



**ECS1601** ( 488492)  
**ECS1028** ( 492577)  
**REC102Y** ( 466952)

May/June 2011

**ECONOMICS 1B**

Duration : 2 Hours

100 Marks

**EXAMINERS :**

FIRST :

MR WJ LE ROUX

SECOND :

MR FHB SERFONTEIN

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Use of a non-programmable pocket calculator is permissible.

This partial fill-in paper consists of 16 pages plus instructions for the completion of a mark-reading sheet.

Read the following instructions **CAREFULLY** before answering the paper.

The paper is divided into two sections: Section A and Section B.

**SECTION A**

Candidates must answer **ALL** the questions in this section.

**SECTION B**

**In this section ALL the questions must be answered on the mark-reading sheet which is supplied.**  
Carefully follow the instructions for the completion of the mark-reading sheet.

<p>Please ensure that you use the correct unique number on the mark-reading sheet: If you are registered for ECS1601, use the unique number 488492. If you are registered for ECS1028, use the unique number 492577. If you are registered for REC102Y, use the unique number 466952.</p>
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As your mark-reading sheet can get lost, you **MUST** also write down your answers for this section. On the last page of this paper space is provided for this purpose.

**SECTION A [50 MARKS]**

Answer ALL the following questions in the blocks provided.

**QUESTION 1****[9]**

- (i) Name the three measures that are used to measure the inequality of the distribution of income. (3)


- (ii) Name the three flows associated with the government. (3)

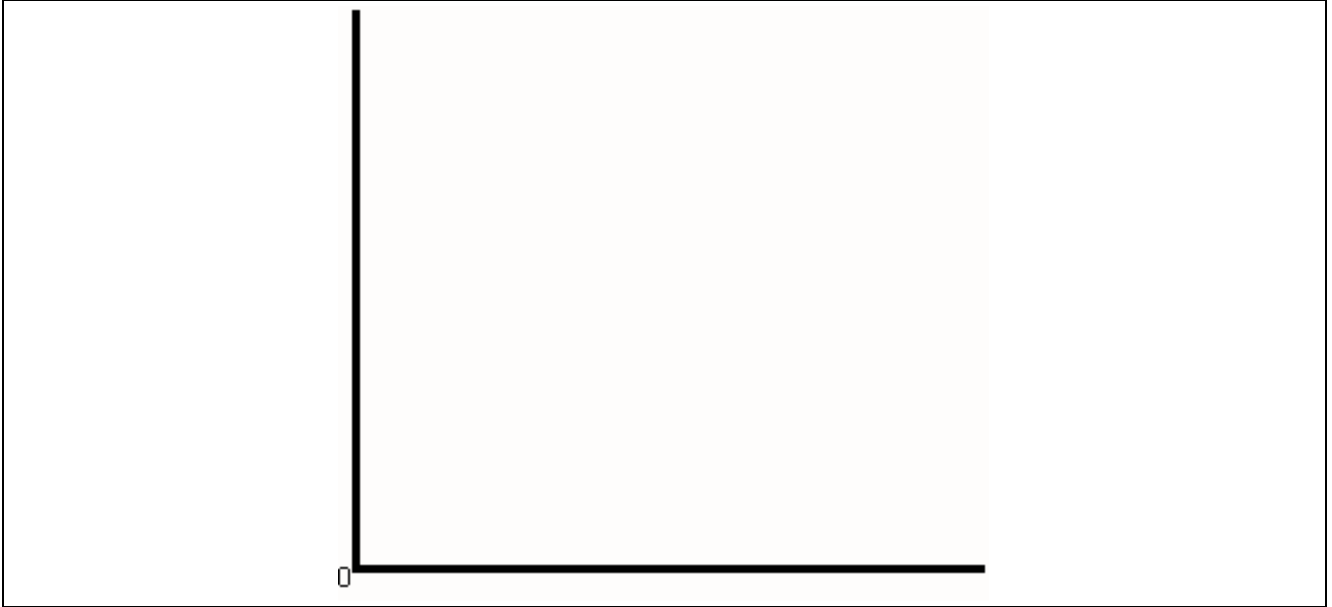

- (iii) What are the main sources of economic growth viewed from the demand side? (3)


