

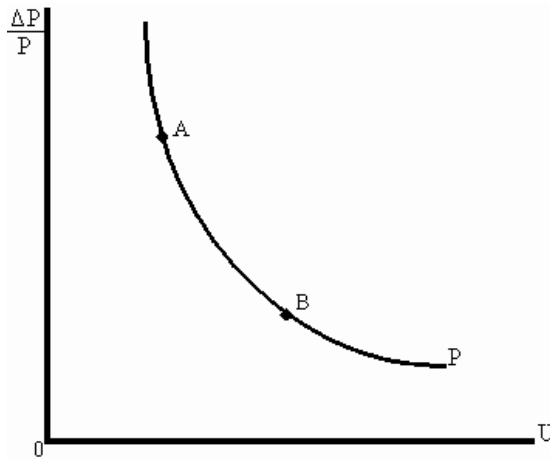
Additional Theory QuestionsQuestion 157

Which of the following statements are correct?

- To combat unemployment steps must be taken to stimulate the demand for labour. **(correct)**
- Stricter immigration control could help to combat the unemployment problem in South Africa. **(correct)**
- Efforts to increase the demand for exports do not influence the domestic demand for labour. **(incorrect)**

Question 158

Use the figure below which shows the trade-off between inflation and unemployment, to answer question 158



A movement from point a to b might be caused by

- a decrease in aggregate supply.
- an increase in aggregate supply.
- a decrease in aggregate demand. **(correct)**
- an increase in aggregate demand.

Question 159

Which of the following statements are correct?

- Real GDP is obtained by adjusting nominal GDP for inflation. **(correct)**
- GDP per capita is calculated by dividing GDP by the number of people in the population. **(correct)**
- In measuring economic growth, the production or income should be expressed in nominal terms.

Question 159

Which one of the following factors could cause an expansion in production capacity?

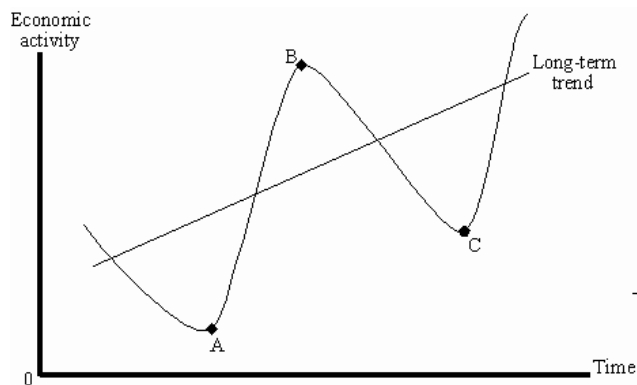
- domestic demand.
- export demand.
- import substitution.
- capital deepening. **(correct)**

Question 160

Which of the following statements are correct about the three major flows in the economy?

- The circular flow of production, income and spending is a continuous process. **(correct)**
- Spending generates income. **(correct)**
- Production creates income. **(correct)**

Question 161



A complete business cycle is represented by movement from

- 1) A to B.
- 2) B to C.
- 3) A to C. **(correct)**

Question 162

Which one of the following statements explains the difference between stocks and flows?

- 1) Stocks have a time dimension and flows are measured at a point in time.
- 2) There is no clear difference between stocks and flows.
- 3) Flows have a time dimension and stocks are measured at a point in time. **(correct)**

Question 163

Which of the following statements are correct?

- a) The factor market is where capital goods and labour are bought and sold. **(correct)**
- b) Households are engaged primarily in production.
- c) Investment is the act of purchasing capital goods. **(correct)**

Question 164

In a circular flow of income and spending

- a) the flow of income is in the same direction as the flow of spending. **(incorrect)**
- b) the firms' spending represents the expenditure of the households. **(incorrect)**
- c) the firms supply goods in the factor market and households buy these goods in the goods market. **(incorrect)**

Question 165

Given the government in the circular flow of income and spending, which of the following is a withdrawal?

- a) Income taxes. **(correct)**
- b) Government expenditure.
- c) Transfer payments.

Question 166

Which of the following statements are correct?

- d) South Africa has an open economy as the volume of the country's imports exceed the volume of exports. **(incorrect)**
- e) Imports constitute a leakage while exports constitute a withdrawal from the circular flow of income and spending. **(incorrect)**

- f) Payment for exports constitutes an addition and payment for imports constitutes an injection into the circular flow of income and spending. **(incorrect)**

Question 167

Which of the following statements are correct?

