

GENERAL CERTIFICATE OF EDUCATION (GCE) BOARD

General Certificate of Education Examination

ECONOMICS 3
0725

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JUNE 2021

ADVANCED LEVEL

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| Subject Title | ECONOMICS |
| Paper No. | Paper 3 |
| Subject Code No. | 0725 |

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One and Three quarter hours

**Answer ANY THREE questions. All questions carry equal marks.
You are advised to spend the first fifteen minutes reading the paper.
In calculations you are advised to show all the steps in your working.**

You are reminded of the necessity for good English and orderly presentation in your answers.

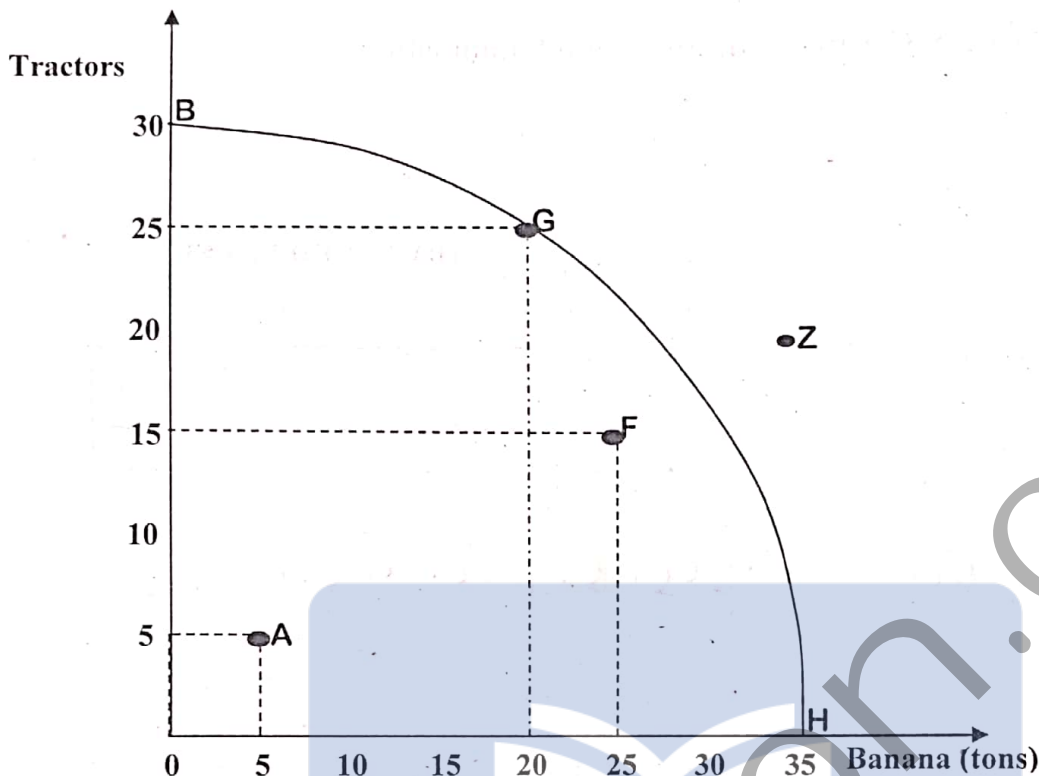
Calculators are allowed.

Turn Over

JUNE 2021/0725/3/C/Q
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1. This question is based on the figure below, which illustrates the production of Tractors and Banana by a given economy.



- a) Which points on the figure above show the use of:
 - (i) efficient methods of production? (3 marks)
 - (ii) inefficient methods of production? (2 marks)
- b) Suppose a country is at point B on the figure above and wants to move to point G;
 - (i) What will be the opportunity cost of producing banana? (2 marks)
 - (ii) What type of opportunity cost is shown by the figure above? (1 mark)
 - (iii) Identify the shapes associated with the other two types of opportunity cost. (4 marks)
- c) State four assumptions of the Production Possibility Curve. (4 marks)
- d) List four conditions for a country to produce at point Z on the figure above

2. "The economist's definition of perfect competition is different from the meaning of competition in every day usage. The economist means that each individual, recognizing that his or her own quantities supplied or demanded are trivial relative to the market as a whole, acts on the assumption that his or her actions will have no effect on the market price..... Changes in market conditions, applying to all firms or all consumers, would change the equilibrium price and hence individual quantities demanded, but each individual could neglect any feedback from his or her own actions to market price....."