**QUESTION 2****[9]**

- (i) Use the following diagram to illustrate the impact of a specific excise tax on cigarettes on the equilibrium price and quantity. Remember to label your diagram. (3)

**[TURN OVER]**

- (ii) Use the following diagram to illustrate the effect of a decrease in proportional income tax on the equilibrium level of income in a simple Keynesian model of a closed economy. Remember to label your diagram. (3)



- (iii) Use the following diagram to illustrate the effect of a decrease in productivity on prices and production in the AD-AS model. Remember to label your diagram. (3)

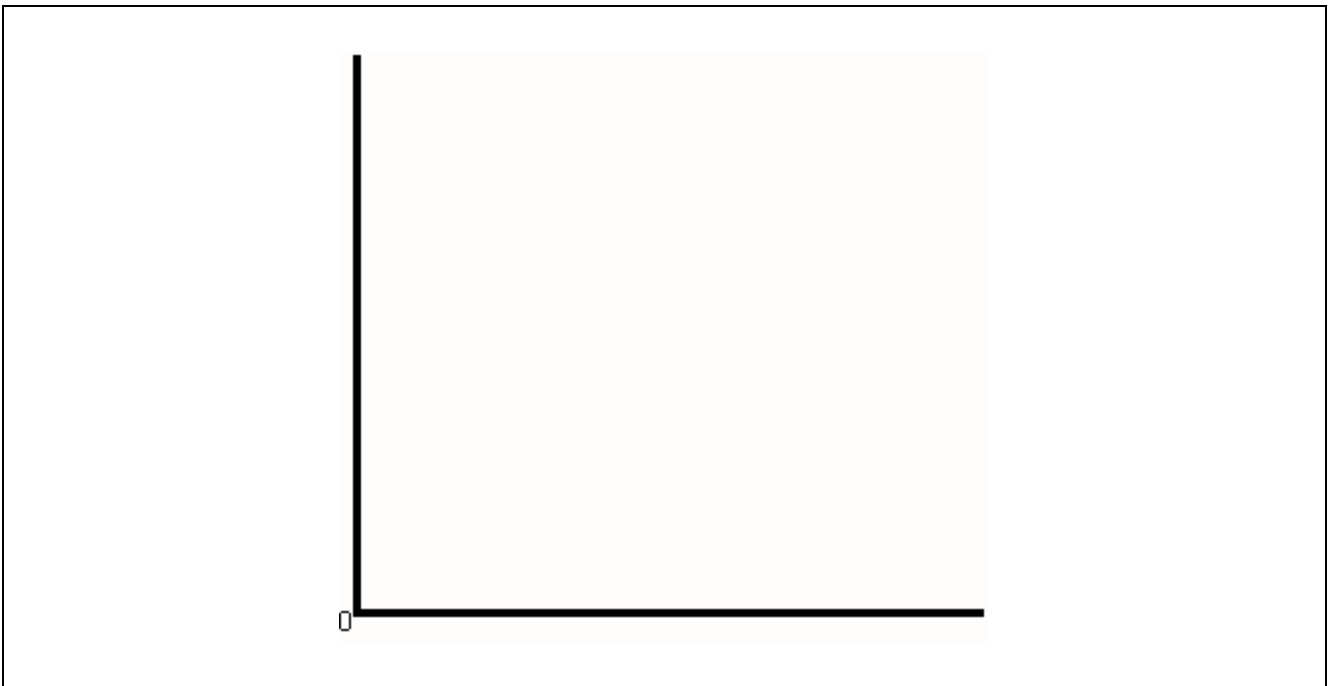


**QUESTION 3****[11]**

- (i) Gabriel's disposable income increases from R2 000 to R2 500. As a result his saving increases from R300 to R450. Calculate his marginal propensity to consume. (Show all your calculations.) (3)

- (ii) The following information about a Keynesian model of a closed economy without a government is given:
- (a) Autonomous consumption ( $\bar{C}$ ) = 10.
  - (b) At equilibrium, consumption spending = 70 and investment spending = 20.