- a) Financial institution acts as intermediary between those who save and those who wish to invest. **(correct)**
- b) Financial sector is the funnel through which saving is channelled back into the circular flow in the form of investment. **(correct)**
- c) Investment is the most important form of saving in the circular flow of income and spending.

Question 168

Total spending in the economy consists of spending by

- a) firms and households. **(correct)**
- b) government and foreign sector. **(correct)**
- c) government and financial sector.

Question 169

The three important injections into the circular flow of income and spending are

- 1) investment spending, government spending and imports.
- 2) exports, taxes and savings.
- 3) exports, investment and government spending. **(correct)**
- 4) savings, import and consumption.

Question 170

When economists say that money is a store of value they imply that

- 1) money has a greater value than other assets.
- 2) the value of money is not affected by inflation.
- 3) money can be used to measure the value of other commodities.
- 4) money is a way of saving purchasing power to be used when needed. **(correct)**

Question 171

If product prices in South Africa were stated in terms of litres of milk (instead of rands and cents), then milk would be functioning primarily as

- 1) a store of value.
- 2) a unit of account. **(correct)**
- 3) a medium of exchange.

Question 172

Which of the following statements are correct about money?

- a) Credit cards are a form of money because they can be used to make purchases.
- b) Demand deposits are immediately available as a medium of exchange. **(correct)**
- c) M3 relates to the function of money as a store of value. **(correct)**

Question 173

Which of the following statements are correct?

- a) Banks can create demand deposits by granting credit to their clients in the form of overdraft facilities. **(correct)**
- b) When a person deposits cash in a cheque account there is no immediate change in the quantity of money. **(correct)**

- c) When the cash reserve requirement increases, the credit multiplier increases.

Question 174

When the entire banking system makes use of excess reserves to grant new loans in the form of deposits,

- 1) the credit multiplier decreases.
- 2) the credit multiplier increases.
- 3) the credit multiplier remains unchanged. **(correct)**

Question 175

The South African Reserve Bank

- 1) is responsible for the implementation of fiscal policy.
- 2) is lender of last resort for those consumers who are unable to secure a loan from commercial banks.
- 3) is co-responsible for tax collection.
- 4) is responsible for the formulation of monetary policy. **(correct)**

Question 176

Which one of the following regarding the demand for money is correct?

- 1) The speculative demand for money is a function of the income level and the interest rate.
- 2) The transactions demand for money is inversely related to the interest rate.
- 3) The position of the money demand curve is determined by the income level. **(correct)**
- 4) An increase in interest rate will result in a decrease in the precautionary demand for money.

Question 177

The quantity of money demanded for precautionary purposes decreases if

- 1) total output decreases. **(correct)**
- 2) consumer incomes increase.
- 3) the interest rate increases.
- 4) the inflation rate increases.

Question 178

The South African Reserve Bank feels that the South African economy is overheated. To correct the problem the SARB could

- 1) sell bonds on the open market. **(correct)**
- 2) increase tax rates.
- 3) decrease government spending.
- 4) lower the reserve requirement.

Question 179

Which of the following statements regarding financing of government expenditure are correct?

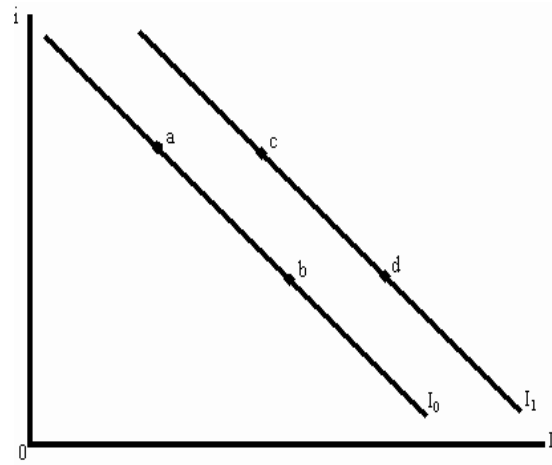
- a) The budget deficit is positively related to the interest on public debt.
- b) The government can finance its deficit by buying bonds from the public.
- c) Inflationary financing occurs when government borrows from the central bank. **(correct)**

Question 180

According to Say's law

- a) spending can be insufficient to achieve full employment.
- b) all leakages automatically find their way back into the circular flow of income and spending. **(correct)**
- c) total spending will always be equal to total income. **(correct)**

Question 181



The shift in the investment function from I_0 to I_1 is as a result of

- a) an increase in repo rate.
- b) a decline in lending rate.
- c) an improvement in profit expectations. **(correct)**

Question 182

Using the above diagram, a movement from point b to a is due to

- a) an increase in interest rate. **(correct)**
- b) an increase in investment spending.
- c) an increase in income.

