

Immaculate Conception High School
The Caribbean Advanced Proficiency Examination
Economics Syllabus
UNIT 2: MACROECONOMICS

TERM 1
MODULE 1
MODELS OF THE MACROECONOMY

TOPIC 1: National Income Accounting

CONTENT

1. Economic agents.
2. Gross Domestic Product (GDP), Gross National Product (GNP) and other measures.
3. Calculation of GDP, GNP and their components (personal income, disposable income), Net National Income, (NNI), and per capita income; avoidance of double counting.
4. Total measures.
5. Use of national income accounts to measure economic performance over time and to make inter-country comparisons.
6. Calculation of real and nominal GDP using the price deflator.
7. Limits of National Income Accounts as a measure of well-being.

TOPIC 2: Classical Models of the Macroeconomy

CONTENT

1. Flexibility of wages and prices.
2. The role of wage, price and interest rate flexibility.
3. The factors that influence aggregate demand.
4. Factors that influence aggregate supply including changes in input prices and incomes
5. The assumptions of the vertical aggregate supply curve
6. The interaction of the classical aggregate demand and supply curves.

7. Shifts in the aggregate demand and aggregate supply curves.

TOPIC 3: Basic Keynesian Models

CONTENT

1. Autonomous and induced consumption.
2. Income = consumption plus saving.
3. Marginal propensity to consume and save.
4. Average propensity to consume and save.
5. Simple multiplier $\frac{1}{1 - MPC}$
6. Relationships between changes in investments and national income
7. Concepts of injections and withdrawals in an economy.
8. The effect of injections and withdrawals on national income.
9. Small multipliers in the Caribbean context due to leakages.
10. Relationship between net exports (x-m) and national income.
11. Exports as an injection and imports as a withdrawal.
12. Determination of equilibrium income.
13. Full employment level of output.
14. Actual level of output.
15. Equilibrium level of national income could be either below, at or above potential level of output.

TOPIC 4: Investment

CONTENT

1. Investment (induced and autonomous)
2. Marginal efficiency of capital (investment demand as a function of expected rate of return)
3. Marginal efficiency of investment (non-interest rates as determinants of investment demand, taxes, costs, stock of capital goods on hand, expectations).
4. Accelerator theory of investment.
5. Determinants of investment.

MODULE 2: MACRONOMIC PROBLEMS AND POLICIES

TOPIC 1: Unemployment and Inflation

CONTENT

1. Employed and unemployed.
2. The unemployment rate.
3. Unemployment and underemployment.
4. The effect on output, income and growth: additional financial burden on the state; social costs.
5. Labour immobility, other market imperfections, structural changes in the economy, inadequate aggregate demand, increase in labour force participation rate, seasonality, intervention.
6. Fiscal policy, monetary policy, wage subsidies, retraining programmes, investment tax credit, employment tax credit, government employment programmes, reducing market imperfections.
7. Inflation: general price level.
8. Real and money wages.
9. The GDP deflator; the retail price index; the producer price index. Calculations and limitations of the indices.
10. Demand shocks, supply shocks, increase in the money supply growth rate.
11. The costs and benefits of inflation: the impact of redistribution of wealth; impact of business activity and growth, impact on the balance of payments.
12. Income policy, monetary policy, fiscal policy and supply side measures.
- 13.** Trade-off between inflation and the rate of unemployment: Phillips curve – stagflation.

TOPIC 2: Monetary Theory and Policy

CONTENT

1. The meaning of money.
2. Types of money: token and commodity.
3. Functions of money.

4. Liquidity Preference Theory.
5. Motives for holding money (transactions, precautionary, speculative).
6. The money supply (M1, M2).
7. Monetary policy – expansionary and contractionary policies.
8. The role of the central bank in creating high-powered money (monetary base).
9. Instruments of monetary control.
10. Excess reserves.
11. Credit creation.
12. The money multiplier.
13. The nature of currency substitution and hoarding.
14. The Quantity Theory of money.
15. Tight monetary policy (inflation).
16. Easy monetary policy (unemployment).
17. Balance of payments.
18. How monetary policy affects national income.
19. Limitations of monetary policy.

TOPIC 3: Fiscal policy

CONTENT

1. The meaning of fiscal policy.
2. Fiscal policy as a means of addressing:
3. Aggregate demand;
4. Unemployment;
5. Inflation;
6. Balance of payments.
7. The nature of the budget.
8. Explanation of the balanced budget multiplier.
9. Methods of financing budget deficits including external and domestic borrowing.
10. Lags and potency of fiscal policy.
11. Expansionary and contractionary.

12. Automatic stabilizers.

TERM 2

MODULE 2: MACROECONOMIC PROBLEMS AND POLICIES (cont'd)

TOPIC 4: Public Debt

CONTENT

1. The national debt.
2. The causes of the national debt
3. The effects of the national debt on the economy.
4. The responsibility for debt repayment.
5. Management of the national debt.
6. Interpretation of the debt service ratio.
7. Calculation of the debt service ratio (principal plus interest as a percentage of export).

MODULE 3

TOPIC 1: Growth and Sustainable Development

CONTENT

1. Differences between growth and development
2. Current growth versus the well-being of future generations.
3. Differences between exogenous (technical change) and endogenous growth (capital accumulation, human capital).
4. Economic, social and environmental factors.
5. Indices of human development including mortality rates, literacy, per capital income, life expectancy.
6. Structural characteristics of Caribbean economies.
7. Implications for regional economies.

TOPIC 2: International Trade

CONTENT

1. The role of exports in creating domestic income and the role of imports in generating income for foreigners.
2. The factors which determine exports and imports.
3. Foreign exchange earnings from exports.
4. The theory of comparative advantage.
5. Arguments for protection.
6. Arguments for trade liberalization including access to technology, availability of cheaper goods and services. Application of the theory of comparative advantage.
7. Methods of protection including: tariffs, quotas and other non-tariff methods.
8. Explanation of the commodity terms of trade.
9. Interpretation of changes in the commodity terms of trade.
10. Export price index divided by import price index multiplied by 100.

TOPIC 3: Balance of Payments and Exchange Rates

CONTENT

1. Explanation of the balance of payments.
2. Capital items and current items.
3. The causes and consequences of balance of payments – disequilibria.
4. Policy responses to balance of payments crises.
5. Fixed and floating exchange rate systems (fixed, free floating and managed float).
6. The effects of exchange rate changes.

TOPIC 4: Economic Integration

CONTENT

1. Main forms of economic integration.
2. The costs and benefits of economic integration including trade creation and trade diversion.
3. The objectives of CARICOM and the rationale for the CARICOM Single Market and Economy (CSME).

4. The significance of integration movements, for example European Union (EU) and the North American Free Trade Agreement (NAFTA) for Caribbean Economies.

TOPIC 5: International Economic Relations

CONTENT

1. The role and functions of the WTO.
2. The role of the IMF and the World Bank in the International Financial System.
3. Explanation of multinational (transnational) corporation.
4. The nature of foreign direct investment.
5. Potential benefits and disadvantages.
6. The concept of globalization.
7. Forces driving globalization, for example, technological innovation, trade liberalization and liberalization of capital markets.
8. Implications of globalization for developing countries with particular reference to the greater Caribbean (greater competition, access to markets, access to technology, cheaper prices and greater variety of goods, loss of preferential markets).