Use the following set of axis to draw a diagram of the model. Clearly indicate the values of total autonomous expenditure and the equilibrium level of income. (3)



[TURN OVER]

(iii) Given the following information:

$$C = 400 + 9/10Y_d$$

$$\bar{I} = 500$$

$$\bar{G} = 1\,280$$

$$t = 1/3$$

$$\bar{X} = 900$$

$$Z = 600 + 1/10Y$$

Calculate (Show all your calculations):

- the size of the multiplier. (2)

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- the equilibrium level of income. (3)

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#### QUESTION 4

[21]

- (i) Explain the effect of a strong South African rand on the demand for fruit pickers in the Western Cape. (4)


[TURN OVER]

(ii) The table below shows the GDP at current prices of country A for the years 1 and 2.

Year	GDP at current prices
1	100
2	110

Given the information in the table, explain why it is impossible to tell whether the 10% increase in GDP from year 1 to year 2 represents economic growth. (3)


(iii) Explain the effect of a decrease in the marginal propensity to import on the size of the multiplier. (3)


(iv) Explain the impact of an **increase** in the tax rate on the equilibrium level of income in a Keynesian model of an economy. (4)


- (v) Use the aggregate demand-aggregate supply model to explain how an **increase** in the interest rate will affect the level of production and income in the economy. (5)


- (vi) What type of unemployment is the biggest problem in South Africa? Provide one possible plan of action to address the type of unemployment you have identified. (2)

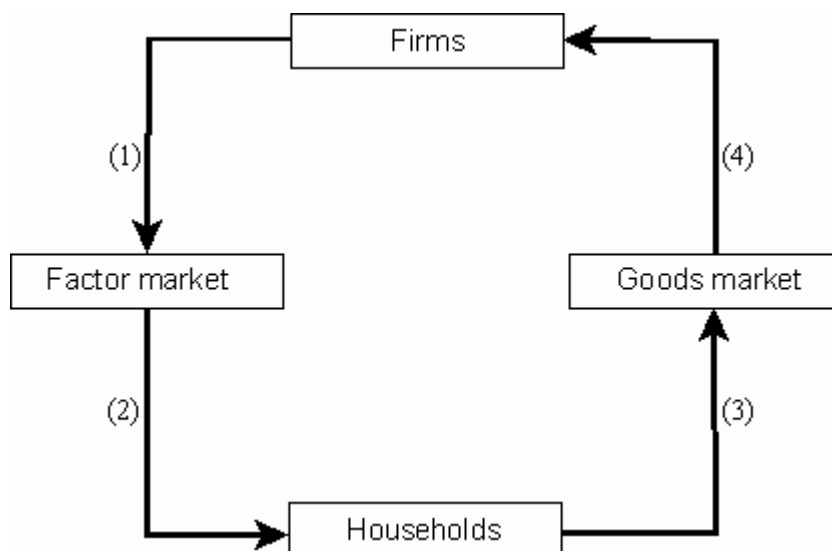

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[TURN OVER]

**SECTION B [50 MARKS]**

Answer **ALL** the questions in this section on the mark-reading sheet which is supplied. Each question is worth 1¼ marks. **Note:** Only **ONE** statement per question is correct.

1. The diagram below shows the circular flow of income and spending between households and firms.



Which one of the following statements is correct?

- [1] Flows (2) and (3) represent income.
  - [2] Flows (2) and (4) represent spending.
  - [3] Flows (1) and (2) represent spending.
  - [4] Flows (1) and (3) represent spending.
2. In the circular flow of income and spending
- [1] investment results in a decrease in the volume of the income flow.
  - [2] taxes result in an increase in the volume of the income flow.
  - [3] imports result in an increase in the volume of the income flow.
  - [4] savings result in a decrease in the volume of the income flow.
3. The amount of money that an individual wishes to hold is determined by
- [1] the price level and the interest rate.
  - [2] the price level and real income.
  - [3] real income.
  - [4] real income and the interest rate.
4. An rightward shift in the demand for money curve will lead to
- [1] a lower interest rate and the same quantity of money.
  - [2] a higher interest rate and the same quantity of money.
  - [3] a higher quantity of money but lower interest rates.
  - [4] a higher quantity of money but the same interest rate.