Question 183

Which of the following statements are correct regarding the multiplier?

- a) The multiplier is the ratio between the change in income and the change in autonomous total spending. **(correct)**
- b) The size of the multiplier depends on the marginal propensity to consume. **(correct)**
- c) The greater the multiplier the greater the marginal propensity to consume.

Question 184

A decrease in leakages from the circular flow of income and spending leads to _____ in the multiplier.

- 1) a decrease
- 2) no change
- 3) an increase **(correct)**

Question 185

What does the assumption of exogenous interest rates in the Keynesian models mean?

- 1) Interest rates are ignored.
- 2) The model cannot explain changes in interest rates. **(correct)**
- 3) Interest rates explain total income which in turn is explained by the model.
- 4) Interest rates are dependent on changes in the model and it is determined by investment.

Question 186

The introduction of government spending

- a) increases the level of aggregate spending. **(correct)**
- b) decreases the multiplier.
- c) decreases the equilibrium level of income.

Question 187

According to the assumptions of the simple Keynesian model, the economy only consists of the two sectors; households and firms.

There is _____ relationship between government spending and total income.

- 1) a positive
- 2) no systematic **(correct)**
- 3) a negative

Question 188

Which of the following statements are correct about the Keynesian model including the government?

- a) Government spending is largely financed by taxes and taxes are thus an injection into the circular flow of income and spending. **(incorrect)**
- b) Disposable income is simply the income that households have available after they have saved. **(incorrect)**
- c) The introduction of a proportional income tax increases the size of the multiplier. **(incorrect)**

Question 189

The introduction of a proportional income tax is shown by

- 1) an upward shift of the aggregate spending curve.
- 2) a downward shift of the consumption function.
- 3) a downward swivel of the consumption function. **(correct)**
- 4) an upward swivel of the aggregate spending curve.

Question 190

The objective of price stability means

- 1) there should not be price increases in the economy.
- 2) keeping inflation as low as possible.
- 3) prices should always stay constant. **(correct)**
- 4) prices should be determined by forces of demand and supply.

Question 191

In the national accounts, the difference between gross investment and net investment is

- 1) imports.
- 2) capital flight.
- 3) income earned by foreigners.
- 4) depreciation. **(correct)**

Question 192

If the CPI was 120 in 1994, the typical basket of goods and services

- 1) in 1994 was 20 percent more expensive than in the previous year.
- 2) in 1994 was 120 percent more expensive than in the base year.
- 3) in the base year was 120 percent more expensive than in 1994.
- 4) in 1994 was 20 percent more expensive than in the base year. **(correct)**

Question 193

If the unemployment rate is 6 percent, it means that 6 percent of

- 1) the population is not working.
- 2) the labour force is not working.
- 3) the individuals who are looking for work cannot find jobs. **(correct)**
- 4) the people do not want to work.

Question 194

Which of the following statements are **incorrect**?

- a) In the simple Keynesian model, consumption spending can never exceed income. **(correct)**
- b) In the simple Keynesian model, income is represented by the symbol Y and production by the symbol A. **(correct)**
- c) According to Keynes, aggregate demand in the economy can never be insufficient. **(correct)**

Question 195

In the Keynesian model, the assumption that prices are fixed implies that

- 1) we cannot use the model to study the labour market.
- 2) the model can be used to study inflation.
- 3) the model is ideal for studying the money market.
- 4) we cannot use the model to study the general increase in price levels. **(correct)**

Question 196

Which one of the following statements is true about the consumption function $C = 10 + 0,8Y$?

- 1) Autonomous consumption spending refers to the part of consumption spending which varies with income.
- 2) The autonomous consumption is 10,8.
- 3) The marginal propensity to save is 0,2. **(correct)**
- 4) Induced consumption is equal to Y.

