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Additional Questions and Answers

UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA   
UNIVERSITY OF SOUTH AFRICA

**ECS1601**

( 473933) October/November 2016

**ECONOMICS IB**

Duration 2 Hours

100 Marks

**EXAMINERS**  
FIRST  
SECOND

MRS MR MALEFANE  
MR FHB SERFONTEIN

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Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue.

This paper consists of 20 pages including 1 page for rough work (page 20) plus the special front page

**Read all instructions CAREFULLY before answering the questions.**

This paper consists of two (2) sections A and B All sections are compulsory

**Section A** consists of four (4) questions Answer all the questions in section A in the space provided

**Section B** consists of 30 multiple-choice questions Answer all the questions on the mark-reading sheet and supply your answers on the worksheet that appears on page 19 (in case your mark-reading sheet gets lost) The instructions for completing the questions of section B are on page 11 and the questions for section B start from page 12 to page 19

**Please complete the attendance register on the back page, tear off and hand to the invigilator.**

## Section A

### **Question 1** (15)

- 1(a) Briefly explain demand management policies and how they can be used in the economy (3)
- 1(b) Distinguish between a flow variable and a stock variable. Give one example of each. (4)
- 1(c) Use a diagram to explain how a decrease in the interest rate will affect the quantity of money demanded in the money market. (5)
- 1(d) List three ways in which government spending can be financed. (3)
- 2(a) Use a diagram to explain how a decrease in government spending will affect the level of income in the Keynesian model. (5)
- 2(b) Use a diagram to explain how an increase in taxes will affect the level of income in the Keynesian model. (5)
- 2(c) South Africa experienced a severe decline in real gross domestic production during the last quarter of 2008 and the two quarters of the first half of 2009. Use an AD-AS model to illustrate and explain the policies that could be used to resolve this situation. (5)
- 3(a) Explain any three measures that can be used to do away with cost-push inflation. (3)
- 3(b) Explain why policy makers regard inflation as a problem. Refer to the effects of inflation in your explanation. (5)
- 3(c) Briefly explain the conflict approach to inflation. (4)
- 4(a) Suppose the gold price rises in South Africa. Using a diagram, explain how this rise in the gold price will affect the exchange rate between the South African rand and the US dollar, *ceteris paribus*. (4)
- 4(b) Mention and explain two factors that influence the effectiveness of the monetary transmission mechanism. (4)

## Section B

B1 Which one of the following statements is correct regarding the factor markets?

- [1] Households sell the factors of production
- [2] Firms sell the factors of production
- [3] Households buy the factors of production
- [4] Firms sell goods and services

B2 Which one of the following is not a factor of production?

- [1] a skilled worker
- [2] a bank loan
- [3] machinery
- [4] land

B3 In the circular flow of economic activity, \_\_\_\_\_ households in \_\_\_\_\_ markets represents \_\_\_\_\_ firms Taxes and imports represent \_\_\_\_\_ the circular flow

- [1] expenditure by, goods, income to, injections into
- [2] expenditure by, factor, income to, withdrawals from
- [3] income to, factor, expenditure by, withdrawals from
- [4] income to, goods, expenditure by, injections into

B4 Which of the following will cause the demand curve of money to shift to the right?

- [1] a drop in the repo rate
- [2] an increase in the quantity of money available
- [3] an increase in real GDP
- [4] a decrease in the quantity of money available

B5 Which of the following would be classified as an expansionary monetary policy?

- [1] a decrease in the quantity of money
- [2] a drop in interest rates
- [3] an increase in government taxation
- [4] an increase in government expenditure

B6 A tax such as VAT would generally be viewed as \_\_\_\_\_

- [1] progressive, because the consumption expenditure of the rich is greater than that of the poor
- [2] regressive, because low-income households spend a greater proportion of their income on goods that attract VAT
- [3] progressive, because most goods consumed by poor households are zero rated
- [4] regressive, because the VAT burden increases as household income rises

B7 Which one of the following is **not** part of fiscal policy?

- [1] the level of taxation
- [2] the composition of government expenditure
- [3] the stock of money in the economy
- [4] borrowing by the government

B8 The exchange rate between the rand (R) and the US dollar (\$) is R15 per dollar. If a South African tourist in New York purchases a good valued at 20 dollars, then in South Africa it would cost \_\_\_\_\_

- [1] R300,00
- [2] R35,00
- [3] R5,00
- [4] R1,33

B9 If the rand/US dollar exchange rate changes from R11 per dollar to R15 per dollar, then \_\_\_\_\_

- [1] the rand has appreciated against the dollar
- [2] the rand has depreciated against the dollar
- [3] USA will demand less of South African goods
- [4] South Africans will demand more of American goods

B10 If two countries have different opportunity costs of production for two goods, then \_\_\_\_\_

- [1] each country should specialise in the good for which it has a higher opportunity cost of production
- [2] only the country with an absolute advantage in the production of both goods stands to gain from trade
- [3] each country should purchase inputs from the other country in order to gain an absolute advantage
- [4] each country should specialise in the production of the good for which it has a relative advantage

B11 In the simple Keynesian model, changes in the level of output and income are explained by \_\_\_\_\_

- [1] changes in aggregate demand
- [2] changes in aggregate supply
- [3] changes in the price level
- [4] changes in wages
- [5] changes in the money supply

B12 According to the consumption function,  $C = 50 + 0,8Y$ , an increase in the level of disposable income of R100 million causes \_\_\_\_\_

- [1] an increase of R100 million in consumption spending
- [2] an increase of R100 million in autonomous consumption spending
- [3] an increase of R80 million in consumption spending
- [4] an increase of R80 million in savings
- [5] an increase of R80 million in autonomous consumption spending

B13 If investment spending increases in the simple Keynesian model with a government sector, then consumption spending will \_\_\_\_\_ and tax revenue will \_\_\_\_\_

- [1] increase, increase
- [2] decrease, decrease
- [3] increase, decrease
- [4] decrease, increase
- [5] remain unchanged, increase

B14 In the simple Keynesian model with a government sector, a decrease in the tax rate \_\_\_\_\_

- [1] decreases the value of the multiplier
- [2] decreases consumption spending
- [3] decreases disposable income
- [4] decreases the equilibrium level of income and output
- [5] increases the equilibrium level of income and output

B15 In a simple Keynesian model with a government and foreign sector, the value of the multiplier will definitely increase if \_\_\_\_\_

- [1] both the marginal propensity to consume and the marginal propensity to import decrease
- [2] both the tax rate and the marginal propensity to save decrease
- [3] the tax rate increases and the marginal propensity to consume decreases
- [4] government spending and investment spending increase
- [5] exports increase and the propensity to import increases

B16 If net export is equal to zero in a simple Keynesian model with a government and foreign sector, \_\_\_\_\_

- [1] an increase in exports will cause net exports to be positive
- [2] a decrease in the level of output and income will cause net exports to be negative
- [3] an increase in imports will cause net exports to be positive
- [4] a decrease in exports will cause net exports to be positive
- [5] an increase in the level of output and income will cause net exports to be positive

B17 Which one of the following will cause a leftward shift of the aggregate demand curve?

- [1] an increase in autonomous consumption spending
- [2] a decrease in government spending
- [3] a decrease in taxes
- [4] an increase in net exports
- [5] a drop in the interest rate

B18 Which one of the following will cause a rightward shift of the aggregate supply curve?

- [1] The price of factors of production rises
- [2] The price of imported capital goods rises
- [3] Productivity increases
- [4] Weather conditions deteriorate
- [5] The price of intermediate goods rises

B19 Which one of the following correctly describes the transmission mechanism in the AD-AS model?

- [1] A change in the interest rate leads to a change in aggregate spending, which causes a change in investment spending and a change in the level of output and income
- [2] A change in the money supply leads to a change in investment spending, which causes a change in the interest rate, a change in aggregate spending and a change in the level of output and income
- [3] A change in investment spending leads to a change in aggregate spending, which causes a change in the interest rate, a change in investment spending and a change in the level of output and income
- [4] A change in the interest rate leads to a change in investment spending, which causes a change in aggregate spending and a change in the level of output and income
- [5] A change in government spending leads to a change in aggregate spending, which causes an increase in the level of output and income

B20 Which one of the following will be the result of an expansionary fiscal and expansionary monetary policy in the AD-AS model?

- [1] For both an expansionary fiscal and expansionary monetary policy, the price level decreases and the level of production and income increases
- [2] For both an expansionary fiscal and expansionary monetary policy, the price level decreases and the level of production and income decreases
- [3] For both an expansionary fiscal and expansionary monetary policy, the price level increases and the level of production and income increases
- [4] In the case of an expansionary fiscal policy, the price level increases and the level of production and output decreases, while for an expansionary monetary policy, the price level decreases and the level of output and income decreases
- [5] In the case of an expansionary fiscal policy, the price level decreases and the level of production and output increases, while for an expansionary monetary policy, the price level increases and the level of output and income decreases



B21 If gross domestic product exceeds gross domestic expenditure, it follows that \_\_\_\_\_

- [1] government consumption is greater than government revenue
- [2] the value of exports is greater than the value of imports
- [3] consumption by households is greater than investment by firms
- [4] the value of imports is greater than the value of exports
- [5] the value of total spending exceeds the value of total production

B22 Gross national product will be higher than gross domestic product if \_\_\_\_\_

- [1] the change in gold and other foreign reserves is positive
- [2] there is a net inflow of funds on the financial account of the balance of payments
- [3] there is a net outflow of funds from the current account of the balance of payments
- [4] there is a net inflow of factor payments on the current account of the balance of payments
- [5] there is a net outflow of factor payments from the current account of the balance of payments

B23 Which one of the following is not an aspect of the definition of inflation?

- [1] Inflation is a random increase in the general price level
- [2] Inflation involves a considerable rise in prices
- [3] Inflation refers to a rise in prices in general
- [4] Inflation is a continuous rise in prices
- [5] Inflation is best defined by its neutral definition

B24 A demand-pull inflation would result if government \_\_\_\_\_

- [1] reduces personal income taxes
- [2] reduces government spending
- [3] increases the repo rate
- [4] increases taxes on exports
- [5] reduces taxes on imports

B25 An increase in structural unemployment can be a result of \_\_\_\_\_

- [1] a deficiency in aggregate supply
- [2] people being employed during certain periods of the year
- [3] a deficiency in aggregate demand
- [4] people taking a long time to find another job
- [5] people lacking the necessary skills required in the market

B26 If the total population is 10 million and the total labour force is 5 million, while the number of unemployed people is 1 million, then the unemployment rate is \_\_\_\_\_

- [1] 50 per cent
- [2] 0,5 per cent
- [3] 10 per cent
- [4] 20 per cent
- [5] 5 per cent

B27 The Phillips curve illustrates that \_\_\_\_\_

- [1] a lower inflation rate is accompanied by a lower unemployment rate
- [2] there is no trade-off between inflation and unemployment
- [3] a higher inflation rate is accompanied by a higher unemployment rate
- [4] a lower inflation rate is accompanied by a higher unemployment rate
- [5] government can reduce inflation and unemployment simultaneously using a single policy

B28 Which one of the following is **not** an element of a business cycle?

- [1] lag
- [2] downswing
- [3] trough
- [4] upswing
- [5] peak

B29 Which of the following will be considered a determinant of domestic demand in South Africa?

