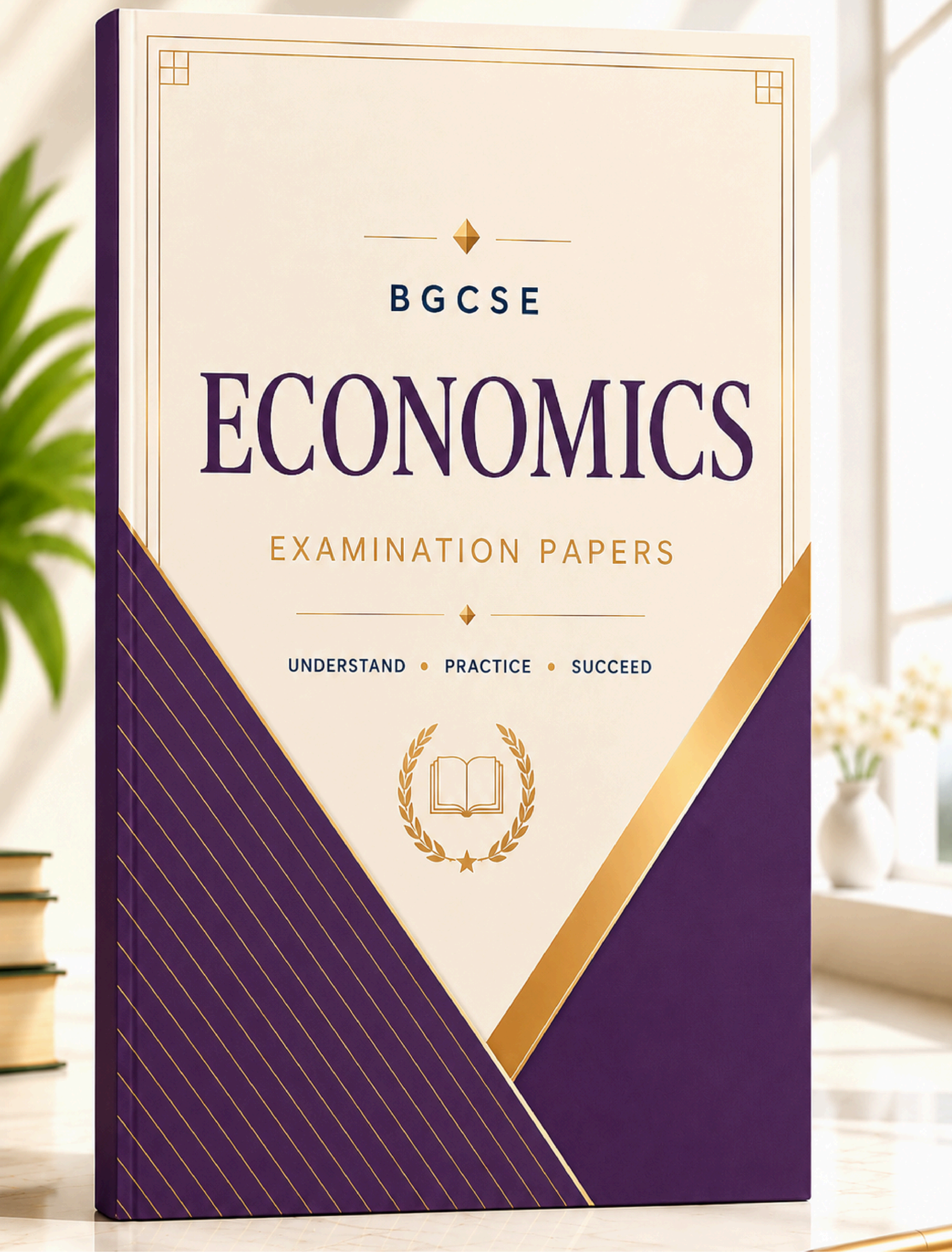
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ECONOMICS

PAPER 1 2030/1

Tuesday 24 MAY 2016 1:00 P.M.–3:00 P.M.

Additional materials:
None

MINISTRY OF EDUCATION NATIONAL EXAMINATIONS

BAHAMAS GENERAL CERTIFICATE OF SECONDARY EDUCATION

INSTRUCTIONS TO CANDIDATES

Do not open this booklet until you are told to do so.

