

FORM TP 2012063



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CARIBBEAN EXAMINATIONS COUNCIL

**SECONDARY EDUCATION CERTIFICATE
EXAMINATION**

ECONOMICS

Paper 032 – General Proficiency

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. You **MUST** answer **ALL** the questions on this paper.
2. Use this answer booklet to respond to the questions. For **EACH** question, write your answer in the space provided.
3. If you need additional paper to write your answers, request it from the supervisor.
4. Attach any additional paper that you use securely to this answer booklet.
5. Return this answer booklet at the end of the examination.
6. You may use a silent, electronic calculator to answer questions but **ALL** necessary working should be clearly shown.

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

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Read the extract below and answer the questions that follow.

Importing Policies and their Impact on Small Island Developing States

Trams (a fictitious name), is a small island developing state (SIDS). In an effort to make vehicles more affordable to its citizens, the government of Trams has eased the import restrictions on foreign used vehicles. This policy includes a reduction in the tariff paid on vehicles from 65% to 40%. The policy relates to vehicles over three years old and below 1500 cc.

This policy directive has led to an increase in the number of overseas used vehicles imported into Trams from 3,566 in 2000 to 10,541 in 2009. This increase in the number of vehicles has resulted in both positive and negative externalities. According to the policymakers, the influx of vehicles has led to a growth in government revenue from US \$15 million in 2000 to US \$33.25 million in 2009. Further, they contend that the policy has led to an improved public transportation system, a better quality of transportation fleet than previously existed, and an improved standard of living.

This policy comes at a time when fuel prices continue to be high at US \$84 per barrel with Trams being a net importer of fossil fuels. There is also greater public awareness about the need for a cleaner environment. However, according to one government official, "... as a SIDS, it is unrealistic to think that Trams can pursue the same import policies as more developed countries".

1. (a) Define the term 'tariff'.

(2 marks)

- (b) Define the term 'externality'.

(2 marks)

- (c) State TWO characteristics of small island developing states (SIDS).

(2 marks)

- (d) With reference to the extract, what measure was adopted to make vehicles more affordable to citizens?

(2 marks)

- (e) Calculate the percentage change in the number of vehicles imported into Trams between 2000 and 2009.

(2 marks)

2. Explain how a reduced tariff on overseas used vehicles is expected to improve the public transport system.

(4 marks)

3. Using information from the extract, describe TWO effects associated with the reduction in the import tariff rate **other than improvement in the public transport system**.

(6 marks)

4. (a) Explain TWO **negative** externalities associated with the policy that was implemented indicating clearly how they affect the economy of Trams.

(6 marks)

- (b) Discuss ONE measure that can be taken to address EACH of the externalities explained in (a) above.

(4 marks)

5. (a) Identify ONE import policy which more developed countries may adopt to improve their fleet of vehicles.

(2 marks)

- (b) Discuss TWO reasons why the policy identified in (a) above may be difficult for Trams to implement.

(8 marks)

END OF TEST

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