- [1] government spending
- [2] capital widening
- [3] natural resources
- [4] capital deepening
- [5] labour

B30 An expansion in production capacity of a country could be the result of \_\_\_\_\_

- [1] import substitution
- [2] export promotion
- [3] capital deepening
- [4] domestic demand
- [5] unrecorded activity

## October/November 2016 Suggested Solutions

### Section A

#### Section A

#### Question 1

- a. Page 372
- b. Box 3.1
- c. Figure 14.2
- d. Page 292

#### Question 2

- (a) Figure 18.2 Opposite change
- (b) Figure 18.5 E2-E3
- (c) Figure 19.4

#### Question 3

- a) Page 389
- b) Page 384-387
- c) Figure 20.3

#### Question 4

- a) Figure 16.3 Opposite
- b) Page 370

### Section B

1.1	6.2	11.1	16.1	21.2	26.4
2.2	7.3	12.3	17.2	22.4	27.4
3.3	8.1	13.1	18.3	23.1	28.1
4.3	9.2	14.5	19.4	24.2	29.1
5.2	10.4	15.2	20.3	25.5	30.3

**ECS1601**

( 492161)

May/June 2016

**ECONOMICS IB**

Duration : 2 Hours

100 Marks

**EXAMINERS :**

FIRST :

MRS CJ VAN ZYL

SECOND :

MISS A VAN DER MERWE

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## SECTION A – COMPULSORY ESSAY QUESTIONS

Answer **ALL** the following questions in the space provided. Section A counts **50 marks** in total.

### Question 1 (13)

- (1a) Define money.
- (1b) Distinguish between the three broad functions of government.
- (1c) Define the South African balance of payments.
- (1d) Differentiate between nominal and real prices.
- (1e) List four problems associated with GDP as a measure of total production in the economy.

### Question 2 (16)

- (2a) Use a diagram to explain how an increase in the tax rate will influence the income level in the economy, given that the price level is fixed.
- (2b) Due to a change in trade policy, there has been a substantial decrease in the amount of steel produced in South Africa and an increase in the amount of steel imported into South Africa. This has led to a substantial increase in total imports. Explain how this will affect the economy by making use of the Keynesian model. Also mention how this will affect employment in South Africa.
- (2c) Use the AD-AS model to explain the effect of an increase in the interest rate level in the economy.
- (2d) In the year 2022 Durban will host the Common Wealth Games, which is expected to cause a substantial increase in foreign tourists visiting the country. Explain with the aid of a diagram how you would expect this to influence the rand/dollar exchange rate. Also explain (but not with a diagram) how you would expect imports and exports to be affected by this change in the exchange rate.

### Question 3 (10)

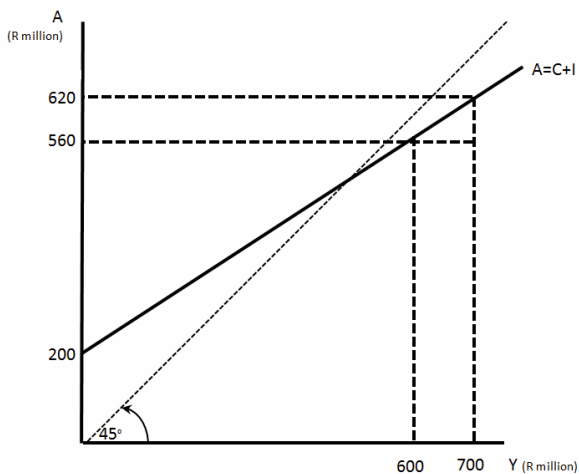
(3a) The following figures were obtained from the *Quarterly Labour Force Survey* (Quarter 2, 2015 edition) compiled by Statistics South Africa:

#### April to June 2015 (thousands)

<b>Population aged 15 to 64 years</b>	<b>35 955</b>
Labour force	20 887
<i>Employed</i>	<i>15 657</i>
Formal sector (including agriculture and private households)	12 996
Informal sector	2 661
<i>Unemployed</i>	<i>5 230</i>
Not economically active	15 068
Discouraged work-seekers	2 434
Other (not economically active)	12 633

- (i) Calculate the unemployment rate according to the strict definition of unemployment.
- (ii) Calculate the unemployment rate according to the expanded definition of unemployment.

(3b) Use the information in the following diagram of the Keynesian model to answer the questions that follow:



- (i) Calculate the marginal propensity to consume.
- (ii) Calculate the multiplier.
- (iii) Calculate the new equilibrium income level if investment increases by R100 million.

#### Question 4 (11)

(4a) During the month of August 2015, the exchange rate of the rand changed as follows:

**Date R/\$**

3 August 2015: 12,73

31 August 2015: 13,34

Indicate if this change represents a depreciation or an appreciation of the rand and explain how this change in the exchange rate will affect the current account of the balance of payments.

(4b) Describe the effect of an increase in government expenditure on the economy. Clearly explain why the increase in income exceeds the increase in government expenditure.

(4c) Explain why the multiplier for an open economy is smaller than the multiplier for a closed economy.

### Section B

B1. Which of the following statements is/are correct?

- (a) Households provide factors of production to firms on the factor market.
- (b) Firms provide factors of production to households on the factor market.
- (c) Households provide goods and services to firms on the goods market.
- (d) Firms provide goods and services to households on the goods market.

[1] a, b, c and d

[2] only a and c

[3] only a and d

[4] only b and c

[5] only b and d

B2. Which of the following statements is/are correct?

(a) Firms provide public goods and services to the government.

(b) Firms pay taxes equal to the value of public goods and services provided to them by government.

(c) Wages are paid to households who provide their labour service to firms and government on the factor market.

(d) Households allocate the income that they receive to the payment of taxes, to consumption and to savings.

[1] a, b, c and d

[2] only a and c

[3] only a and d

[4] only b and c

[5] only c and d

B3. Which one of the following statements is correct?

[1] Investment represents a flow of funds to the financial sector.

[2] Investment represents a withdrawal from the circular flow of income and spending.

[3] If the income received by households exceeds the total amounts of taxes paid and consumption by households, savings by households will be positive.

[4] If the amounts of savings from households and firms that flow to the financial sector exceed the amount of investment financed by the financial sector, this will be a net injection into the circular flow of income and spending.

[5] None of the statements is correct.

B4. Which one of the following is a function of the South African Reserve Bank?

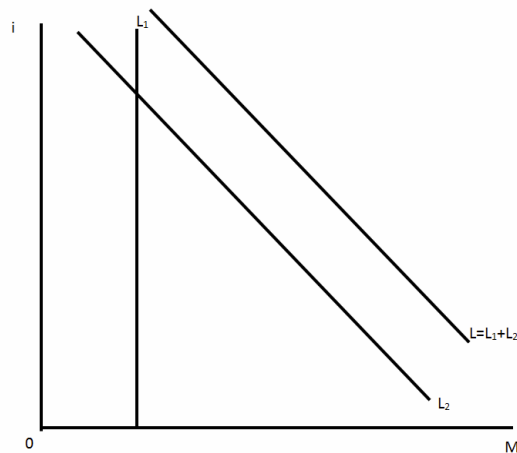
[1] Setting the tax rate

[2] Setting the exchange rate

[3] Setting the interest rate at which banks provide loans

[4] Setting the repo rate

[5] Setting the rate interest rate on long-term deposits with banks



B5. Based on the above diagram, which of the following options is/are correct?

When the interest rate level decreases ...

- (a) L1 will shift to the right.
- (b) L2 will shift to the right.
- (c) L will shift to the right.

[1] only a

[2] only b

[3] only c

[4] a, b and c

[5] not a, b or c

B6. On 24 July 2015, the repo rate was increased to 6% per year. Based on this information, which one of the following statements is correct?

- [1] The demand for money will increase due to the increase in the repo rate.
- [2] The demand for bank loans will increase due to the increase in the repo rate.
- [3] The amount of money that is created by banks will decrease due to the increase in the repo rate.
- [4] The money supply will increase when the repo rate increases.

B7. Which one of the following statements is correct?

- [1] If the minimum cash reserve requirement that banks have to adhere to increases, banks will be able to create more money and the money supply should increase.
- [2] When a bank experiences a cash deficit, it can buy financial assets from the SARB to finance this deficit.
- [3] When a bank experiences a cash deficit, it can borrow funds from the SARB at the repo rate to finance this deficit.
- [4] When the SARB sells financial assets to a bank, this can decrease the cash deficit that the bank is experiencing.



B8. Which one of the following statements is correct?

- [1] Current income of government minus government spending is equal to the budget deficit.
- [2] The budget deficit is equal to income from property plus taxes plus borrowing by the government.
- [3] The government does not pay interest on the amounts that it borrows.
- [4] A large amount of government debt implies that the current generation finances government expenditure that will take place in the future.

Income level per month	Amount of tax paid per month		
	Tax A	Tax B	Tax C
R2 000	R1 000	R200	R600
R5 000	R2 000	R500	R2 000
R10 000	R3 000	R1 000	R5 000

B9. Based on the information in the table above, which one of the following statements is correct?

- [1] Tax A is an example of a progressive tax.
- [2] Tax B is an example of a proportional tax.
- [3] Tax C is an example of a regressive tax.
- [4] Tax A is an example of a proportional tax.
- [5] Tax B is an example of a progressive tax.

B10. Which of the following options is/are correct?

Fiscal policy can include ...

- (a) decisions regarding the tax rate.
- (b) decisions regarding the level of government expenditures.
- (c) decisions regarding the level of the repo rate.
- (d) decisions regarding the way in which the budget deficit is financed.

- [1] a, b, c and d
- [2] only a, b and c
- [3] only a, c and d
- [4] only a and b
- [5] only a, b and d

B11. What option is **not** a reason why countries trade:

- [1] They are economically interdependent.
- [2] They prefer autarky.
- [3] They have limited resources.
- [4] It is to their advantage to specialise in a certain good or product.

B12. High inflation is an example of failing which macro-economic objective?

- [1] External stability
- [2] Price stability
- [3] Full employment
- [4] Equitable distribution of income

B13. Which one of the following is **not** a component of aggregate expenditure?

- [1] Consumers' expenditure
- [2] Investment
- [3] Autonomous consumption
- [4] Induced consumption
- [5] Saving

B14. In the Keynesian model, the multiplier is equal to ...

- [1] the equilibrium level of output for a given level of aggregate expenditure.
- [2] the increase in aggregate expenditure brought about by a change in investment.
- [3] the increase in the equilibrium level of income divided by the change in autonomous expenditure.
- [4] the increase in autonomous expenditure when equilibrium income increases.
- [5] the equilibrium level of consumption corresponding to a given level of aggregate spending.

B15. Consider the following information:

Marginal propensity to consume = 0,9

Investment = R200 million

Autonomous consumption = R70 million

The equilibrium level of income is ...

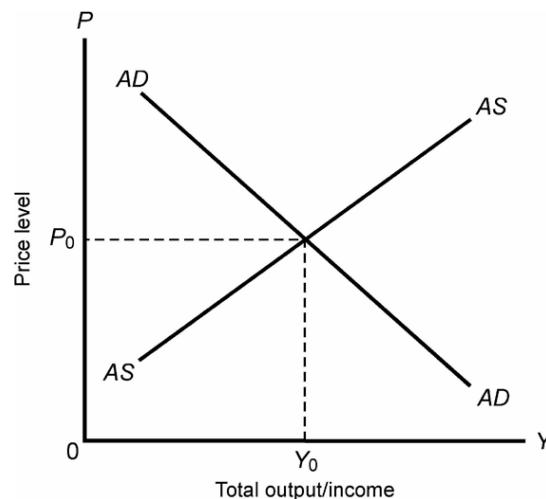
- [1] R300 million.
- [2] R700 million.
- [3] R2 000 million.
- [4] R2 700 million.
- [5] impossible to determine from the information provided.

B16. In the Keynesian model, government expenditure ...

- [1] is undertaken solely to regulate the level of spending.
- [2] increases with investment because investment increases the size of the tax base.
- [3] is taken to be autonomous because it is subject to government policy.
- [4] can be ignored because investment is taken to be the key determinant of income.
- [5] is determined by the level of tax revenue.