Write your school number, candidate number, surname and initials on the top of this booklet.

Read the instructions for each task carefully before you start.

Answer **ALL** questions in the booklet.

The number of marks available is shown within brackets [ ] at the end of each question or part question.

Calculators are allowed.

ALL answers must be written in **INK**. Pencilled answers will **NOT** be accepted.

FOR EXAMINER'S USE ONLY	
Questions 1–30 M/C	
Question 31 – Matching	
Question 32 – True/False	
Question 33	
Question 34	
Total Marks 100	

Section A
Multiple Choice Questions 1–30

Directions: Read each question carefully. Answer **ALL** questions. Choose the **ONE** answer that is correct. Circle the letter in the Booklet. There is **ONLY ONE** correct answer.

1. Which of the following may be classified as a capital good?

   A. A buttonholing machine used by a tailor in his occupation.
   B. A household library of Business text books.
   C. A new car for the family.
   D. An expensive refrigerator used at home with a life of 15 years. [1]

2. A pineapple grower in Long Island is employed in which of the following type of production?

   A. Primary
   B. Primitive
   C. Secondary
   D. Tertiary [1]

3. Which of the following statements is true about all resources?

   A. They are provided by nature, not made by society.
   B. They are intended to produce goods and services.
   C. They exist in unlimited quantities.
   D. They must be produced by a firm. [1]

4. What are the respective payments for the factors of production namely, land, labour, capital, and enterprise?

   A. Interest, wages, profit, and rent.
   B. Profit, rent, interest, and wages.
   C. Rent, wages, profit, and interest.
   D. Rent, wages, interest, and profit. [1]

5. Which of the following applies to an entrepreneur?

   A. He/she always makes a profit.
   B. He/she always benefits by increasing prices and charging taxes on goods.
   C. He/she claims the residual income after other resource suppliers are compensated.
   D. He/she generally avoids risky situations. [1]

6. What directly results from the concept of 'scarce resources and unlimited human wants'?

A. Marginal Cost
B. Opportunity Cost
C. Production Cost
D. Resource Cost [1]

7. What is **NOT** a direct source of Personal disposable income?

A. Overtime pay
B. Pension
C. Taxes
D. Wages [1]

8. Suppose you have a choice of working full-time during the summer or going full-time to summer school. Summer tuition and books are $1 200. If you worked, you could make $2 000. Your rent is $500 for the summer, regardless of your choice. What is the opportunity cost of going to summer school?

A. $1 200
B. $2 000
C. $3 200
D. $3 700 [1]

9. Which applies to the law of comparative advantage?

A. A comparative advantage exists only when one country has an absolute advantage in the production of two goods.
B. Gains from trade are possible only when one country has the comparative advantage in producing both goods.
C. The country with the lowest opportunity cost of producing a particular good should produce it.
D. Whichever country has a comparative advantage in producing a good also has an absolute advantage in producing that good. [1]

10. If Perry and Hubert agree to exchange four ginger snaps for one chocolate chip cookie, then what must be true?

A. Both Perry and Hubert are at least as well off as they were before.
B. Hubert is better off than he was before, but Perry is not.
C. Perry is better off than he was before, but Hubert is not.
D. They are both better off than before. [1]

11. What is the principal objective of a rational consumer?

A. To avoid purchasing the most expensive commodities.
B. To buy as much as his income would allow of the cheapest articles.
C. To obtain the highest level of satisfaction from his income.
D. To spread his expenditure over as many products as possible. [1]

12. What does elasticity measure?

A. The profitability of investment in an industry.
B The responsiveness of decision makers to changes in prices, income, or other variables.
C. The strength of an economy's tendency to recover from recession.
D. Whether a price increase causes quantity demanded to increase or decrease. [1]

13. While calculating price elasticity of demand, which of the following is assumed to be constant?

A. The prices of all other products.
B. The quantity demanded of the product.
C. The price of the product.
D. Total revenue received from the sale of the product. [1]