[TURN OVER]



5. The quantity of money demanded for precautionary purposes decreases if
- [1] total output decreases.
  - [2] consumer incomes increase.
  - [3] the interest rate increases.
  - [4] the inflation rate increases.
6. If the Reserve Bank wants to pursue a contractionary monetary policy, the bank should
- [1] raise interest rates and sell securities.
  - [2] lower interest rates and sell securities.
  - [3] raise interest rates and buy securities.
  - [4] lower interest rates and buy securities.
7. If the cash reserve ratio is increased, the credit multiplier
- [1] will decrease.
  - [2] will decrease, as long as banks hold no excess reserves.
  - [3] could either increase or decrease.
  - [4] will increase.
8. \_\_\_\_\_ is not a primary cause of government failure.
- [1] The rent-seeking behaviour of interest groups
  - [2] The inefficient behavior of the market
  - [3] The behavior of bureaucrats
  - [4] The behavior of vote-maximizing politicians
9. Arguments in favour of privatisation include:
- [1] Unlike state-owned firms, privately owned firms will take a broader view of public interest.
  - [2] Privately owned firms take account of any externalities of production.
  - [3] Privatised firms are always more efficient than state-owned firms.
  - [4] Privatised firms will have greater access to investment capital.
10. If government spending is higher than current government revenue, this is known as
- [1] a balance of payments deficit.
  - [2] a budget deficit.
  - [3] a budget surplus.
  - [4] the national debt.
11. 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.
  - [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 mean the same thing and therefore can be used interchangeably.

[TURN OVER]

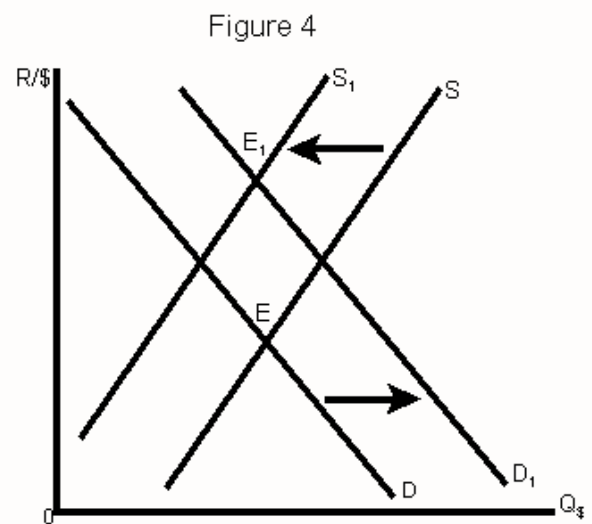
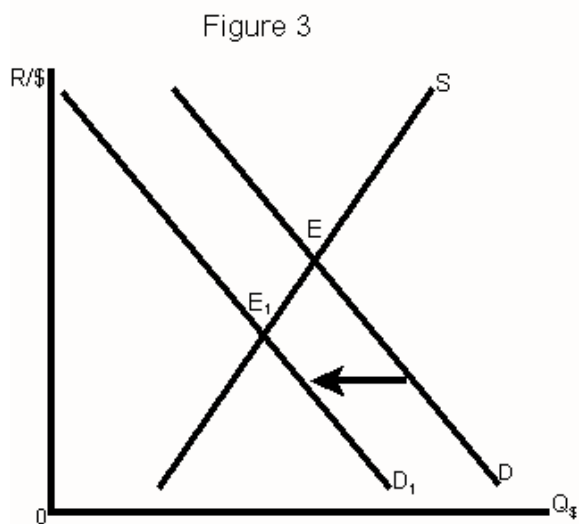
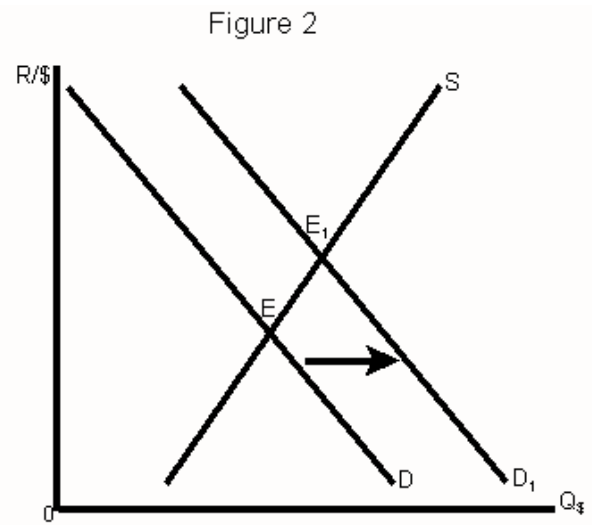
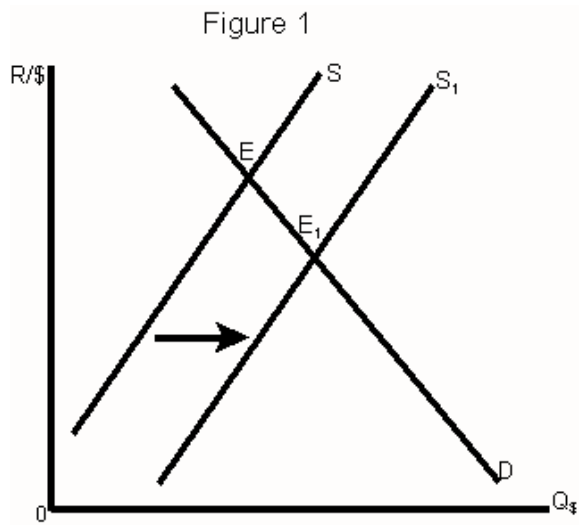
12. If the supply curve of petrol has its normal shape and the price elasticity of demand for petrol is perfectly inelastic, then a specific tax of R5 placed on each litre of petrol will be borne
- [1] entirely by consumers.
  - [2] entirely by producers.
  - [3] more by consumers than by producers.
  - [4] more by producers than by consumers.