B17. Which one of the following statements is correct?

- [1] The aggregate demand curve (AD curve) can be shifted by monetary as well as fiscal policy measures.
- [2] A restrictive fiscal policy will result in a rightward shift of the aggregate demand curve.
- [3] A general increase in wages in the economy will, *ceteris paribus*, shift the aggregate supply curve downward (to the right).
- [4] A supply shock results in a simultaneous increase in prices and production in the economy.
- [5] None of the above statements is correct.



B18. The immediate effect of a decrease in government expenditure will be to ...

- [1] move the AD curve to the left.
- [2] move the AD curve to the right.
- [3] move the AS curve to the left.
- [4] move the AS curve to the right.
- [5] leave the curves unchanged.

B19. The monetary transmission mechanism ...

- [1] explains how banks create money.
- [2] explains how the central bank transmits messages to the other banks.
- [3] describes the ways in which changes in the monetary sector are transmitted to the rest of the economy.
- [4] describes how the Monetary Policy Committee announces its decisions.
- [5] explains how developments in the economy affect the monetary sector, especially the banks.

B20. In the *AD-AS* model, an increase in government expenditure ...

- [1] will increase the balance of payments deficit and increase unemployment.
- [2] will decrease the balance of payments deficit and increase unemployment.
- [3] will increase the balance of payments deficit and decrease unemployment.
- [4] will decrease the balance of payment deficit and decrease unemployment.

B21. Which of the following statements is **incorrect**?

- [1] Cost-push inflation may result from firms increasing their profit margins.
- [2] Attempts to decrease cost-push inflation by restrictive monetary or fiscal policy are likely to produce even greater unemployment.
- [3] Cost-push inflation may follow from a depreciation of the domestic currency against the currencies of the country's major trading partners.
- [4] Cost-push inflation is associated with rising prices and declining unemployment.

B22. If the CPI for 2015 is 156 and the CPI for 2014 is 148, what is the inflation rate for 2015 according to the CPI?

- [1] 5,12%
- [2] 5,41%
- [3] 8,00%
- [4] 8,40%

B23. Paul lends R10 000 to his friend Steven for one year. They agree that Steven would pay the

R10 000 back with 5% interest at the end of the year. If the inflation rate is 6%, which of the following would be true for the real value of the amount that Steven pays back at the end of the year?

- [1] It would be less than R10 000.
- [2] It would be more than R10 000 but less than R10 500
- [3] It would be exactly R10 500.
- [4] It would be more than R10 500.

B24. One definition of inflation is that it is a continuous and considerable rise in prices. Which one of the following is an example of inflation?

- [1] A 4% increase in the petrol price
- [2] A 4% increase in the interest rate
- [3] A 4% increase in the tax rate
- [4] A 4% increase in the CPI

B25. Which one of the following will **not** be appropriate in an attempt to combat demand-pull inflation?

- [1] An increase in taxes
- [2] Measures to decrease the productivity of labour
- [3] A decrease in government spending
- [4] An increase in interest rates

B26. Susan studied nursing. After she graduated, she applied for a position. However, there were only numerous vacancies for doctors. She is still unemployed. What type of unemployment is Susan experiencing?

- [1] Frictional unemployment
- [2] Structural unemployment
- [3] Seasonal unemployment
- [4] Cyclical unemployment

B27. Which of the following statements is/are correct?

- (a) Increased unemployment rates can cause high crime rates, increase depression, increase rioting and damage political and social structures.
- (b) Unemployment can be solved by increasing wage rates.
- (c) Unemployment, poverty and inequality are complex and interconnected economic issues.
- (d) Labour unions asking for higher wages could increase unemployment.

[1] a, b, c and d

[2] a and c

[3] a, c and d

[4] b and c

B28. Unemployment can be caused by both changes of the demand for labour and the supply of labour. Which of the following policies can help solve unemployment by influencing the supply of labour?

[1] Government can encourage consumption spending by decreasing taxes.

[2] Government can spend more and therefore increase the aggregate demand in the economy.

[3] Good education and skills development can be provided to all citizens.

[4] The growth of small and medium enterprises can be encouraged.

B29. Economic growth is a measure in the growth of real GDP. Which one of the following countries experienced the highest economic growth?

[1] South Africa experienced a 1,5% increase in nominal GDP and inflation of 6%.

[2] China experienced an increase of 7,4% in real GDP.

[3] The United States experienced 2,1% growth in real GDP with inflation of almost 0%.

[4] India experienced a 10,5% growth in nominal GDP with a 9,3% inflation.

B30. Which one of the following is an example of a factor that can encourage economic growth through the boosting aggregate demand?

[1] An entrepreneur starting to make gold rings for profit

[2] Buying capital to explore and extract natural resources such as gold

[3] Increasing exports of natural resources like gold and platinum

[4] Discovering new deposits of natural resources

# May/June 2016 Suggested Solutions

## Section A

### Question 1

a) Money is anything that is generally accepted as payment for goods and services or that is accepted in settlement of debt.

- Money is a generally acceptable means of payment
- This is because people believe it will be accepted as payment by other people

b) Three broad functions of government.

- the allocative function, which refers to the role of government in correcting market failure and achieving a more efficient allocation of resources
- the distribution function, which refers to the steps government takes to achieve a more equitable or socially acceptable distribution of income than that generated by market forces
- the stabilisation function, which refers to the measures government takes to promote macroeconomic stability (for example, full employment, price stability and balance-of-payments stability)

c) The balance of payments is a summary record of a country's transactions with the rest of the world during a particular period.

d) **Nominal prices**, sometimes called current rand prices, measure the rand value of a product at the time it was produced. And also are calculated using prices of the current year (including inflation in prices)

**Real prices** are adjusted for general price level changes over time, i.e., inflation or deflation. These adjustments give us a picture of prices for various years as if the value of the dollar were constant.

e) Four problems associated with GDP as a measure of total production in the economy

Non-market production

- Goods and services not sold in the market such as goods and services produced by government, farmer's consumption, DIY work and volunteer work.

Unrecorded activity

- These refer to smuggling, drug trafficking, prostitution, hawking, flea market trading etc. If unrecorded activity remains the same changes in GDP will reflect in the aggregate level of economic activity.

Data revisions

- Unavoidable revision of certain data after they were originally published.

GDP as a measure of wellbeing or welfare

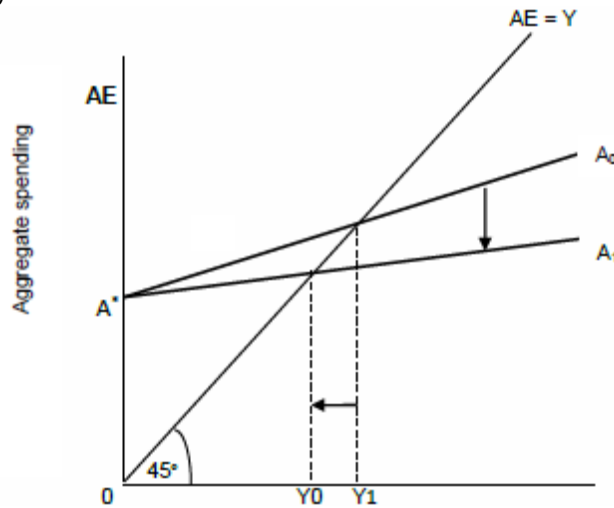
- A larger physical flow of good of services does not necessarily increase wellbeing of residents. Unwanted by products of production such as pollution, congestion, noise and stress are not measured.

Distribution of income

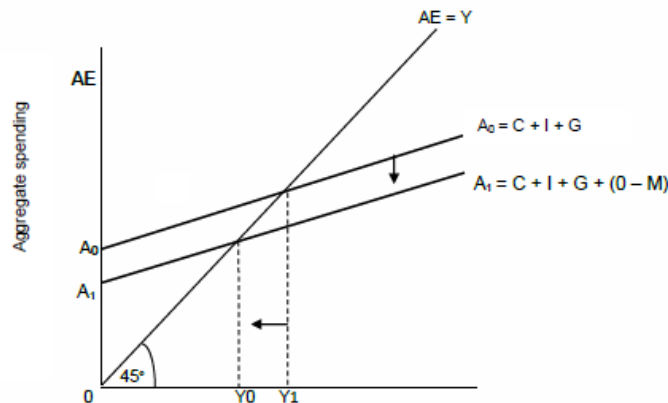
- National accounting data say nothing about the distribution of total income within the country.

**Question 2**

- a) Increase in taxes reduces the disposable income of households, which results in decline in the consumption spending  $C$  by households. Taxes constitute a leakage or withdrawal from circular flow and affect the aggregate spending and income via consumption route. Subsequently a decline in consumption spending will lead to decrease in the level of aggregate spending and income in the economy as shown below.

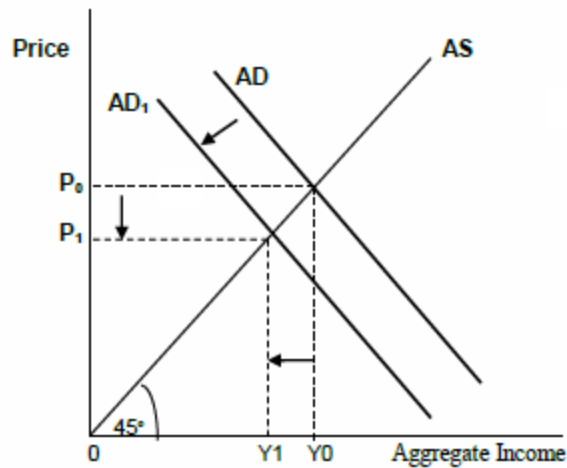


- b) Imports are a leakage from the domestic flow of income and spending. When households, firms and the government spend on imported goods and services, they reduce aggregate spending on domestically produced goods and services, *ceteris paribus*. Imports reduces aggregate spending  $A$  and total income  $Y$ , *ceteris paribus*. Take note we are working on the assumption that export amount is zero. When imports increase, the unemployment rate goes down since there will be a decline in domestic production.



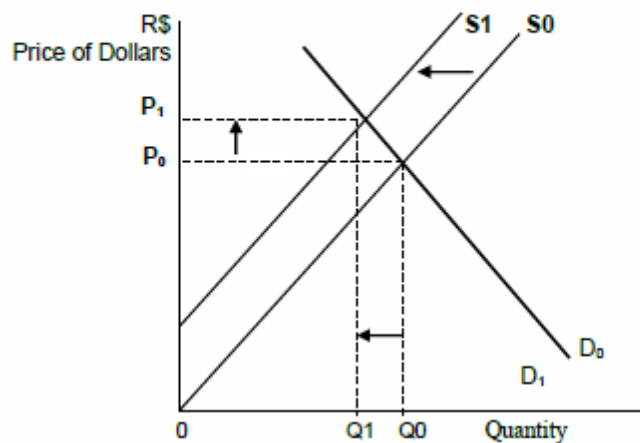


c) An increase in the interest rate ( $r$ ) means that borrowing is less attractive hence it decreases consumer spending and investment at any level of income. This impact will lead to a fall in the Aggregate Demand (AD) and level of income in an economy



d) The holders of dollars wish to convert dollars into rands arise in this cases when tourists wish to visit and spending money in SA. This causes the reduce the supply of dollars. Weak rand means exports become cheaper and SA tends to export more than they import leading balance of trade surplus thus increasing the balance of payment.