14. Why is price elasticity of demand typically negative?

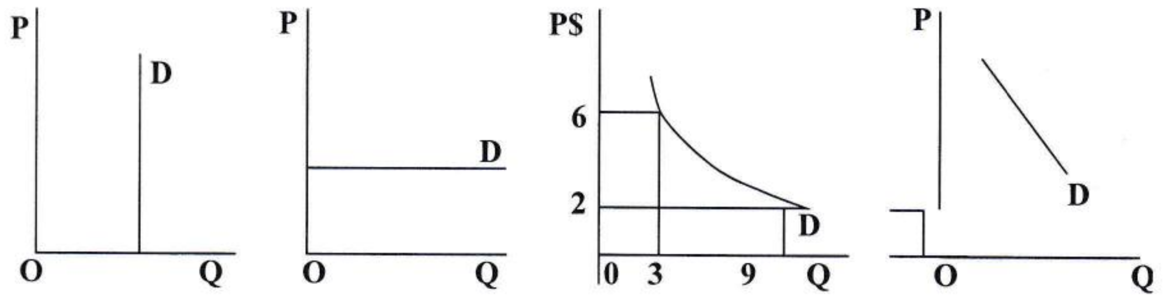
A. As price decreases, demand decreases.
B. As price decreases, demand increases.
C. As price decreases, quantity demanded decreases.
D. As price decreases, quantity demanded increases. [1]

15. If an increase in the price of a product from $1 to $2 per unit leads to a decrease in the quantity demanded from 100 to 80 units. What can be concluded about price elasticity of demand for the product?

A. It is elastic.
B. It is equal to -20.
C. It is inelastic.
D. It is unit elastic. [1]

Study diagrams **A**, **B**, **C**, and **D** and then answer questions 16 and 17.

A **B** **C** **D**



16. Which of the demand curves depicts unit elasticity?

A. Graph **A**
B. Graph **B**
C. Graph **C**
D. Graph **D** [1]

17. Which demand curve is perfectly elastic?

A. Graph **A**
B. Graph **B**
C. Graph **C**
D. Graph **D** [1]

18. A demand curve shows how quantity demanded changes as the price changes. Which is a logical conclusion of the concept?

A. Only a change in price can shift a demand curve.
B. Economists are concerned only with money.
C. Everything else that affects demand is assumed to be constant.
D. Quantity demanded is unrelated to price. [1]

19. Suppose you drink more tea because the price of coffee has increased. Which of the following best explains your action?

    A. Tea and coffee are complements.
    B. The income effect.
    C. The substitution effect.
    D. Your nominal income has increased. [1]

20. What is the most important characteristic of the equilibrium price?

    A. It clears the market, leaving neither a surplus nor a shortage.
    B. It guarantees that all buyers who desire the product will get it.
    C. It guarantees that producers earn profit.
    D. It maximises the quantity demanded. [1]

21. Which of the following best describes debentures issued by companies?

    A. Capitalisation costs
    B. Equity Capital
    C. Loan capital
    D. Share capital [1]

22. Which of the following is the major source of investment capital for firms in The Bahamas?

    A. Bank Loans
    B. Capital Issue
    C. Government Grants
    D. Retained Profits [1]

23. What is most likely to happen when government purchases increase and net taxes decrease?

    A. The price level will fall.
    B. The money supply must rise.
    C. Output and employment will increase.
    D. Aggregate supply shifts rightward. [1]

24. Which of the following would be classified as a Financial Institution?

A. Cash for Gold
B. Express It
C. Public Workers Cooperative Credit Union
D. Water & Sewerage Corporation [1]

25. Which of the following people would **NOT** be counted in the labour force?

A. Chloe, who lost her job and last looked for work three weeks ago.
B. Abigail, who holds a Ph.D. in history, but can only find part-time employment at a fast-food restaurant.
C. Ryan, who would like to work as a stockbroker until he reaches the age for mandatory retirement.
D. Marlon, who thinks he could easily earn \$100 000 per year, has a degree in labour management, but has not looked for a job since he graduated five years ago. [1]

26. Why is full employment considered a major economic goal?

A. Economic growth can only occur when there is full employment.
B. Inflation will be lower when full employment is achieved.
C. Specialisation is not possible without full employment.
D. The opportunity cost of unemployment is lost production. [1]

27. What is necessary to make production possible?

A. A market system
B. Government
C. Low interest rates
D. Saving [1]

28. What is another term for an investment good?

A. Capital
B. Interest
C. Savings
D. Rent [1]

Section B
Matching [10]

31. In **Part I** and **Part II** match the terms labelled A–E with each of the statements below by placing the correct **LETTER** in the space provided.