Question 197

A decrease in the marginal propensity to consume

- 1) does not affect the value of the multiplier.
- 2) will not occur because the marginal propensity to consume is set by government.
- 3) raises the value of the multiplier.
- 4) lowers the value of the multiplier. **(correct)**
- 5) decreases the marginal propensity to save.

Question 198

When government spending increases, the income of some people increases and those people in turn spend some of the increase in income. This is an example of

- 1) supply side economics.
- 2) demand and supply economics.
- 3) the multiplier effect. **(correct)**
- 4) the law of demand.

Question 199

In the simple Keynesian model, the following is true about investment.

- 1) As income increases, investment also increases.
- 2) There is a negative relationship between investment and income.
- 3) Investment is autonomous and is illustrated by a horizontal line. **(correct)**
- 4) Investment is positively related to the interest rate.

Question 200

Question 201

Which of the following statements are correct?

- a) The 45 degree line shows the equality between the variable measured on the vertical axis and the variable measured on the horizontal axis. **(correct)**
- b) At any point above the 45 degree line there is excess supply of goods and services.
- c) When aggregate spending is greater than total production, firms experience an unplanned increase in their inventories and respond by lowering their production.

Question 202

The multiplier effect

- 1) is a theory explaining how consumers save in order to cater for the future.
- 2) is a way of explaining the relationship between a change in investment and a change in output. **(correct)**
- 3) is shown by the disproportionately larger change in aggregate demand as result of a change in autonomous spending. **(correct)**
- 4) is an example expansionary monetary policy
- 5) is an example of contractionary fiscal policy

Question 203

The value of the multiplier is necessarily increased if

- 1) the marginal propensity to consume increases and the marginal propensity to import falls. **(correct)**
- 2) the marginal propensity to consume falls and the tax rate falls.
- 3) the marginal propensity to consume and the marginal propensity to import rise.
- 4) the income tax rate falls and the marginal propensity to import rises.

Question 204

Given the import function $Z = 300 + 2/3Y$, which of the following statements are **incorrect**?

- a) The marginal propensity to save is $1/3$. **(incorrect)**
- b) The induced component is 300. **(incorrect)**
- c) $2/3$ is the proportion of any increase in income that is spent on imports. **(correct)**

Question 205

Which of the following correctly lists the assumptions of the AD-AS model?

- a) Prices are given, wages are variable.
- b) Prices are variable, wages are variable. **(correct)**
- c) Money supply is given.
- d) The interest rate is variable. **(correct)**

Question 206

The aggregate demand and aggregate supply model explains

- 1) short run fluctuations in real GDP and price level. **(correct)**
- 2) equilibrium between aggregate demand and aggregate supply. **(correct)**
- 3) the sources of short run growth versus long term growth.
- 4) long run fluctuations in output, employment and prices.

Question 207

If the economy is at a certain point on the aggregate supply curve, a decrease in aggregate demand will

- 1) permanently increase unemployment.
- 2) temporarily increase unemployment. **(correct)**
- 3) permanently increase inflation.
- 4) temporarily increase inflation.

Question 208

An expansionary monetary policy is less effective if

- 1) the interest elasticity of investment demand is smaller and the AS curve is flatter.
- 2) the interest elasticity of investment demand is bigger and the AS curve is steeper.
- 3) the interest elasticity of investment demand is smaller and the AS curve is steeper. **(correct)**
- 4) the interest elasticity of investment demand is bigger and the AS curve is flatter

Question 209

A simultaneous decrease in aggregate supply and an increase in aggregate demand will always

- 1) increase the production level.
- 2) reduce the production level.
- 3) increase the price level. **(correct)**
- 4) leave the price level unchanged.

Question 210

Which of the following is the most widely used measure of inflation?

- 1) The consumer price index **(correct)**
- 2) The producer price index
- 3) The prime rate
- 4) The repo rate

Question 211

Suppose in the South African economy, the annual rate of inflation decreases from 10% to 8% to 3% between 2000 and 2003, the South African economy is experiencing

- 1) stagflation.
- 2) disinflation. **(correct)**
- 3) deflation.
- 4) accelerating deflation.