**Demand and Supply of Foreign Exchange**



**Question 3**

3a)

i. Unemployment rate = Number of Unemployed/Labour Force X 100

$$5230 / (15657 + 5230) \times 100 = 25.039498\% = 25.04\% \text{ (2 decimal place)}$$

$$\text{ii. } 5230 / (15657 + 5230 + 2434) \times 100 = 22.426139\% = 22.43\% \text{ (2 decimal place)}$$

b) i.  $(620 - 560) / (700 - 600) = 0.6$

ii.  $1 / (1 - 0.6) = 2.5$

autonomous spending:  $(c_0 + \bar{I} + G - cT)$

iii.  $Y = \frac{1}{1-c} (c_0 + \bar{I} + G - cT)$

$Y = 11 - 0.6 X [200 + 100]$  Then  $Y = 2.5 X 300 = 750$

Question 4

a) It means that the rand has depreciated or weakened against the dollar. In other words the dollar has appreciated against the rand thus it now costs more rands than before to acquire a given \$. Weak rand means exports become cheaper and SA tends to export more than they import leading to a trade surplus thus increasing the current account of the balance of payments.

b) This is known as expansionary fiscal policy where the government stimulates economic activities by increasing government expenditure and/or reducing tax levels.

NB\*\* increase in income exceeds the increase in government expenditure because of the multiplier effect.

For instance if the government increases its expenditure  $G$ , this will initially have a direct impact on aggregate spending  $A$  which will then be multiplied as a result of an increase in induced consumption spending.

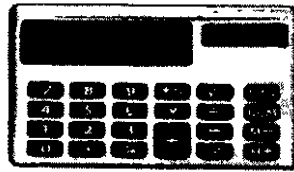
The decrease in taxation  $t$  will increase the multiplier, will raise the equilibrium level of income in an indirect way by increasing disposable income and consumption at each level of income – raises induced consumption.

c) Closed economy does not involve the foreign sector while an open market it involves foreign sectors. Hence import impacts are observed by reducing the size of the multiplier.

Section B

1.3	9.1	17.1	25.2
2.5	10.5	18.1	26.2
3.3	11.2	19.3	27.3
4.4	12.2	20.3	28.3
5.5	13.5	21.4	29.2
6.3	14.3	22.2	30.3
7.3	15.4	23.1	30.3
8.1	16.3	24.4	

UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

**UNISA** |   
university  
of south africa

**ECS1601**

( 499784)

October/November 2015

**ECONOMICS IB**

Duration . 2 Hours

100 Marks

**EXAMINERS :**  
FIRST  
SECOND

MRS CJ VAN ZYL  
MR WJ LE ROUX

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Use of a non-programmable pocket calculator is permissible.

Closed book examination.

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of 22 pages including 1 page for rough work (p 22) plus the special front page

**Read all instructions CAREFULLY before answering the questions.**

This paper consists of two (2) sections A and B All sections are compulsory

**Section A** consists of 4 questions You have to answer all the questions in Section A in the space provided for answering it

**Section B** consists of 40 multiple choice questions You have to answer all the questions on the mark reading sheet and also supply your answers on the worksheet that appears on page 21 (in case your mark reading sheet is lost) The instructions for completing Section B are on page 10 and the questions for Section B starts on page 11

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**Please complete the attendance register on the back page, tear off and hand to the invigilator.**

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Section A

### **Question 1**

- (1a) Briefly explain two policies that may be used to decrease unemployment which focus on increasing the demand for labour
- (1b) Distinguish between cyclical unemployment and structural unemployment
- (1c) Explain why an increase in nominal GDP does not necessarily imply that economic growth has taken place
- (1d) List three criteria for a good tax system
- (1e) List three functions of the South African Reserve Bank

### **Question 2**

- (2a) Use a diagram to explain how a decrease in investment due to an increase in the interest rate level will affect the level of income in the Keynesian model
- (2b) Use a diagram to explain how a decrease in the marginal propensity to import will affect the level of income in the Keynesian model
- (2c) South Africa experienced a current account deficit of R2 300 million in the third quarter of 2014 and 24,3% of the South African labour force was unemployed. Use an AD-AS model to illustrate and explain how this situation creates a policy dilemma

### **Question 3**

**(10)**

Questions 3a, 3b and 3c are based on the following

The marginal propensity to consume of the population of the Republic of Banama is 0,75. Currently autonomous consumption is equal to 8 500 Bans and investment is equal to 4 500 Bans. The full employment level of income is 115 000 Bans.

- (3a) Calculate the current equilibrium income level (5)
- (3b) By how much should government expenditure increase to reach the full employment level of income? (3)
- (3c) Calculate the marginal propensity to save of the Republic of Banama (2)

**Question 4**

(15)

- (4a) In the 2015/16 budget it was announced that the general tax rate was increased by 1%. Explain how this increase of the general tax rate will affect the following variables in the Keynesian model
- (i) consumption
  - (ii) the multiplier
  - (iii) the equilibrium income level
- (6)
- (4b) Explain how expansionary monetary policy will influence the price level and the equilibrium income level in the economy in the framework of the AD-AS model
- (7)
- (4c) Will the size of the marginal propensity to consume affect the monetary transmission mechanism? Explain your answer
- (2)

Section B

- B1 In the simple circular flow of economic activity, goods and services flow via
- [1] factor markets to goods markets
  - [2] factor markets from households to firms
  - [3] goods markets from households to firms
  - [4] factor markets from firms to households
  - [5] goods markets from firms to households
- B2 In the circular flow of income and spending in South Africa, \_\_\_\_\_ firms in the factor market becomes \_\_\_\_\_ households, while \_\_\_\_\_ households in the goods market becomes \_\_\_\_\_ firms. Expenditure by foreigners on South African products constitutes \_\_\_\_\_ the circular flow
- [1] income of, spending by, income of, spending by, a leakage from
  - [2] income of, income of, spending by, spending by, an injection into
  - [3] spending by, income of, spending by, income of, an injection into
  - [4] spending by, spending by, income of, income of, a leakage from
  - [5] production of, spending by, production of, income of, a leakage from
- B3 The \_\_\_\_\_ demand for money arises out of the need to hold money as a medium of exchange. This demand for money is a function of \_\_\_\_\_
- [1] precautionary, interest rates
  - [2] transactions, national income
  - [3] speculative, interest rates
  - [4] speculative, national income
  - [5] transactions, interest rates
- B4 A decrease in the rate of interest
- [1] lowers the opportunity cost of money and leads to an increase in the quantity of money demanded
  - [2] raises the opportunity cost of money and leads to an increase in the quantity of money demanded
  - [3] lowers the opportunity cost of money and leads to a decrease in the quantity of money demanded
  - [4] raises the opportunity cost of money and leads to a decrease in the quantity of money demanded
  - [5] does not affect the quantity of money demanded

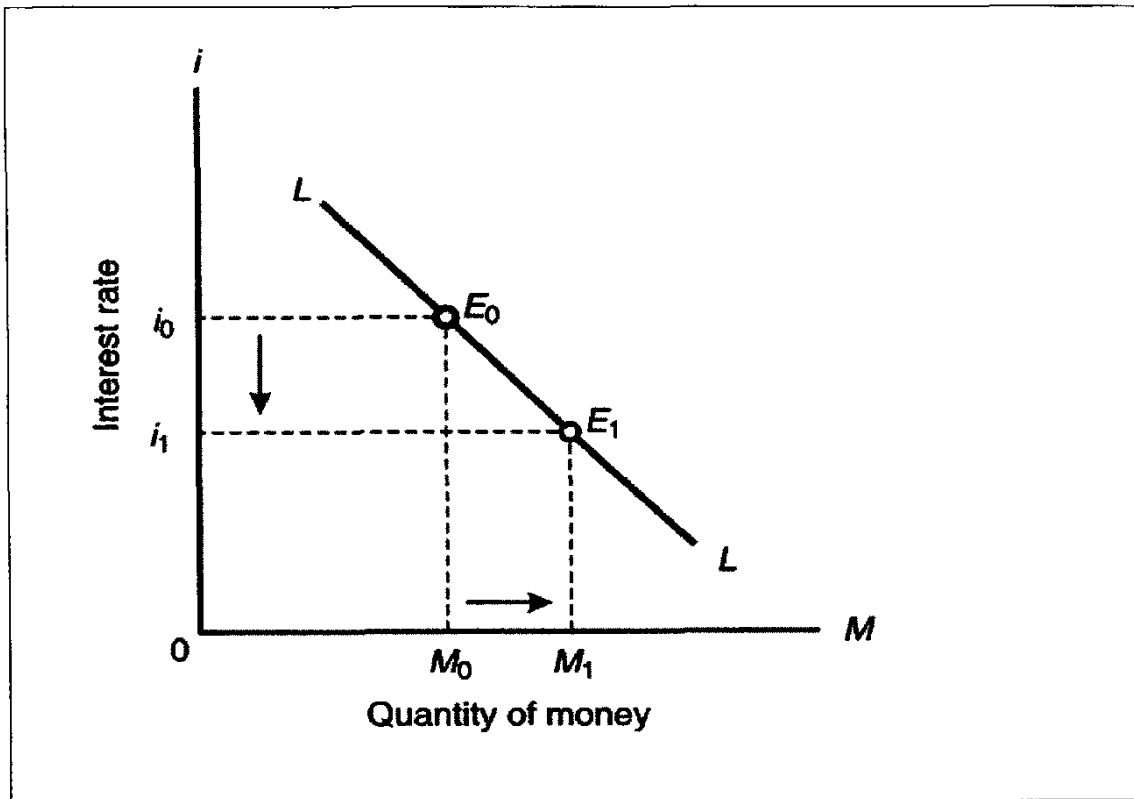
B5 Which one of the following statements is **incorrect**?

- [1] The M1 money stock consists largely of demand deposits
- [2] The M2 money stock consists largely of notes and coins
- [3] M3 is the most comprehensive measure of money
- [4] M1 includes all deposits that normally serve as a means of payment
- [5] M3 relates to the store of value function and the means of payment function of money

B6 Which one of the following statements regarding monetary policy is **incorrect**?

- [1] Monetary policy in South Africa is implemented by the South African Reserve Bank (SARB)
- [2] The key decision-making unit is the Monetary Policy Committee of the SARB
- [3] The key instrument of monetary policy is the repurchase rate (repo rate)
- [4] The SARB's main objective is to control the growth of the money stock
- [5] The SARB pursues a formal inflation target, set by the Minister of Finance, in conjunction with the SARB

Consider the following graph and use this information to answer question B7



B7 Which one of the following statement is correct?

- [1] At interest rates above  $i_0$  there will be an excess supply of money
- [2] At interest rates lower than  $i_0$  there will be an excess demand for money
- [3] Monetary authorities control the money stock and can change the interest rate by varying the money stock
- [4] The supply of money and the demand for money jointly determine the equilibrium rate of interest ( $i_0$ ) in the money market
- [5] If monetary authorities lower the interest rate (from  $i_0$  to  $i_1$ ) the money stock will increase from  $M_0$  to  $M_1$

B8 Which of the following is **not** an acceptable intervention by government in a mixed economy?

- [1] Regulation of the pricing behaviour of monopoly industries
- [2] Regulation of price increases that result from changes in patterns of demand and supply in competitive markets
- [3] Stabilisation of the economy during periods of cyclical instability
- [4] Redistribution of purchasing power via progressive taxation and transfers
- [5] The provision of funds for public goods such as parks and street lights

B9 If government spending is higher than current government revenue, this is known as

- [1] a deficit on the current account of the balance of payments
- [2] the budget deficit
- [3] the public debt
- [4] money financing
- [5] good fiscal management

B10 Which one of the following refers to an expansionary fiscal policy measure?

- [1] An increase in the quantity of money
- [2] A reduction in the number of goods exempted from VAT
- [3] An increase in taxation
- [4] An increase in government expenditure
- [5] An increase in the VAT rate

B11 Which one of the following is **not** part of fiscal policy?