PART I

A. sole proprietorship
B. partnership
C. corporation
D. cooperative
E. franchise

(i) The business ownership that is subject to the least amount of legal red tape to be formed. ________________ [1]

(ii) The form of business ownership that establishes the firm as a separate legal entity is the ________________. [1]

(iii) A________________ is a business that consists of owners who join forces to collectively operate all or part of the functions of a business under a formal understanding. [1]

(iv) A ________________ is a contractual agreement that specifies the methods by which a vendor can produce and market a supplier's good or service. [1]

(v) A ________________ is independently owned and operated by its members for the benefit of the members. [1]

TOTAL MARKS [5]

PART II

A. merger
B. holding company
C. horizontal combination
D. conglomerate
E. vertical combination

(i) A ________________ joins firms in the same industry that wish to increase their customer bases, cut costs, or offer expanded product lines. [1]

(ii) A ________________ combines firms operating at different stages in the production and marketing process. [1]

(iii) During a ________________ two or more firms combine to form one company. [1]

(iv) A combination of firms in unrelated industries is called a ________________. [1]

(v) A ________________ exists when one firm purchases the property and assumes the obligations of its subsidiaries. [1]

TOTAL MARKS [5]

Section C
TRUE/FALSE

32. The following statements are either **TRUE** or **FALSE**. **Circle** the word that best describes each statement.

(i)	The balance of payments shows that debits equal credits only if exports equal imports.	**TRUE**	**FALSE**
(ii)	The balance of payments always balances, because each of the individual accounts must, by definition, be in balance.	**TRUE**	**FALSE**
(iii)	Per capita income is the only method used by the United Nations to determine the differences in stages of development among countries.	**TRUE**	**FALSE**
(iv)	A country can only benefit from international trade if it has a comparative advantage in the production of its exports.	**TRUE**	**FALSE**
(v)	Bahamian consumers would be better off if they bought goods produced only in The Bahamas.	**TRUE**	**FALSE**
(vi)	If a country has a comparative advantage in the production of certain goods, only then can it benefit from trade with other countries.	**TRUE**	**FALSE**
(vii)	International trade makes it possible for a country's consumption possibilities to exceed its production possibilities.	**TRUE**	**FALSE**
(viii)	The demand for money usually increases as GDP increases.	**TRUE**	**FALSE**
(ix)	The opportunity cost of holding money is measured by the rate of inflation in a country.	**TRUE**	**FALSE**
(x)	The higher the interest rate, the more of their wealth people will hold as money.	**TRUE**	**FALSE**

TOTAL MARKS [10]

Section D
Structured Questions [50]

33. Study the following table and then answer the questions that follow:

Total Output (units)	Total Cost ($)	Average Cost ($)	Marginal cost ($)
0	1000	0	0
1	2000		
2	2900		
3	3600		
4	4000		
5	4500		
6	5400		

(a) Complete the above table to determine the average and marginal costs at different levels of output. [4]

(b) Production is said to be subject to the 'law of diminishing marginal returns'. Explain how the law applies to production.

____

____

____

____

____

____

____

____

____ [4]

(c) Use the table above to identify the number of units after which diminishing returns occur. Explain your answer.

____

____

____

____

____

____ [3]

Employers are always seeking to employ trained and skilled workers with some amount of working experience in the nature of activity for which they are to be employed. Division of labour and specialisation increases productivity in industry.

(d) Explain **TWO** reasons why employers seek trained employees.

____

____

____

____

____

____

____

____ [4]

(e) What do you understand by division of labour? Explain how specialisation may increase production.

[4]

(f) Apart from specialisation, discuss the effectiveness of **TWO** other factors that may increase the productivity of workers in an industry.