Question 212

Demand pull inflation is the result of

- a) an increase in consumption spending. **(correct)**
- b) an increase in investment spending. **(correct)**
- c) an increase in government spending. **(correct)**
- d) an increase in export earnings. **(correct)**

Question 213

Cost push inflation is caused by

- a) increases in wages and salaries and investment spending.
- b) increased profit margins, decreased productivity and natural disasters. **(correct)**
- c) increases in the cost of imported capital and intermediate goods and increases in wages and salaries. **(correct)**
- d) decreased investment spending and increased profit margins.

Question 214

Stagflation refers to

- 1) an increase in inflation and a decrease in unemployment.
- 2) a decrease in inflation and an increase in unemployment.
- 3) an increase in the general price level and a decrease in output levels. **(correct)**
- 4) decrease in the general price level and an increase in the level of output

Question 215

Unemployment

- a) includes those who are willing and able to work, but cannot find jobs. **(correct)**
- b) is measured as a proportion of total population.
- c) is measured as a proportion of labour force. **(correct)**
- d) is a flow concept.

Question 216

Economic growth is measured by a positive change in which of the following?

- 1) The money supply.
- 2) The producer price index.
- 3) The gross domestic product. **(correct)**
- 4) The balance of payments.

Question 217

Economic growth can best be described as

- 1) an avoidance of a negative output gap.
- 2) an increase in aggregate demand which causes a movement along the short run aggregate supply curve.
- 3) continuous outward shifts of aggregate demand. **(correct)**
- 4) a long term expansion of a country's potential GDP. **(correct)**

Question 218

Which one of the following approaches can be used to increase economic growth?

- 1) Increase the income tax rate.
- 2) Increase investments in consumer goods.
- 3) Increase imports.
- 4) Increase investments in capital goods. **(correct)**

Question 219

In the last year, the global economy experienced a recession. In this case, which kind of economic policy measure is the appropriate measure for affected governments to undertake?

- 1) Expansionary fiscal policy. **(correct)**
- 2) Contractionary fiscal policy.
- 3) Contractionary monetary policy.
- 4) Expansionary monetary policy.

Question 220

In the fiscal year 2011/2012, South Africa's budget deficit stood at 5.3 percent of GDP. The budget deficit tends to decrease when

- 1) there is an increase in GDP. **(correct)**
- 2) there is an accelerated decrease in GDP.
- 3) there is a slight decrease in GDP.
- 4) GDP remains unchanged.

Question 221

Assume that the South African government is running a deficit, it pays for most of its extra spending by

- 1) printing extra money at the Reserve Bank.
- 2) selling bonds and treasury notes. **(correct)**
- 3) selling public property.
- 4) borrowing from itself.

Question 222

The notion that countries stand to gain more if they trade in the commodity of their lowest opportunity cost is referred to as

- 1) international trade.
- 2) comparative advantage. **(correct)**
- 3) absolute advantage.
- 4) equal advantage.

Question 223

Assume, for simplicity, that South Africa and Botswana both produce 1 computer and 5 tonnes of shoes, then

- 1) Botswana will have an absolute advantage in the production of shoes.
- 2) South Africa has a comparative advantage over Botswana in the production of both computers and shoes.
- 3) there is no basis for trade since there is equal advantage in the production of both products in both countries. **(correct)**
- 4) South Africa has an absolute advantage in the production of both computers and shoes since it has a bigger market.

Question 224

If the rand appreciates against other currencies in the exchange rate market, this will

- 1) have no effect on the South African current account.
- 2) worsen the South African current account. **(correct)**
- 3) improve the South African current account.
- 4) have an effect depending on the other currencies in the market.

Question 225

In order to prevent an appreciation in the value of the rand, the South African Reserve Bank can _____ the interest rate which will then promote a (an) _____ in investment flows into South Africa.

- 1) increase, decrease
- 2) increase, increase
- 3) decrease, decrease **(correct)**
- 4) decrease, increase

Question 226

Assume that the USA is the largest importer of South African platinum. Which of the following correctly indicates the impact of the recent recession experienced by the American economy on the value of the rand?

- 1) The value of the rand remains unaffected.
- 2) The rand will depreciate. **(correct)**
- 3) The rand will appreciate.

Question 227

Which one of the following correctly explains or defines real GDP?

- 1) Real GDP is nominal GDP adjusted for changes in the price level. **(correct)**
- 2) Real GDP is also called nominal GDP.
- 3) Real GDP measures GDP less depreciation of capital.
- 4) Real GDP will always change when prices change.

