact the aggregate demand and output of the economy of your country. [10 marks]

(c) Identify THREE non-price determinants of aggregate supply and explain how EACH determinant influences the level of aggregate supply. [9 marks]

Total 25 marks
SECTION II
Answer ONE question from this section.

3. (a) (i) Distinguish between ‘unemployment’ and ‘underemployment’. [4 marks]
(ii) Outline FOUR types of unemployment. [8 marks]
(b) (i) With the use of examples, describe TWO types of inflation. [6 marks]
(ii) Differentiate between ‘nominal interest rate’ and ‘real interest rate’. [4 marks]
(c) Explain how expansionary monetary policy may be used, instead of fiscal policy, to increase employment in the economy. [3 marks]
Total 25 marks

4. (a) Define EACH of the following terms:
(i) ‘Fiscal policy’ [2 marks]
(ii) ‘Budget surplus’ [2 marks]
(iii) ‘Transfer payments’ [2 marks]
(b) Outline THREE limitations of EACH of the following policies:
(i) Monetary [3 marks]
(ii) Fiscal [3 marks]
(c) Identify FOUR sources from which governments can borrow large sums of money to finance their expenditure. [4 marks]
(d) Evaluate THREE possible negative consequences of government borrowing. [9 marks]
Total 25 marks
SECTION III

Answer ONE question from this section.

5. (a) Explain what is meant by the term ‘economic integration’. [3 marks]
(b) Outline THREE benefits and THREE costs associated with economic integration. [12 marks]
(c) Outline the THREE major stages of economic integration that CARICOM countries have attempted to achieve over the past 30 years. [6 marks]
(d) Evaluate the extent to which CARICOM countries have achieved economic integration. [4 marks]

Total 25 marks

6. (a) (i) Explain the difference between a ‘current account transaction’ and a ‘capital account transaction’ in the balance of payments statement. [2 marks]

The following data relate to the balance of payments of a country.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise exports</td>
<td>+40</td>
</tr>
<tr>
<td>Merchandise imports</td>
<td>−30</td>
</tr>
<tr>
<td>Services exports</td>
<td>+15</td>
</tr>
<tr>
<td>Services imports</td>
<td>−10</td>
</tr>
<tr>
<td>Investment income</td>
<td>−5</td>
</tr>
<tr>
<td>Net transfers</td>
<td>+10</td>
</tr>
<tr>
<td>Capital inflows</td>
<td>+10</td>
</tr>
<tr>
<td>Capital outflows</td>
<td>−40</td>
</tr>
<tr>
<td>Official reserves</td>
<td>+10</td>
</tr>
</tbody>
</table>

(ii) Using the data in the table, calculate

a) the current account balance [3 marks]
b) the overall balance of payments. [2 marks]

(b) Outline FOUR ways in which a global recession may impact the main accounts of the balance of payments. [8 marks]

(c) Distinguish between ‘absolute advantage’ and ‘comparative advantage’. [4 marks]

(d) Discuss TWO policy options that a country may use to correct a trade deficit. [6 marks]

Total 25 marks

END OF TEST

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

02216020/CAPE 2012