[6]

TOTAL MARKS [25]

34. In the mid 20th century it was almost fashionable for countries to institute a planned economic system. Some countries like Cuba and other developing countries nationalised their banks and industrial companies.

In 1977 the Indian government shut down the Coca Cola Company and encouraged the growth of nationalised soft drink manufacturing. There were embargoes and quotas on importation of industrial and consumer goods.

However, recently those countries have forsaken the strict policies of planned economic systems and have opened up their economies to embrace greater competition and moved towards a market economy and have allowed market prices to allocate resources.

(a) What is a planned economic system?

____

____

____

____ [2]

(b) State **THREE** features of a planned economy and explain why they might not be effective.

[6]

(c) Identify **TWO** of the main features of a 'developing country' and explain why these features occur.

[4]

(d) Explain the terms 'embargoes' and 'quotas' and their effect on an economy.

[5]

(e) Distinguish between 'industrial' and 'consumer' goods giving suitable examples.

[2]

(f) Discuss the importance of 'market prices' in allocating resources in a market economy.

[6]

TOTAL MARKS [25]

School Number	Candidate Number
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ECONOMICS

Paper 2 2030/2

Tuesday 31 May 2016 12:30 P.M.–3:00 P.M.

Additional materials:
None

MINISTRY OF EDUCATION
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BAHAMAS GENERAL CERTIFICATE OF SECONDARY EDUCATION

INSTRUCTIONS TO CANDIDATES

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Read the instructions for each task carefully before you start.

Write all of your answers in the booklet provided.

Part I consists of **THREE** questions. Candidates must attempt **ALL** questions.

Part II consists of **FIVE** questions. Candidates must choose **ONLY TWO** questions.

The number of marks available is shown in brackets [ ] at the end of each question or part question.

Calculators are allowed.

ALL answers must be written in **INK.** Pencilled answers will NOT be accepted.

EXAMINER'S USE ONLY			
Question 1		Question 5	
Question 2		Question 6	
Question 3		Question 7	
Question 4		Question 8	
Total Marks			

This question paper consists of 23 printed pages and 1 blank page.

PART I

Directions: Candidates must attempt **ALL** questions.

1. Any labour market will generally consist of the demand for and the supply of a group of workers. There will also be an equilibrium wage determined by the forces of supply and demand just like any other goods and services. Wages often determine the number of workers employed in the occupation, although there are other forces that may affect employment. Trade Unions, in most cases, represent workers when bargaining for wages and other benefits.

   (a) What is a Trade Union?

   ____

   ____

   ____

   ____

   ____

   ____

   ____ [3]

   (b) Explain **TWO** of the main functions of Trade Unions other than negotiating wages.

   ____

   ____

   ____

   ____

   ____

   ____

   ____

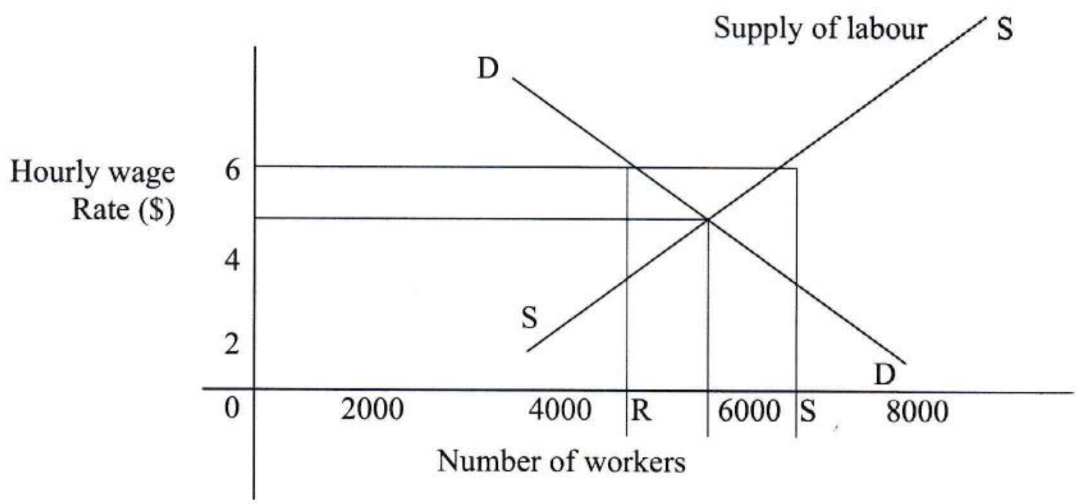
   ____

   ____ [4]

(c) Explain **THREE** of the factors on which Trade Unions can base their demand for higher wages.