Question 228

_____ is not a primary cause of government failure.

- 1) The rent-seeking behaviour of interest groups
- 2) The inefficient behaviour of the market **(correct)**
- 3) The behaviour of bureaucrats
- 4) The behaviour of vote-maximizing politicians

Question 229

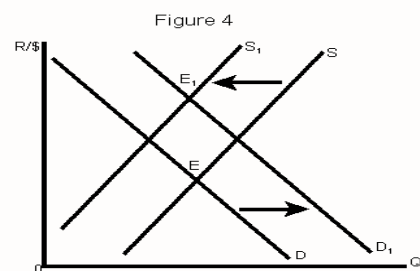
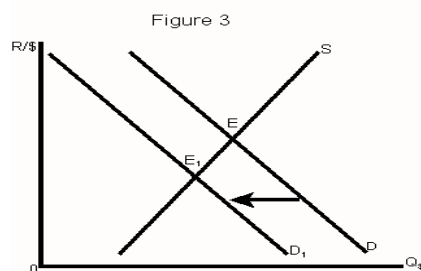
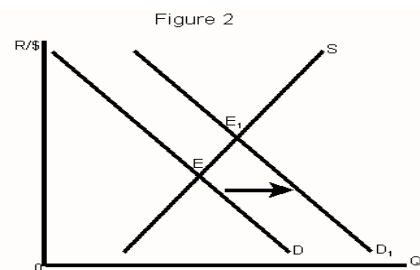
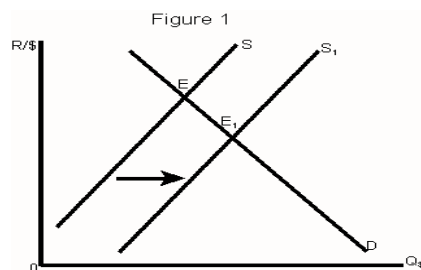
If the supply curve of petrol has its normal shape and the price elasticity of demand for petrol is perfectly inelastic, then a specific tax of R5 placed on each litre of petrol will be borne

- 1) entirely by consumers. **(correct)**
- 2) entirely by producers.
- 3) more by consumers than by producers.
- 4) more by producers than by consumers.

Question 230

Which of the following figures shows the impact of an increase in USA interest rates on the South African foreign exchange market?

- 1) Figure 1
- 2) Figure 2 **(correct)**
- 3) Figure 3
- 4) Figure 4



Question 231

The terms of trade measure

- 1) the income of one country compared to another.
- 2) the quantity of exports of one country compared to another.
- 3) export prices relative to import prices. **(correct)**
- 4) the difference between the value of exports and that of imports.

Question 232

When the Gross Domestic Product is measured

- 1) the total value of final services is subtracted from the value of final goods.
- 2) the total value of locally produced intermediate goods and services is measured in a given period.
- 3) the total value of all final locally produced goods and services is measured in a given period. **(correct)**
- 4) the sum of the values added at each stage of production is lower than the spending on final goods and services.

Question 233

According to Keynes, the level of employment in the economy is determined by

- 1) the level of aggregate demand for goods and services. **(correct)**
- 2) prices and wages.
- 3) interest rates and money supply.
- 4) the behavior of trade unions.

Question 234

The consumption function relates the consumption expenditure decisions of households to

- 1) investment decisions of firms.
- 2) savings decisions of households.
- 3) the level of disposable income. **(correct)**
- 4) the nominal interest rates.

Question 235

As disposable income increases, consumption expenditure

- 1) increases by the same amount.
- 2) increases by a smaller amount. **(correct)**
- 3) increases by a larger amount.
- 4) remains constant.

Question 236

The value of marginal propensity to consume is

- 1) between -1 and +1.
- 2) between zero percent and one percent.
- 3) between 0 and + 1. **(correct)**
- 4) between 1 and 10.

Question 237

A form of expenditure that does NOT depend on real GDP or income is called

- 1) equilibrium expenditure.
- 2) induced expenditure.
- 3) autonomous expenditure. **(correct)**
- 4) aggregate expenditure.

Question 238

When autonomous expenditure increases, equilibrium aggregate expenditure

- 1) increases by an equal amount.
- 2) decreases by a greater amount due to the multiplier.
- 3) remains constant.
- 4) increases by a greater amount due to the multiplier. **(correct)**

Question 239

In a simple Keynesian model with government and foreign sectors, which one of the following statements is **incorrect**?