- [1] The government's budget
- [2] The level of taxation
- [3] The composition of government expenditure
- [4] The level of the repo rate
- [5] Borrowing by the government

Consider the case of two countries, Egypt and the US, both producing carpets and aircraft. The table below shows output per day in the two countries if all resources are fully and efficiently employed. Use this information to answer question B12.

	Carpets	Aircraft
Egypt	100	4
US	500	25

B12 Based on this information

- [1] there is no opportunity for mutually beneficial trade between the two countries
- [2] Egypt has an absolute advantage in the production of both goods
- [3] Egypt should import carpets from the US
- [4] Egypt has a comparative advantage in the production of aircraft
- [5] the US should export aircraft to Egypt

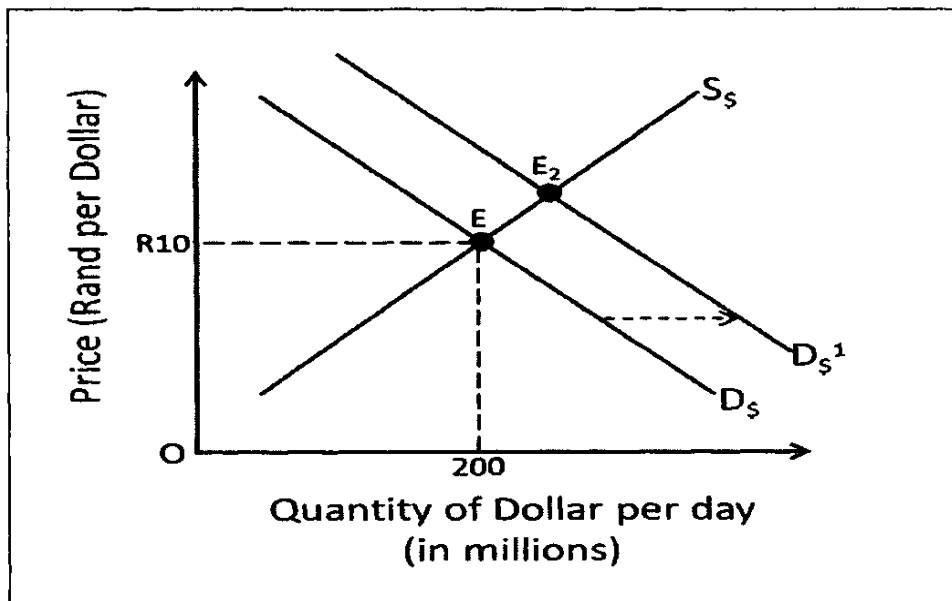
B13 Currently South Africa has a \_\_\_\_\_ on the fiscal budget and a \_\_\_\_\_ on the current account

- [1] surplus , deficit
- [2] surplus , surplus
- [3] deficit , surplus
- [4] deficit , deficit

B14 The current account of the balance of payments records

- [1] all sales and purchases of goods and services as well as income flows to and from the rest of the world
- [2] the value of exports, but not imports
- [3] the change in the country's gold reserves
- [4] all purely financial flows in and out of the country
- [5] all of the above

Use the following graph showing the market for Dollars in South Africa to answer question B15 to B17



B15 If this market for dollars is in equilibrium at point E, what would an US citizen pay for one Rand?

- [1] \$0,01
- [2] \$0,1
- [3] \$1
- [4] \$10
- [5] \$20



B16 What is a possible reason for the shift of the demand for dollars from  $D_{\$}$  to  $D_{\$}^1$ ?

- [1] The new iPhone is a very popular product on the American market, South African consumers are also buying the product
- [2] After an advertising campaign by the South African Department of Tourism in America, there is an increase in American tourists to South Africa
- [3] Due to problems at Eskom, fewer American firms invest in South Africa
- [4] After a recession in South Africa, South African consumers import less luxury goods from America

B17 After the shift of the demand for dollars from  $D_{\$}$  to  $D_{\$}^1$ , what could be a new possible equilibrium?

- [1] The Rand depreciated against the Dollar to R9 for \$1
- [2] The Rand appreciated against the Dollar to R11 for \$1
- [3] The Rand appreciated against the Dollar to R9 for \$1
- [4] The Rand depreciated against the Dollar to R11 for \$1

B18 Which one of the following is **not** a main macroeconomic objective?

- [1] Price stability
- [2] Budget surplus
- [3] Full employment
- [4] Equitable distribution of income

B19 Which of the following will be included when calculating the GDP of South Africa?

- [1] A second hand vehicle sold in Johannesburg
- [2] Maize harvested in the Free State that is sold to a company, Ace, to make maize meal
- [3] A tourist from abroad who buys wine at a wine farm in Stellenbosch
- [4] A business man in Cape Town who buys a new Ferrari made in Italy

B20 Which one of the following statements is **not** true regarding the Consumer Price Index (CPI)?

- [1] CPI is a basket that represents the goods and service bought by a typical household
- [2] Statistics SA collects prices of each good and service in the basket to calculate the cost of a typical basket
- [3] The cost of the basket is the sum of all the prices of the goods and services produced in the economy
- [4] The CPI is used to calculate headline inflation

B21 If Judith buys a new Samsung laptop, which is manufactured in South Korea, the transaction will be recorded as

- [1] a withdrawal in the current account
- [2] an addition in the current account
- [3] a withdrawal in the financial account
- [4] an addition in the financial account

B22 There are two definitions of unemployment the strict definition and the expanded definition In what aspect do the two definitions differ?

- [1] Illegal activities
- [2] Discouraged job seekers
- [3] The working age
- [4] The nationality of the worker

B23 What will it mean if aggregate expenditure is equal to total income?

- [1] Nothing, because they are always equal by definition
- [2] Inventories can increase
- [3] The economy is in equilibrium so inventories will not change
- [4] Investment will decline and therefore inventories will decrease

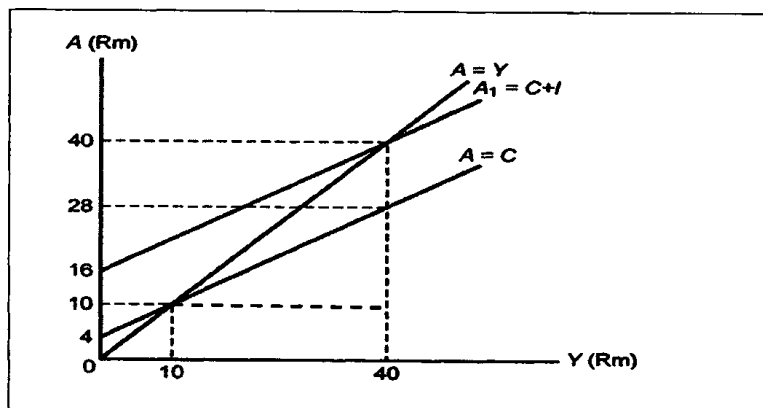
B24 The multiplier in the Keynesian model equals

- [1] the equilibrium level of income for a given level of aggregate expenditure
- [2] the increase in autonomous expenditure brought about by a change in income
- [3] the increase in the equilibrium income level divided by the increase in autonomous expenditure
- [4] the increase in equilibrium income when autonomous expenditure increases
- [5] the level of equilibrium output corresponding to a given level of aggregate spending

B25 Which one of the following statements about a simple Keynesian model without a government or foreign sector is **incorrect**?

- [1] The greater the value of the marginal propensity to consume, the greater the value of the multiplier
- [2] The size of the multiplier depends on the size of the marginal propensity to consume
- [3] If the marginal propensity to consume is 0,75, then a R10 million increase in investment spending will raise the equilibrium level of income by R7,5 million
- [4] If the marginal propensity to consume is 0,6, then a R100 million increase in investment spending will raise the equilibrium level of income by R250 million

Question B26 is based on the following diagram



B26 If investment increases by R5m, the equilibrium level of income will increase by

- [1] R3m
- [2] R6m
- [3] R12,5m
- [4] R45m
- [5] R52,5m

B27 In the Keynesian model with a government the tax rate determines the

- (a) level of consumption
- (b) level of investment
- (c) level of government expenditure
- (d) equilibrium level of income

- [1] All the options are correct
- [2] Only options (a), (c) and (d) are correct
- [3] Only options (a) and (d) are correct
- [4] Only option (c) is correct
- [5] Only option (d) is correct

B28 Which one of the following statements is **incorrect**?

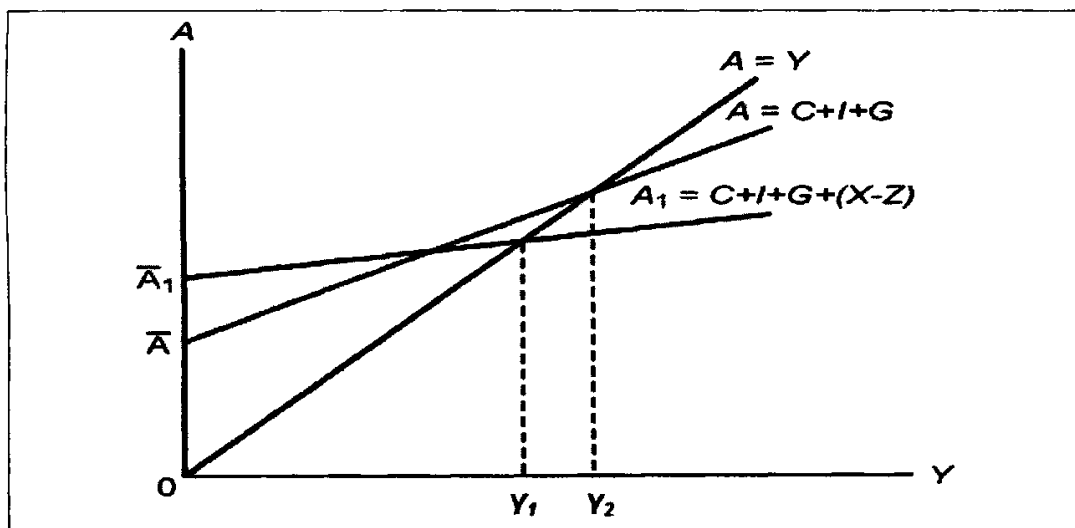
An increase in government spending in the simple Keynesian model will

- [1] increase the level of aggregate spending
- [2] increase the multiplier
- [3] increase the equilibrium level of income
- [4] leave the slope of the aggregate spending function unchanged
- [5] be a fiscal policy decision

B29 In the Keynesian model, imports

- [1] are always taken as independent of the level of income
- [2] increase when the level of income increases
- [3] decrease when the level of income increases
- [4] are equal to exports

Question B30 is based on the following diagram



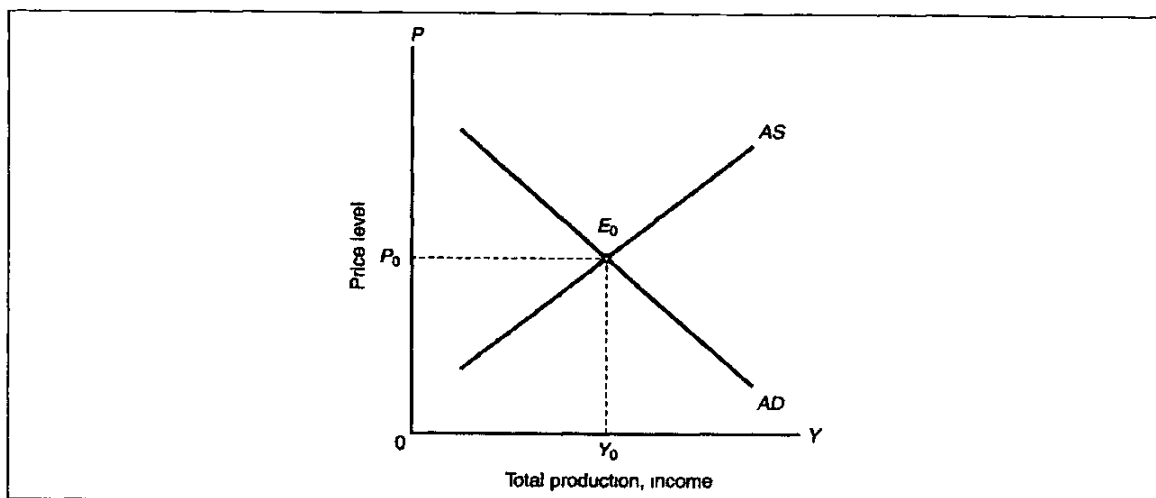
B30 Equilibrium income for the economy including the government and the foreign sector is shown by

- [1]  $\bar{A}$
- [2]  $\bar{A}_1$
- [3]  $Y_1$
- [4]  $Y_2$

B31 The government of an open economy determines that the current equilibrium level of income in the economy is lower than the full-employment level of income and wishes to close this gap. The Minister of Economic Affairs hears that you have just studied the Keynesian model of the macro-economy and approaches you for advice. Which one of the following suggestions would be inappropriate in this context?