Curled from Economics by David Begg, Stanley Fischer and Rudiger Dornbusch, British Edition, 1984, page 164.

- a) (i) Define perfect competition. (2 marks)
 (ii) Given the underlined statement, what phrase adequately describes sellers and buyers in this market as concerns pricing? (2 marks)
- b) State four major characteristics of perfect competition. (4 marks)
- c) Using well labeled diagrams, illustrate the following:
 - (i) the situation of a perfectly competitive industry in the short run. (4 marks)

- (ii) the normal long run situation of a firm in perfect competition. (4 marks)
- d) Briefly explain why:
 - (i) abnormal profits are considered as "windfall" in perfect competition. (2 marks)
 - (ii) marginal revenue and average revenue are the same in perfect competition. (2 marks)

3. The table below shows data for UK visible and invisible balance of trade as a percentage of GDP from 1980- 1987, excluding transactions with the IMF and other monetary authorities. Figures are in million pounds.

| Year | Exports of Goods | Imports of Goods | Visible Balance | Invisible Balance | Current Account Balance |
|------|------------------|------------------|-----------------|-------------------|-------------------------|
| 1980 | 20.4 | | 0.6 | 0.8 | 1.4 |
| 1981 | 19.9 | | 1.3 | 1.4 | 2.7 |
| 1982 | 19.9 | | 0.8 | 0.9 | 1.7 |
| 1983 | 20.0 | | -0.4 | 1.7 | 1.3 |
| 1984 | 21.7 | 23.1 | -1.4 | | 0.6 |
| 1985 | 22.0 | 22.7 | -0.7 | | 0.9 |
| 1986 | 19.2 | 21.5 | -2.3 | | -0.1 |
| 1987 | 19.3 | 21.8 | -2.5 | | -0.6 |

Source: Applied Macro-economics, 2nd edition Cliff Pratten

- a) Complete the table above. (8 marks)
- b) Define the following:
 - (i) Balance of Trade. (2 marks)
 - (ii) Balance of payment (2 marks)
- c) Briefly explain the J curve effect. (4 marks)
- d) State two conditions for terms of trade to be favourable. (2 marks)
- e) State one basis for international trade. (2 marks)

4. This question is based on the passage below;
 'The growth of unemployment in Britain and other advanced countries during the 1970s took economists by surprise. Most economists had come to believe that governments could regulate the economy by varying taxes and the money supply so as to maintain a high level of employment. As unemployment rose above levels that had previously been regarded as full employment, government unwillingness or inability to control unemployment was manifest'.

Source: Applied Macro- Economics, 2nd Edition by Cliff Pratten. Page 256.

- a) (i) Define unemployment. (2 marks)
- (ii) Identify two types of unemployment. (2 marks)
- b) State any four causes of unemployment. (4 marks)
- c) Briefly explain how taxes and money supply can be varied to regulate the economy. (4 marks)
- d) Apart from seeking low levels of unemployment, state two other macroeconomic policy objectives of governments. (4 marks)
- e) Briefly state four negative economic consequences of unemployment to a country such as Cameroon. (4 marks)

Turn over

5. Consider the table below that illustrates the Acceleration Principle. The capital-output ratio is 2:1. 20 million FCFA worth of machines are due replacement each year. Figures are in millions FCFA, except columns 3 and 8 that are in percentages.

| Year | Output (Y) | % change in output | Existing capital | Required capital | Replacement Investment | Net investment | % change in Net Investment |
|------|------------|--------------------|------------------|------------------|------------------------|----------------|----------------------------|
| 1 | 100 | / | 200 | 200 | 20 | 0 | - |
| 2 | 120 | 20 | 200 | 240 | 20 | 40 | ∞ |
| 3 | 150 | | 240 | | 20 | | |
| 4 | 150 | 0 | 300 | 300 | 20 | 0 | |
| 5 | 120 | | 300 | | 0 | | 0 |

- a) (i) Complete the table above. (8 marks)
- (ii) Determine the value of the accelerator in the above table. (2 marks)
- b) With the use of years 3 and 4 in the table above, briefly explain the functioning of the accelerator. (3 marks)
- c) List any
 - (i) three limitations of the accelerator principle. (3 marks)
 - (ii) two factors that can increase the size of the accelerator. (2 marks)
- d) Why is the value of replacement investment zero in year 5? (2 marks)