- 1) The change in the level of exports is dependent on exchange rates, among other factors.
- 2) The change in the level of imports is dependent on the level of domestic income.
- 3) An increase in the marginal propensity to import would increase imports.
- 4) The multiplier has bigger impact on income when it is assumed that imports are dependent on income. **(correct)**

Question 240

The multiplier effect of an increase in government expenditure income is weakened by

- 1) a fall in interest rates.
- 2) an increase in the propensity to import. **(correct)**
- 3) an increase in the marginal propensity to consume.
- 4) an improvement in business confidence.

Question 241

Assume the marginal propensity to consume is 0,8 in a closed economy without a government. When

- 1) consumption increases by R5, investment increases by R1.
- 2) consumption increases by R5, savings increase by R1.
- 3) investment increases by R1, income increases by R5. **(correct)**
- 4) investment increases by R1, consumption increases by R5.

Question 242

Personal income tax in South Africa is

- 1) a direct, proportional tax.
- 2) a direct, progressive tax. **(correct)**
- 3) an indirect, progressive tax.
- 4) an indirect, regressive tax.

Question 243

A tax is progressive if

- 1) the marginal tax rate decreases as income increases.
- 2) the average tax rate remains the same for all income levels.
- 3) the marginal tax rate increases as income increases. **(correct)**
- 4) only the average tax increases as the income increases.

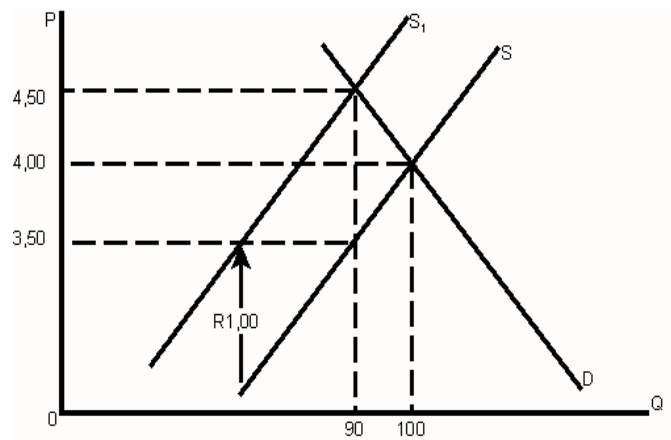
Question 244

If we assume that the demand curve for cigarettes in the graph above is much more steeper or inelastic than in the graph, because cigarettes is a habitual product, then

- 1) the consumers will pay a smaller percentage of the tax.
- 2) the consumers will pay all the tax.
- 3) the firm's profit and employment will not be influenced.
- 4) the government revenue will remain the same.
- 5) the consumers will almost pay all the tax. **(correct)**

Question 245

The graph below shows how the introduction of an excise tax influences the product price. Study the graph and answer questions 6 and 7.



Consider the figure above and choose the correct alternative.

- 1) The consumers are not the only party to suffer because of the tax. **(correct)**
- 2) The product price did not increase after the introduction of the tax.
- 3) The product price decreased after the introduction of the tax.
- 4) The product price increased by the same margin as the tax.
- 5) The product price increased by a bigger margin than the tax.

Question 246

A specific tariff imposed on the imports of motor vehicles will

- 1) increase the quantity of motor vehicles imported.
- 2) increase the level of domestic production of motor vehicles. **(correct)**
- 3) reduce the domestic price of motor vehicles.
- 4) reduce the world price of motor vehicles.

Question 247

The trade balance is

- 1) the net value of the South African balance of payments.
- 2) the difference between the values of the current account and the financial account.
- 3) the overall balance of payments position of a country.
- 4) the difference in the value of South African merchandise exports, plus net gold exports and merchandise imports. **(correct)**

Question 248

If investors from the United States decide to decrease current investment in South- Africa because of strike activity then:

- 1) The demand of dollar will increase, shifting the demand curve to the right, depreciating the value of the rand.
- 2) The supply of dollar will decrease, shifting the supply curve to the left, depreciating the value of the rand. **(correct)**
- 3) The demand of dollar will increase, shifting the demand curve to the left, depreciating the value of the rand.
- 4) The supply of dollar will decrease, shifting the supply curve to the right, appreciating the value of the rand.