- [1] Create a more favourable environment for investment spending
- [2] Spend more on infrastructural projects (for example, the construction of new roads)
- [3] Reduce the rate of taxation
- [4] Encourage households to save a larger proportion of their annual income
- [5] Try to reduce imports by encouraging households and firms to purchase locally manufactured goods

Question B32 is based on the following diagram



B32 The immediate effect of a decrease in government expenditure can be illustrated by a

- [1] shift of the AD curve to the left
- [2] shift of the AD curve to the right
- [3] shift of the AS curve to the left
- [4] shift of the AS curve to the right
- [5] downward movement along the AD curve

B33 The \_\_\_\_\_ sensitive investment is to a change in the interest rate level, the \_\_\_\_\_ the effect of a decrease in the interest rate on the equilibrium income level

- (a) less, smaller
- (b) more, larger
- (c) less, larger
- (d) more, smaller

- [1] Only a and b are correct
- [2] Only a and c are correct
- [3] Only c and d are correct
- [4] Only a is correct
- [5] Only c is correct

B34 Inflation refers to

- [1] an increase in the purchasing power of money
- [2] a sustained increase in the general price level
- [3] a sudden and self-contained increase in prices
- [4] an one-off increase in prices

B35 If the CPI for 2014 is 128 and the CPI for 2015 is 133 What would the inflation rate be for 2015?

- [1] 1,04%
- [2] 3,76%
- [3] 3,91%
- [4] 5,00%

B36 If inflation in a particular year is 5,5% and Matthew received a pay raise of 7,5% while Sarah received a pay raise of 4,5%, which of the following will be true?

- [1] Matthew's and Sarah's nominal income increased
- [2] Sarah's real income increased but not Matthew's
- [3] Matthew's real income increased but not his nominal income
- [4] Sarah's nominal and real income increased

B37 Which one of the following statements about demand-pull inflation is **incorrect**?

- [1] Demand-pull inflation tends to be accompanied by an increase in the level of production and income
- [2] Demand-pull inflation may be illustrated by a rightward shift of the AD curve
- [3] Demand-pull inflation may be caused by a greater availability of consumer credit
- [4] Demand-pull inflation may be caused by the availability of cheaper consumer credit
- [5] Demand-pull inflation tends to be accompanied by higher unemployment

B38 Which of the following forms part of the inflation targeting framework of monetary policy applied in South Africa?

- [1] The inflation target is at the discretion of the Governor of the SARB
- [2] Inflation targeting forms part of a market-oriented approach to monetary policy
- [3] Inflation targeting involves a growth rate for the money supply that is communicated to the public at large
- [4] The South African Reserve Bank has set the inflation target at 0% to 3%

B39 Which of the following might be expected to generate employment opportunities?

- [1] More capital intensive production methods are used
- [2] Higher taxes for small businesses
- [3] The promotion of exports and investment
- [4] An increase in the wage rate, *ceteris paribus*

B40 Which of the following is **not** a source of economic growth through expansion of demand in the economy?

- [1] Promoting local products in other countries
- [2] Encouraging foreign investment
- [3] Educating and training citizens to think more entrepreneurial
- [4] Substituting items that have been imported traditionally with domestically made products

# October/November 2015 Suggested Solutions

## Section A

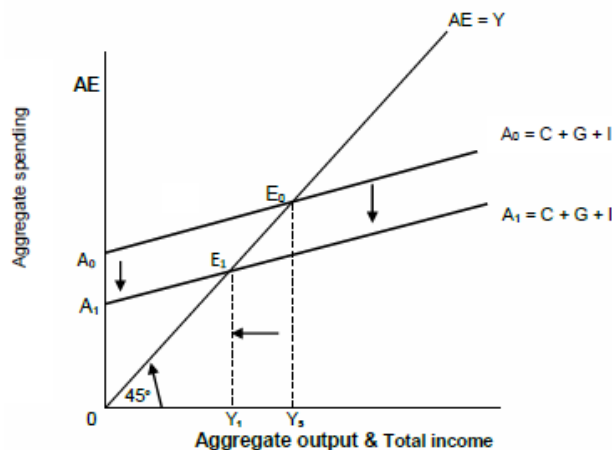
### Question 1

- a. **Fiscal Policy** (expansionary fiscal policy) - involves cutting taxes and increasing government spending leading to higher aggregate demand (AD) and decrease unemployment  
**Monetary Policy**- would involve cutting interest rates. Lower rates decrease the cost of borrowing and encourage people to spend and invest. This increases AD and should also help to increase GDP and reduce demand deficient unemployment.
- b) **Cyclical unemployment**- rises when the level of economic activity declines, as it does in a recession whilst **Structural unemployment** arises when jobs are eliminated by changes in the economy such as automation or permanent changes in demand
- c) Consist of figures that have not been adjusted for inflation (It can be misleading when inflation is not accounted for in the GDP)
- d) Neutrality; Equity; and Administrative simplicity
- e) Formulating and implementing monetary policy  
 Maintain financial stability  
 Services to the government eg banker and advisor of government  
 Provision of economic and statistical services  
 Issuing coins and banknotes etc

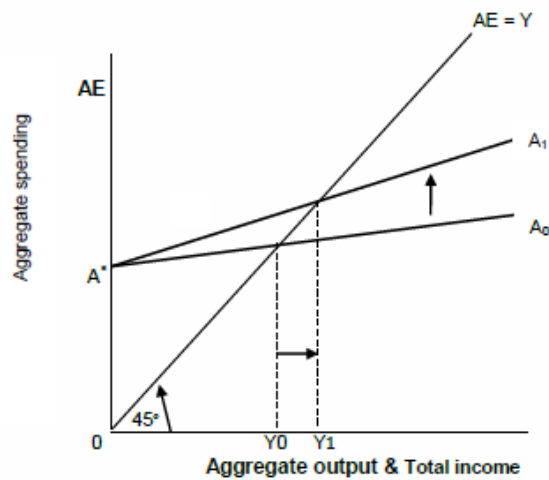
### Question 2

a) *The level of investment (I) is inversely related to the interest rate (r), ceteris paribus*

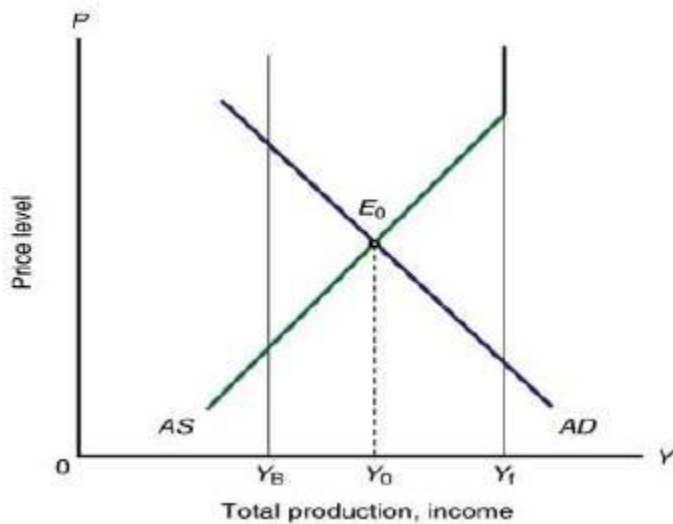
An increase in the interest rate (r) means that borrowing is less attractive hence it decreases consumer spending and investment at any level of income. This impact will lead to a fall in the Aggregate Demand (AD) and level of income in an economy.



b)



- Imports reduced aggregate spending  $A$  and therefore also total income  $Y$ , ceteris paribus.
- Imports are leakages in our circular flow hence there are subtracted from exports so as to obtain net exports.
- So when marginal propensity to imports decrease, the marginal propensity to spend on the local (domestic) products will increase and consequently lead to an increase in aggregate production and income



c)

- The diagram above illustrates that there are policy conflicts and dilemma and these scenario is known **policy dilemma**. At  $Y_0$  there is unemployment associated with a trade deficit.
- Policymakers are confronted with a dilemma since steps to increase production, income and unemployment may raise the general price level while steps taken to lower the price level ,may result in lower production and income and increased unemployment.

- **Expansionary policies** get rid of unemployment but worsen the deficit while **Contractionary policies** cure the deficit while increasing unemployment

### Question 3

a) Current equilibrium income level

$$Y = 11 - 0.75X \quad [8500 + 4500] \quad \text{Then } Y = 4 \times 1300 = \mathbf{52000}$$

Or

Equilibrium ie  $AE = Y$

$$DI = Y - T; \quad AE = C + I + G + (X - M) \quad C = a + b(Y - T)$$

$$AE = 8500 + 0.75(Y - 0) + 4500$$

$$AE = 8500 + 0.75Y - 0 + 4500 \quad AE = 13000 + 0.75Y$$

$$\text{Since } AE = Y \text{ therefore } Y = 13000 + 0.75Y \quad Y - 0.75Y = 13000$$

$$Y = 52000$$

b) Effect of Government Spending to reach full employment

**Income gap ÷ the multiplier**

[Income gap = Full employment level of income - New equilibrium level of income]

$$\text{Then } 115\,000 - 52000 = 63\,000$$

$$\mathbf{63\,000 / 4 = 15750}$$

c)  $MPC + MPS = 1$

$$MPS = 1 - 0.75 = \mathbf{0.25}$$

### Question 4

a)

i. Low-income consumers spend a greater proportion of their income on goods which carry VAT than high-income consumers (who save part of their income). In other words on general tax: the tax burden increases as income decreases (or falls as income rises) **Hence increase in General Tax Reduces Consumption**

ii. Since general tax affects consumption at each positive level of income and passed on the multiplier process this will lead to **Decrease in the Size of Multiplier**

iii. General tax is part of Tax and this represents a leakage or withdrawal from the circular flow thereby **Reducing the Equilibrium Income**



b) An Expansionary monetary policy is implemented when the SARB decreases **the interest rate (Repo rate)** at which it provides credit to the banks.

- A **decrease in the interest rate; increases the money supply** in the economy and consequently the **demand for credit**.
- This in turn, will lead to an **increase in aggregate demand (AD)** and a **rightward or upward shift** in the AD-AS model.
- As a result the **level of income will increase** but **so will the general price level** thus the **equilibrium level of income in the economy increase** also.

c) **Via interest rate channel** for instance reducing interest rates (i), reduces the cost of borrowing for firms (and consumers), leads to **increased consumption (C)** as well as investment (I) and therefore higher demand, a bigger output gap (y) and finally higher prices and inflation

In nutshell since mpc is one of the components of Consumption, then mpc is **positively correlated** with monetary transmission mechanism through the **Consumption Spending**.