Question 13 is based on the following table showing the gold and diamond production of Zimbabwe and Botswana.

	Botswana	Zimbabwe
Gold (ounces per labour hour)	3	2
Diamonds (carats per labour hour)	9	4

13. Which one of the following statements is correct?
- [1] Botswana will not trade as it is more efficient in both products than Zimbabwe.
  - [2] Botswana will produce diamonds and Zimbabwe will produce gold.
  - [3] Zimbabwe has a comparative advantage in diamonds production whilst Botswana has a comparative advantage in gold production.
  - [4] Botswana has a comparative advantage in the production of gold and diamonds.
14. In practice, \_\_\_\_\_ is the balancing item in the balance of payments.
- [1] the balance on the financial account
  - [2] the change in gold and other foreign reserves
  - [3] the balance on the current account
  - [4] unrecorded transactions
15. An increase in the rand price of a foreign currency usually
- [1] benefits South African importers.
  - [2] benefits South African exporters.
  - [3] benefits both importers and exporter in South Africa.
  - [4] harmful to both importers and exporter in South Africa.
16. When the rand appreciates against the dollar
- [1] export prices increase and import prices decrease.
  - [2] export prices decrease and import prices increase.
  - [3] export and import prices increase.
  - [4] export and import prices decrease.

17. 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  
[3] Figure 3  
[4] Figure 4

18. 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.  
[4] the difference between the value of exports and that of imports.

[TURN OVER]

19. 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.
- [4] the sum of the values added at each stage of production is lower than the spending on final goods and services.

Question 20 is based on the following information.

Year	CPI
2000	100
2002	125
2004	135

20. Consumer prices

- [1] rose by 10% from 2002 to 2004.
- [2] fell by 25% from 2000 to 2002.
- [3] fell by 10% from 2002 to 2004.
- [4] rose by 8% from 2002 to 2004.

21. In a country with a population of 50 million people, there are 20 million children under the age of 15 years, 16 million employed, 9 million pensioners, 4 million unemployed and 1 million full-time students. The unemployment rate in this county equals

- [1] 8%
- [2] 10%
- [3] 20%
- [4] 30%

22. In the Keynesian model, the price level is assumed to be

- [1] exogenous and remaining constant.
- [2] endogenous and remaining constant.
- [3] endogenous and gradually increasing.
- [4] exogenous and gradually increasing.

23. The equilibrium level of income is that at which

- [1] the budget is exactly balanced.
- [2] the balance of payments is in equilibrium.
- [3] the economy is at full employment level of income.
- [4] there is no tendency for national income to change.