[6]

(d) Study the graph below and determine the equilibrium wage rate and the supply of labour at that wage rate.



[2]

(e) Assume the Union negotiates a minimum wage of $6 per hour. Comment on the effect of this wage rate on the supply of labour and employment.

[5]

TOTAL MARKS [20]

2. Population estimate for The Bahamas for 2007 was 305 655 and almost 60% of the population live on New Providence, which includes the capital city of Nassau.

Population:	305 655 (July 2007 est.)
Death rate:	9.13 deaths/1 000 population (2007 est.)
Population growth rate:	
Birth rate:	17.3 births/1 000 population (2007 est.)
Net migration rate:	2.15 migrant(s)/1 000 population (2007 est.)
Infant mortality rate:	Total: 24.17 deaths

Source: Bahamas Government Census 2007

(a) How often is the population census taken in The Bahamas?

____

______________________________ [1]

(b) What do you understand by the phrase 'natural rate of increase' of population?

____

____

____

______________________________ [2]

(c) From the above figures, calculate the natural rate of increase of the population in The Bahamas in 2007. ***Show your working.***

[2]

(d) From the above figures, calculate the net population growth rate. ***Show your working.***

[2]

(e) What information can you draw from the figures of net migration rate?

[2]

(f) What do you understand by the infant mortality rate? Assuming there were 12 000 children born in 2007, determine the number of deaths in that year. ***Show your working.***

[4]

(g) The report suggests that 60% of the population live in New Providence alone, whereas the country is made up of almost 700 islands and cays. Explain the possible adverse effects this may have on the economy of The Bahamas.

[6]

TOTAL MARKS [20]

3. Marco City Member of Parliament said the government's decision to reduce value added tax from 15% to 7.5% is not the right answer for The Bahamas. The MP suggested an income tax regime targeting more affluent people would prove more effective for The Bahamas instead of further burdening the middle and working classes. However, he said it is not simply a matter of introducing new taxes, but the government must decide how much it needs to raise, then limit waste, get rid of corruption and determine how it can more efficiently collect existing taxes.

Adapted from a report in The Nassau Guardian

(a) Define a Value Added Tax.

______________________________ [2]

(b) Explain **THREE** advantages of implementing VAT in The Bahamas.

______________________________ [3]

(c) Distinguish between a direct tax and an indirect tax. Apart from income tax and VAT, suggest an example of each.

______________________________ [6]

(d) Distinguish between progressive and regressive taxation.

[4]

(e) Suppose a manufacturer sells a machine that costs $400 to a retailer. The retailer charges a profit of 25% on cost and sells it to the ultimate consumer. VAT is 7.5%.

Calculate:

(i) the selling price of the product to the ultimate consumer and

(ii) the amount of tax collected by the government if a 7.5% VAT is charged. ***Show your working.***

[5]

TOTAL MARKS [20]

PART II

Directions: ANSWER any **TWO** questions from this section.

4. The table below gives price and quantity of a market basket for 2013 and 2014. Suppose that 2013 is the reference base period.

Items	Quantity 2013	Price $ 2013	Price $ 2014
Oranges	50	$0.90	$0.75
Bananas	100	$0.50	$0.95
Chicken	200	$2.00	$2.50
Beef	100	$5.00	$4.80
Bread	300	$1.75	$2.00

Calculate the following:

(a) The cost of the Consumer Price Index (CPI) market basket in 2013. ***Show your working.***

[3]

(b) The cost of the Consumer Price Index (CPI) market basket in 2014. ***Show your working.***

[3]

(c) The CPI for 2013? ***Show your working.***

[2]

(d) The CPI for 2014? ***Show your working.***

[3]

(e) Assume that in the year 2014 the CPI was 177.1 and 2015 the CPI was 180.9. Calculate the rate of inflation between these two years. ***Show your working.***

[3]

(f) Explain the measures that the government may take to control inflation in a country.