## Section B

1.5	16.1	31.1
2.3	17.4	32.2
3.2	18.2	33.1
4.1	19.3	34.2
5.2	20.3	35.3
6.4	21.1	36.1
7.5	22.2	37.5
8.2	23.3	38.2
9.2	24.3	39.3
10.4	25.3	40.3
11.4	26.3	
12.5	27.3	
13.4	28.2	
14.1	29.2	
15.2	30.3	

UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA |   
university of south africa

**ECS1501**

( 492522)

May/June 2015

**ECONOMICS IA**

Duration 2 Hours

100 Marks

EXAMINERS  
FIRST  
SECOND

DR S NHAMO  
MS KO AMUSA

Use of a non-programmable pocket calculator is permissible.

Closed book examination

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The question paper consists of 70 multiple-choice questions that must **all** be answered on the mark-reading sheet, which is supplied Carefully follow the instructions for the completion of the mark-reading sheet Each question will be worth 1,4 marks, so that the paper carries a total of 100 marks

**NB!**

**Students registered for ECS1501 must use unique number 492522 on the mark-reading sheet.**

Place the completed mark-reading sheet in your answer book **DO NOT STAPLE IT TO THE ANSWER BOOK.**

**Please complete the attendance register on the back page, tear off and hand to the invigilator.**

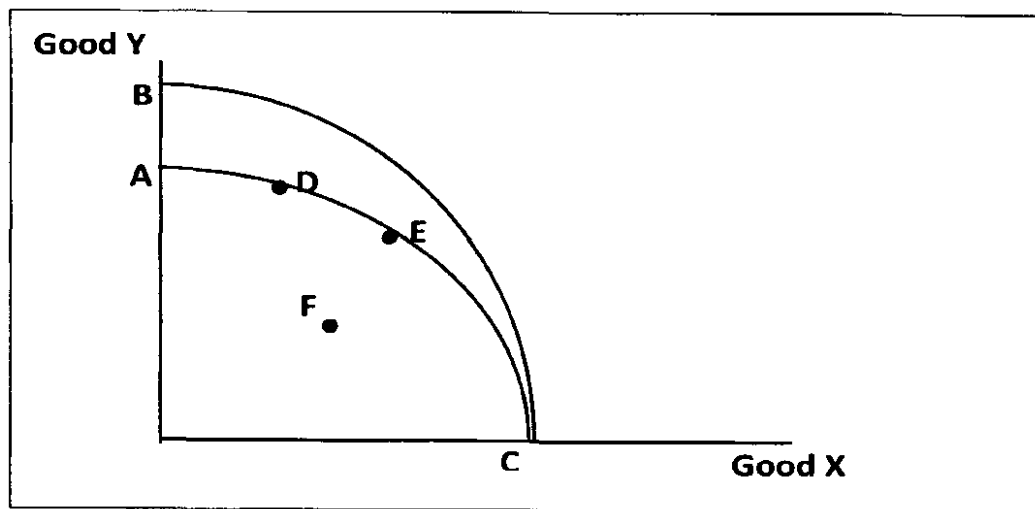
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**This examination paper remains the property of the University of South Africa and may not be removed from the examination room.**

- 1 Which of the following statements regarding needs, wants and scarcity is/are correct?
- a Wants are absolutely unlimited and can be defined as desires for goods and services
  - b Needs are limited and can be defined as life essentials
  - c Scarcity is the same as poverty and inequality
  - d Time can be regarded as a scarce resource
  - e Needs and wants are the same and only the poor are affected by scarcity

- [1] All statements are correct
- [2] Only a, b, d and e are correct
- [3] Only a, b and d are correct
- [4] Only a, b, c and e are correct

Use the diagram below, which indicates maximum combinations of good X and good Y that can be produced with available resources, to answer questions 2 and 3



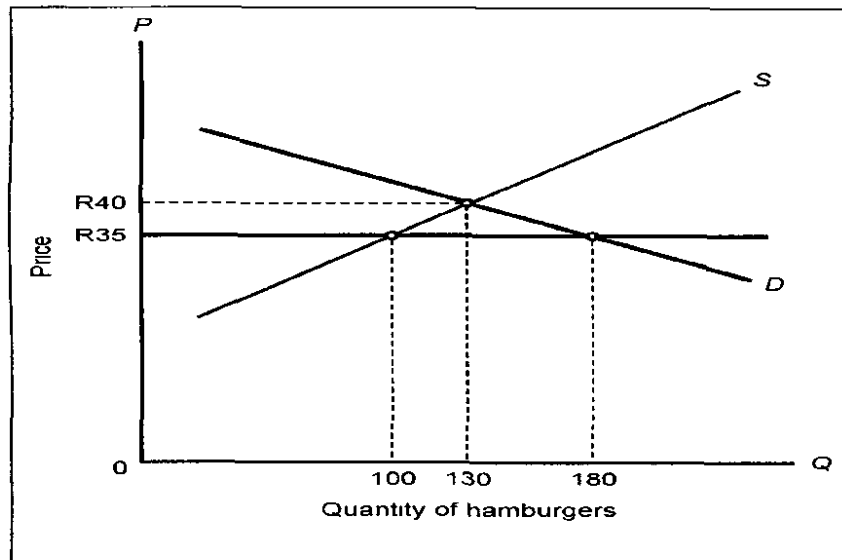
- 2 On production possibility frontier AC
- [1] output combinations D and E represent full and efficient use of resources, but A, C and F represent inefficient resource use
  - [2] output combinations A, D, E and C all represent full and efficient resource use
  - [3] output combination A and C represents less efficient resource use than either D or E
  - [4] the production of goods X and Y require similar factor inputs in similar proportions

- 3 The outward shift of the frontier from AC to BC could arise from
- [1] technological progress that affects good X production and good Y production equally
  - [2] an improvement in labour productivity only in the industry producing good X
  - [3] an improvement in labour productivity only in the industry producing good Y
  - [4] a reallocation of resources from X production to Y production
- 4 The three essential coordinating mechanisms used to solve central economic questions are
- [1] production, income and spending
  - [2] household, firms and government
  - [3] traditional command and market
  - [4] local, provincial and national governments
- 5 Microeconomics is a branch of economics that studies
- [1] the determination of national income
  - [2] the behaviour of individual decision-making units in the economy
  - [3] the impact of unemployment in South Africa
  - [4] the effects and consequences of the aggregate behaviour of all decision-making units
- 6 Which of the following statements is positive?
- [1] Unemployment is a greater problem than inflation
  - [2] The South African government ought to introduce policies to reduce the unemployment rate, not the inflation rate
  - [3] Poor countries have 58% of the world's population, but receive only 4% of the world income
  - [4] The world distribution of income is unequal, because the poor countries are denied their fair share of income and resources
- 7 The basic questions of what to produce and for whom to produce are essentially interdependent because
- [1] different patterns of factor use generate different patterns of income distribution
  - [2] income and wealth are concentrated in the hands of the economically powerful
  - [3] markets cannot be relied upon to allocate resources efficiently
  - [4] different patterns of distribution generate different patterns of demand and therefore different patterns of resource allocation

- 8 In economics, the 'how' or input question refers to
- [1] the problem of allocating scarce resources among competing users
  - [2] the ways in which factors of production may be combined to produce output
  - [3] the problem of how output is distributed among individuals and groups in society
  - [4] the way in which the state sets output targets in a command economy
- 9 In a command economy, resource allocation is brought about by
- [1] price signals driven by relative price changes
  - [2] the collective preferences of central planners
  - [3] the behaviour of self-interested individuals striving to maximise their own well-being
  - [4] the desire of producers to maximise profits
- 10 Which of the following statements is incorrect?
- [1] The three major flows in the economy are total production, total income and total spending
  - [2] There are two sets of markets in a simple economy goods markets and factor markets
  - [3] In the simple circular flow of economic activity, "real" flows of goods and factors, and financial flows move in opposite directions
  - [4] Firms are buyers in goods markets and sellers in factor markets, while households are buyers in factor markets and sellers in goods markets
- 11 Capital is a variable while investment is a variable. This implies that capital has and it can only be measured while investment has a and is measured
- [1] stock, flow, no time dimension, at a moment, time dimension, over a period
  - [2] flow, stock, time dimension, moment, no time dimension, over a period
  - [3] stock, flow, no time dimension, over a period; time dimension, at a moment
  - [4] stock, flow, time dimension, over a period, no time dimension, moment
- 12 The four main factors of production are
- [1] land, labour, capital and entrepreneurship
  - [2] technique, money, capital and entrepreneurship
  - [3] money, technology, capital and entrepreneurship
  - [4] land, labour, money and technology

- 13 If milk is a normal good, then a decrease in consumers' income will definitely cause
- [1] a decrease in the demand for milk
  - [2] an increase in the demand for milk
  - [3] a decrease in the supply of milk
  - [4] an increase in the demand and supply of milk
- 14 If the price of domestic airline tickets increases, then, *ceteris paribus*
- [1] the demand for domestic air travel will increase
  - [2] the demand for car rentals, a complement in consumption, will increase
  - [3] the demand for car rentals, a complement in consumption, will decrease
  - [4] the demand for car rentals, a substitute in consumption, will decrease
- 15 Which of the following statements is **correct**?
- [1] A rise in the price of a good will cause the supply curve of that good to shift to the right (i.e. the supply of the good will increase)
  - [2] The quantity demanded of a good depends on the availability of the good
  - [3] Demand is a synonym for wants. In other words, if a consumer demands a good it simply means that he or she wants the good
  - [4] A decrease in the prices of the factors of production used to produce a certain product will give rise to an increase in the supply of the product (illustrated by a rightward shift of the supply curve)
- 16 Which of the following will **not** cause a change in the demand for coffee?
- [1] A decrease in the price of milk, a complement
  - [2] An increase in the price of coffee
  - [4] An increase in the number of people drinking coffee
  - [5] An increase in the income of households
- 17 If farmers decide to plant more cabbage next year, *ceteris paribus*, the
- [1] supply curve for cabbage next year will shift to the left
  - [2] demand curve for cabbage this year will shift to the right
  - [3] supply curve for cabbage next year will be horizontal
  - [4] supply curve for cabbage next year will shift to the right

18 The diagram below shows the market for hamburgers



If the price of hamburgers is fixed at R35 per burger, then

- [1] there will be a surplus of 80 hamburgers
- [2] there will be a shortage of 50 hamburgers
- [3] there will be a shortage of 80 hamburgers
- [4] there will be a surplus of 50 hamburgers