Question 249

The table below shows the GDP at constant prices of country B for the years 1 and 2.

Year	GDP @constant prices
1	100
2	107

Which of the following statements are correct?

- 1) The increase in the GDP from year 1 to year 2 can be the result of an increase in the general price level.
- 2) The increase in the GDP from year 1 to year 2 can be the result of an increase in production and/or an increase in the general price level.
- 3) The increase in the GDP from year 1 to year 2 can only be the result of an increase in production. **(correct)**
- 4) It is impossible to tell whether the increase in the GDP at constant prices from year 1 to year 2 represents economic growth.

Question 250

Which of the following is true about the difference between legal incidence and effective incidence?

- 1) Legal incidence relates to the person who is expected to handover the tax to government whilst effective incidence concerns the person who ultimately bears the burden of paying the tax. **(correct)**
- 2) Legal incidence is the individual who ultimately bears the tax burden whilst effective incidence relates to the individual who is expected to hand over the tax to the government.
- 3) Legal incidence is when the tax burden is shifted forward to consumers whilst effective incidence occurs when the tax is shifted backwards to employees.
- 4) Legal and effective tax incidence basically means the same thing and therefore can be used interchangeably.

Question 251

Under a system of floating exchange rates

- 1) the currencies of countries with a relatively high inflation rate tend to appreciate.
- 2) the currencies of countries with a relatively high inflation rate tend to depreciate. **(correct)**
- 3) the currencies of countries with a relatively low inflation rate tend to depreciate.
- 4) exchange rates are insensitive to differences in the rate of inflation between countries

Question 252

Assume the domestic price of good X is R12 and the world price is R10. In the short run, if there is no trade restrictions on good X, net exports

- 1) and GDP in the domestic economy will increase.
- 2) and GDP in the domestic economy will decrease. **(correct)**
- 3) will increase and GDP in the domestic economy will decrease.
- 4) will decrease and GDP in the domestic economy will increase.

Question 253

Which of the following decisions can be analysed in the simple Keynesian model?

- 1) Interest rate fluctuations
- 2) Savings of households **(correct)**
- 3) Investment by government
- 4) Foreign investment by firms

Question 254

Which of the following statements is/are correct regarding the assumptions of the simple Keynesian model?

- a) Prices and wages are given. **(correct)**
- b) The money supply is given but not interest rates.
- c) Spending (demand) is the driving force that determines the level of economic activity. **(correct)**

Question 255

The most important determinant of a household's consumption in the Keynesian model is

- 1) disposable income **(correct)**
- 2) total wealth
- 3) net wealth
- 4) number of individuals in the household

Question 256

The multiplier in the Keynesian model equals the

- 1) equilibrium level of income for a given level of aggregate expenditure.
- 2) increase in autonomous expenditure brought about by a change in income.
- 3) equilibrium level of income divided by autonomous expenditure. **(correct)**
- 4) increase in equilibrium income when autonomous expenditure increases.

Question 257

In an economic model, an endogenous variable is

- 1) a stand-in for more complicated variables.
- 2) determined by the model itself. **(correct)**
- 3) determined outside the model.
- 4) a variable that has no effect on the workings of the model.

Question 258

Assume share prices on the Johannesburg Securities Exchange drops dramatically and families find that their wealth has declined. Which of the following is consistent with this decline in family wealth?

- 1) The marginal propensity to consume in South Africa will decrease.
- 2) The marginal propensity to consume in South Africa will increase.
- 3) Autonomous consumption in South Africa will increase.
- 4) Autonomous consumption in South Africa will decrease. **(correct)**

Question 259

If the government increases government expenditure, but keeps the tax rate constant, consumption spending will _____, total tax revenues will _____, and investment spending will _____.

- 1) stay the same; stay the same; stay the same **(correct)**
- 2) increase; stay the same; stay the same
- 3) increase; increase; stay the same
- 4) increase; increase; increase

Question 260

The marginal propensity to import

- 1) increases as income increases.
- 2) decreases as income increases.
- 3) remains constant as income increases. **(correct)**

Question 261

Given the import function $Z = 300 + 2/3Y$,

- 1) the marginal propensity to save is $1/3$.
- 2) the induced component is 300.
- 3) imports are seen as autonomous.
- 4) $2/3$ is the proportion of any increase in income that is spent on imports. **(correct)**