[TURN OVER]

24. In the simple Keynesian model of a closed economy without a government
- [1] a greater marginal propensity to consume would ensure that a given increase in investment spending would lead to a greater increase in total income.
  - [2] the multiplier is positively related to the marginal propensity to save.
  - [3] economic growth is negatively related to consumption spending.
  - [4] a greater marginal propensity to save would ensure that a given increase in investment spending would lead to a greater increase in total income.
25. In the simple Keynesian model of a closed economy with a government,
- [1] government spending is greatly influenced by changes in income.
  - [2] an increase in government spending causes the slope of the aggregate spending curve to increase.
  - [3] an increase in government spending leads to an increase in the marginal propensity to consume.
  - [4] an increase in government spending would increase autonomous spending by that same amount.
26. 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.
27. 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.
  - [3] an increase in the marginal propensity to consume.
  - [4] an improvement in business confidence.
28. 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.
  - [4] investment increases by R1, consumption increases by R5.
29. If the government spends more, 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
[2]	increase	stay the same	stay the same
[3]	increase	increase	stay the same
[4]	increase	increase	increase

[TURN OVER]

30. A simultaneous increase in wages and an increase in taxes increase will
- [1] definitely be inflationary.
  - [2] result in a leftward movement of the AD-curve and a downward movement along the AS-curve.
  - [3] leftward (upward) movement of the AS-curve and a downward movement along the AD curve.
  - [4] have an uncertain affect on the price level but will decrease the output.
31. If the aggregate supply curve is perfectly inelastic, an increase in aggregate demand will lead to an increase in
- [1] the price level.
  - [2] the price level and real national output.
  - [3] the price level and employment.
  - [4] real national output and employment.
32. Suppose the SARB decrease interest rates while the oil price is increasing. What would be the expected effect on real GDP and the price level?

	Price level	Real GDP
[1]	uncertain	decreases
[2]	increases	uncertain
[3]	decreases	decreases
[4]	increases	decreases

33. Which one of the following statements regarding the monetary transmission mechanism is correct?
- [1] The monetary transmission mechanism is more effective when initiated by a change in the tax rate.
  - [2] The Reserve Bank does not depend on an effective monetary transmission mechanism when applying contractionary monetary policy.
  - [3] The monetary transmission mechanism illustrates how changes in the monetary sector affect the real sector.
  - [4] The smaller the interest elasticity of investment demand and the steeper the AS curve the more effective expansionary monetary policy will be.
34. If the inflation rate was 10 percent last year and is now 6 percent for this year, it means
- [1] prices are falling.
  - [2] prices are unchanged.
  - [3] prices are falling at a slower rate.
  - [4] prices are increasing at a slower rate.
35. Bracket creep would be eliminated when tax rates are based on
- [1] nominal income.
  - [2] real income.
  - [3] per capita income.
  - [4] nominal disposable income.

36. Which one of the following statements on unemployment is correct?
- [1] The desire to find employment is good enough to be classified as unemployed according to the strict definition of unemployment.
  - [2] Stricter immigration control can be regarded as a policy strategy to reduce unemployment.
  - [3] The economic active population plus the unemployed is equal to the total population.
  - [4] Economic growth cannot be achieved without a decrease in the level of unemployment.
37. If nominal wages and prices rise at the same rate, say 6,5% per year, then real wages will
- [1] decrease.
  - [2] increase.
  - [3] remain constant.
  - [4] be the same as nominal wages.
38. The Phillips curve shows a negative relationship between
- [1] unemployment and employment.
  - [2] employment and prices.
  - [3] unemployment and inflation.
  - [4] employment and inflation.
39. A nation's standard of living will certainly increase when
- [1] real GDP rises faster than population.
  - [2] real GDP rises faster than the price level.
  - [3] real GDP rises.
  - [4] real GDP rises faster than the number of people employed.
40. Assume a given government spending and tax rate. The budget deficit will grow during \_\_\_\_\_ and decline during \_\_\_\_\_.
- [1] 

booms	booms
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  - [2] 

recessions	recessions
------------	------------
  - [3] 

booms	recessions
-------	------------
  - [4] 

recessions	booms
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The following two questions are for information purposes only and do not count any marks.

41. Which of the following did you make use of during the semester?
- (a) The CD-ROM.
  - (b) The DVD.
- [1] a
  - [2] b
  - [3] a and b
  - [4] None of the above.

42. Which of the following did you make use of during the semester?

- (a) The podcasts on myUnisa.  
(b) The checklists in the Study Guide.

- [1] a  
[2] b  
[3] a and b  
[4] None of the above.

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As your mark-reading sheet can get lost, you **must** also write down your answers for Section B in the space provided below.

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2	22
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20	40