[6]

TOTAL MARKS [20]

5. The law of demand states that, 'other things being equal, more will be demanded at lower prices than at higher prices.' The statement places emphasis on the 'other things being equal.' However, there are some other factors that may affect the demand for a commodity and shift the demand curve.

(a) Explain the 'other factors' that may affect the demand for a commodity.

[8]

(d) Suppose Abaco, Exuma, and Eleuthera are the only consumers in a hypothetical market for ice cream. Using the demand schedules in the table below, prepare the market demand schedule for ice-cream.

Price ($) (per gallon of ice cream)	**Quantity Demanded per month (gallons)**		
	ABACO	EXUMA	ELEUTHERA
6	30	50	0
5	40	70	10
4	60	90	20
3	70	100	30

[4]

TOTAL MARKS [20]

6. In political forums, social, and domestic discussions we constantly hear people talking about the *human capital* of a country. We also hear the same people talking about the *productivity of labour* in certain countries being high or low, depending on which country we favour and which we want to compare in unfavourable terms. In most cases the conversations end in arbitrary statements defining a country's productivity as high or low, without much definitive explanations or conclusions.

(a) What do you understand by the productivity of labour in a country?

[2]

(b) What do you understand by 'human capital'? How can 'human capital' be increased?

[6]

(c) Explain clearly the relationship between labour productivity, human capital growth, change in technology, and growth.

[4]

(d) What policies can a government undertake to achieve faster economic growth?

[3]

(e) Assume that in an economy the real GDP equals $12 trillion and aggregate hours used equals 300 billion hours. Calculate the productivity of labour. ***Show your working.***

[3]

(f) Economic theory suggests that real GDP can increase either because the quantity of labour employed has increased or because the productivity of labour has increased. Assume that the GDP of a country has increased from $5 billion to $7 billion as a result of an increase in quantity of labour employed. What is the effect on the standard of living as a result of this increase in real GDP?

[2]

TOTAL MARKS [20]

7. The Member of Parliament for the Pineridge Constituency, Mr. Darville, addressed The Bahamas Entrepreneurial Venture Fund Limited Business Forum 2013, held July 30, at Christ the King Auditorium.

He said that for the first time the Government was going to bring to Parliament a small to medium size enterprise development bill 2013, legislation that would set the ground work necessary for small businesses to thrive with the economy and take their rightful place as the true engine in the economy.

"And, I am convinced without a shadow of a doubt that this Small and Medium-Size Enterprise Development Bill 2013 will be the avenue necessary in conjunction with the Venture Fund for small businesses and entrepreneurs like yourselves to capitalise and get a piece of the pie," he told the large audience attending the forum.

Source: Tribune, Wednesday, July 31, 2013

(a) What is a small scale enterprise?

____

____

____

______________________________________ [2]

(b) Identify **FOUR** advantages to the economy provided by small and medium enterprises.

____

____

____

____

____

____

____

______________________________________ [4]

(c) Describe the primary reasons that may result in the failure of a small business.

[4]

(d) Explain **TWO** ways that small businesses may grow in size.

[4]

(e) Name the documents required to form a Public Limited Company, and briefly explain their main contents.

[6]

TOTAL MARKS [20]

8. The financial system is often described as the process by which funds are transferred between savers and borrowers. In any economy there are units who have surplus funds (savers), and there are units in need of additional funds (borrowers or users). Savings are provided by households, businesses, and government. At the same time, borrowers also consist of households, businesses, and government. In The Bahamas, at the helm of regulating finance in the economy is the Central Bank of The Bahamas. It is entrusted with the responsibility of keeping financial stability in the economy in addition to providing other services.

(a) Explain the main functions of The Central Bank of The Bahamas.

[6]

(b) What do you understand by the term 'monetary policy'?

[2]

(c) Explain how the money supply can be increased and decreased by the Central Bank.

[6]

(d) Distinguish between an Ordinary share and a Debenture.

[2]

(e) Explain the rights of Ordinary shareholders and Preference shareholders of a company.

[4]

TOTAL MARKS [20]