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. You may use a silent, non-programmable calculator to answer questions.

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

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1. (a) (i) Explain the term ‘Gross Domestic Product (GDP) deflator’. [2 marks]

(ii) State the purpose of the GDP deflator. [1 mark]

(b) 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. [2 marks]

(ii) A dealer sells $400 worth of illegal drugs. [2 marks]

(iii) A meat processing plant builds a new factory. [2 marks]

(c) The following information is given for an economy:

\[
C = 40 + 0.90Y \\
G = 500 \\
I = 50 \\
NX = 10 - 0.20Y
\]

(i) Determine

a) the autonomous consumption [1 mark]

b) the marginal propensity to consume. [1 mark]

(ii) Calculate the equilibrium level of real GDP. [4 marks]

(iii) a) Calculate the multiplier. [2 marks]

b) State whether the multiplier will be smaller or larger than the government spending multiplier. Justify your response. [2 marks]

(d) Briefly describe EACH of the following National Income accounts and state how EACH is measured.

(i) Net National Product (NNP) [3 marks]

(ii) Personal Disposable Income (PDI) [3 marks]

Total 25 marks
2. (a) Identify the FOUR **major** determinants of investment. [4 marks]
   (b) Using the Keynesian 45° graph, explain the difference between a ‘recessionary gap’ and an ‘inflationary gap’. [15 marks]
   (c) Explain how EACH of the following will respond to a recessionary gap:
       (i) The Classical school [3 marks]
       (ii) Keynesian economists [3 marks]
   **Total 25 marks**

**SECTION II**

**Answer ONE question.**

3. (a) (i) Define the term ‘money’. [1 mark]
   (ii) Briefly describe TWO types of money. [2 marks]
   (iii) Distinguish between M1 and M2. [2 marks]
   (b) Inflation has recently been a major problem for several Caribbean economies. Discuss THREE tools of monetary policy that any Central Bank in the region can use to help control inflation. [12 marks]
   (c) Use the Keynesian liquidity preference framework to illustrate how the contractionary policies discussed in 3 (b) will impact interest rates and the demand for money. [8 marks]
   **Total 25 marks**

4. (a) (i) Define the term ‘fiscal policy’. [1 mark]
   (ii) Discuss THREE ways in which fiscal policy can be used by Caribbean governments to increase the level of employment and output in their economies. [12 marks]
   (b) Outline THREE reasons why some fiscal measures may NOT work in the small open economies of the Caribbean. [6 marks]
   (c) Explain the ‘crowding out effect’ and state how this effect can be avoided. [6 marks]
   **Total 25 marks**
SECTION III

Answer ONE question.

5. (a) (i) Distinguish between ‘economic growth’ and ‘economic development’. [3 marks]
(ii) Describe THREE determinants of economic growth. [6 marks]
(b) (i) Explain the concept of ‘human development index’. [2 marks]
(ii) Outline THREE main indicators of the human development index. [6 marks]
(c) Discuss TWO impediments to economic growth faced by Caribbean economies. [8 marks]

Total 25 marks

6. (a) Define EACH of the following terms:

(i) Tariffs [1 mark]
(ii) Quotas [1 mark]
(iii) Non-tariff barriers [1 mark]
(b) Identify FOUR factors that determine a country’s export revenue. [4 marks]
(c) Describe EACH of the following types of exchange rates and identify ONE Caribbean country which uses them:

(i) Fixed [3 marks]
(ii) Floating [3 marks]
(d) Discuss TWO advantages and TWO disadvantages of foreign direct investment (FDI) in the Caribbean. [12 marks]

Total 25 marks

END OF TEST

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