Suppose the supply and demand curves are given as the following

$$Q_s = 1 + P$$

$$Q_d = 2 - P$$

At equilibrium  $Q_s = Q_d$

Answer questions 19 and 20 based on the aforementioned information

19 What is the equilibrium price level?

- [1] 1
- [2]  $1\frac{1}{2}$
- [3]  $\frac{1}{2}$
- [4]  $2\frac{1}{2}$

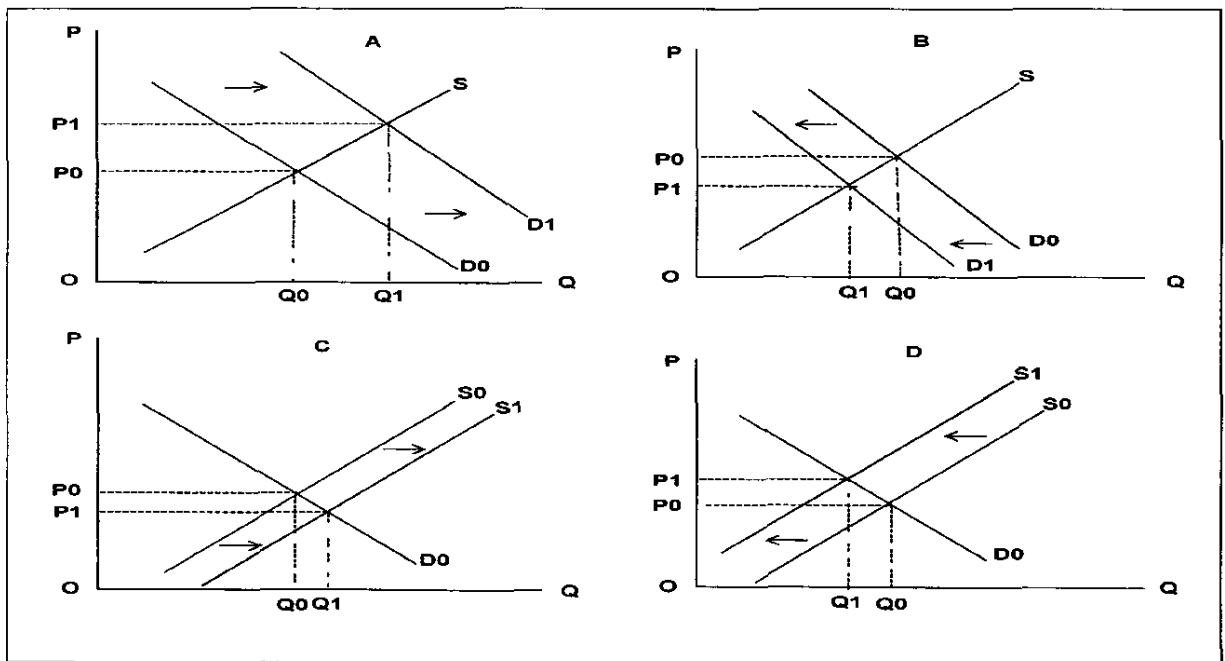
20 What is the equilibrium quantity supplied at equilibrium?

- [1] 1
- [2]  $1\frac{1}{2}$
- [3]  $\frac{1}{2}$
- [4]  $2\frac{1}{2}$

21 An increase in supply is graphically represented by

- [1] an upward movement along the supply curve
- [2] a downward movement along the supply curve
- [3] a rightward shift of the supply curve
- [4] a leftward shift of the supply curve

Use the figures below to answer question 22 that follows

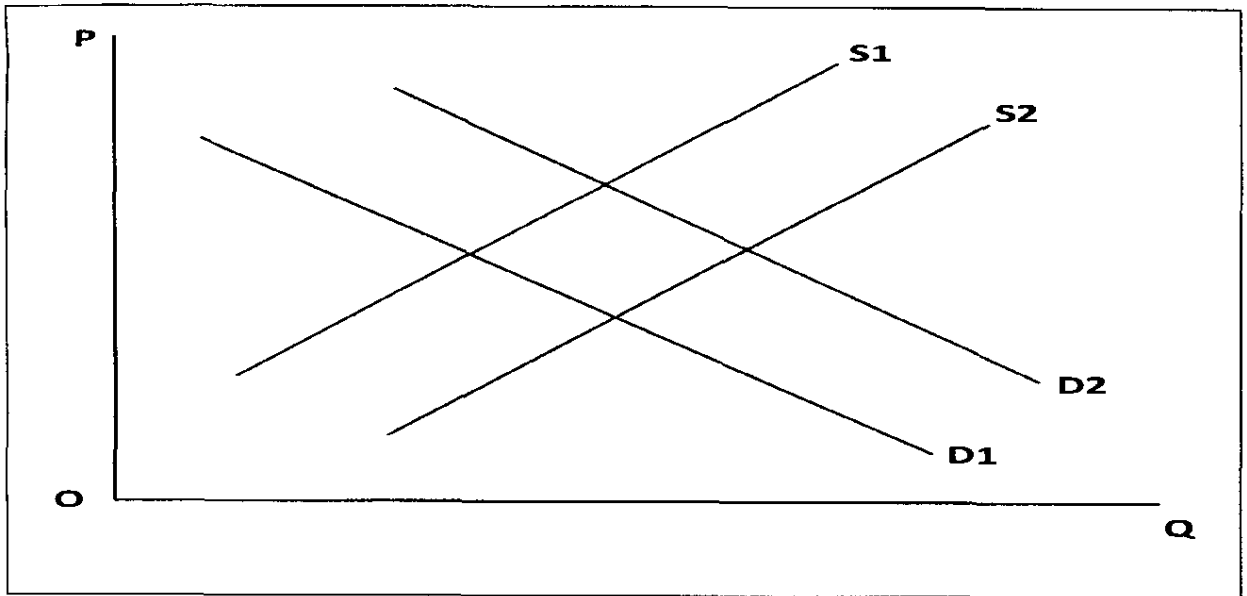


22 Which of the figures correctly indicates the effect of a decrease in Becky's income on the demand for iced tea which she considers to be an inferior good?

- [1] A
- [2] B
- [3] C
- [4] D



The figure below represents the market for hamburgers. Use the figure to answer question 23 that follows



- 23 If the price of meat patties used in the burgers rises and at the same time people become health conscious regarding the potential risks of heart related diseases from eating hamburgers
- [1] the demand curve will shift from D2 to D1 and the supply curve will shift from S2 to S1
  - [2] the demand curve will shift from D2 to D1 and the supply curve will not shift
  - [3] the demand curve will not shift and the supply curve will shift from S2 to S1
  - [4] the demand curve will shift from D2 to D1 and the supply curve will shift from S1 to S2
- 24 A decrease in demand with no change in supply will cause
- [1] an increase in demand since the supply curve does not shift
  - [2] a fall in the equilibrium price
  - [3] an increase in both the demand and supply
  - [4] an increase in the equilibrium price
- 25 If there is an increase in income, one would expect
- [1] a rightward shift of the demand curve
  - [2] a leftward shift of the demand curve
  - [3] a rightward shift of the supply curve
  - [4] a leftward shift of the supply curve

- 26 Which of the following will shift the supply curve for soft drinks to the left?
- [1] An increase in the cost of the machinery used in producing soft drinks
  - [2] A decrease in the wages of workers employed in the soft drinks factory
  - [3] Technological improvement in the production of soft drinks
  - [4] Consumers' tastes and preferences
- 27 An increase in demand coupled with a decrease in supply will result in
- [1] an uncertain impact on price and cause an increase in the quantity demanded
  - [2] an increase in price and cause an uncertain impact on the quantity
  - [3] a decrease in price and cause an uncertain impact on quantity
  - [4] an uncertain change in price and a decrease in quantity
- 28 Suppose the demand and supply of grapes increases, but the increase in demand is major while the increase in supply is minor. Then given the above scenario
- [1] price increases and the quantities demanded and supplied increase
  - [2] price decreases and the quantity demanded and supplied decrease
  - [3] price increases and the quantity demanded and supplied decrease
  - [4] price decreases and the quantity demanded and supplied increase
- 29 Thabo spends R12 in the mornings on bus fare from his house in Brooklyn to the Unisa library. In the afternoons this same trip costs R11,50. The fact that the bus fare is more expensive during rush hour and less expensive during the afternoon implies that the demand for the bus ride in the morning is \_\_\_\_\_ while during the afternoon the demand for the bus ride is \_\_\_\_\_
- [1] less elastic, more elastic
  - [2] elastic, inelastic
  - [3] unit elastic, inelastic
  - [4] perfectly elastic, perfectly inelastic
- 30 There is a proposal from Eskom to increase the electricity tariff during 2015 in order to increase revenue and aid operations. This proposal is only going to be possible because the demand for electricity is \_\_\_\_\_
- [1] elastic
  - [2] inelastic
  - [3] equal to 1
  - [4] greater than 1

31 Given the water shortages observed in Gauteng in 2014, the South African government wants to reduce water consumption by 5 per cent. The price elasticity for water is 0,4, therefore government should

- [1] increase the price of water by 12,5 per cent
- [2] decrease the price of water by 2 per cent
- [3] increase the price of water by 10 per cent
- [4] decrease the price of water by 6 per cent

32 If the price elasticity of demand for foot massagers is 0,5, then a 10 per cent increase in price will

- [1] increase the quantity demanded by 5 per cent
- [2] decrease quantity demanded by less than 0,5 per cent
- [3] decrease quantity demanded by 5 per cent
- [4] increase quantity demanded by 0,5 per cent

33 Utility from consuming a good is understood by economists to mean

- [1] how often we consume the good
- [2] how much satisfaction or benefit we get from consuming the good
- [3] how much it costs to buy the good
- [4] how we best use the good

34 If marginal utility is positive with increasing consumption of a certain product, then total utility will

- [1] rise at a constant rate
- [2] fall at a decreasing rate
- [3] rise at a decreasing rate
- [4] fall at an increasing rate

35 Which of the following statements is/are correct?

- a An increase in the consumption of a good will always increase both the total utility and marginal utility
- b An increase in the consumption of a good will usually decrease the marginal utility and increase the total utility
- c When the marginal utility becomes negative, the total utility will decrease

- [1] a and c
- [2] b and c
- [3] Only a
- [4] Only b

Questions 36 and 37 are based on the table below

Units	Bananas		Apples	
	TU	MU	TU	MU
1	24	24	16	16
2	40	16	29	13
3	52	12	41	12
4	58	6	49	8
5	62	4	54	5

The above table indicates Maria Botha's total utility and marginal utility of bananas and apples respectively. The price of bananas is R2 per unit and the price of apples is R1 per unit. Maria has R8 available to spend.

36. If Maria Botha spends her total income of R8

- [1] it will not be necessary to calculate Maria's weighted marginal utility to determine equilibrium
- [2] Maria will be in equilibrium if she consumes 3 bananas and 3 apples
- [3] Maria will be in equilibrium if she consumes 2 bananas and 4 apples
- [4] Maria will be in equilibrium if she consumes 2 bananas and 1 apple

37 Which of the following statements is/are **correct**?

- a Weighted marginal utility of bananas is determined when the marginal utility per banana is divided by the price of bananas
- b At a combination of 5 bananas and 5 apples, Maria cannot be in equilibrium because she needs R15 to buy this combination
- c At equilibrium the total utility of Maria is 93 utils

- [1] All the statements are correct
- [2] Only a and b
- [3] Only a and c
- [4] Only b and c

Question 38 is based on the table below which represents an equilibrium position of a consumer

Good	Price	Weighted marginal utility
A	R12	4
B	R8	4
C	R10	4
D	R6	4

38 Which one of the following statements are **correct**?

- [1] If the price of A decreases to R6, equilibrium can only be restored if the consumer purchases less of A
- [2] If the price of B decreases to R6, equilibrium can only be restored if the consumer purchases less of B
- [3] If the price of C increases to R12, equilibrium can only be restored if the consumer purchases more of C
- [4] If the price of D increases to R10, equilibrium can only be restored if the consumer purchases less of D

39 A firm's total revenue is equal to

- [1] total revenue divided by the quantity sold
- [2] the additional revenue earned by selling an additional unit of the product
- [3] the price of its product multiplied by the quantity sold
- [4] the price of its product divided by the quantity sold

Output (units)	Total revenue (R)	Average revenue (R)	Marginal revenue (R)
1	10		
2		15	
3			6
4		10	
5	42,5		
6			2,5

40 The total revenue of six units is

- [1] 10
- [2] 30
- [3] 40
- [4] 45

41 The average revenue of three units is

- [1] 7,5
- [2] 10
- [3] 12
- [4] 15

42 The marginal revenue of five units is

- [1] 2,5
- [2] 4
- [3] 5
- [4] 6

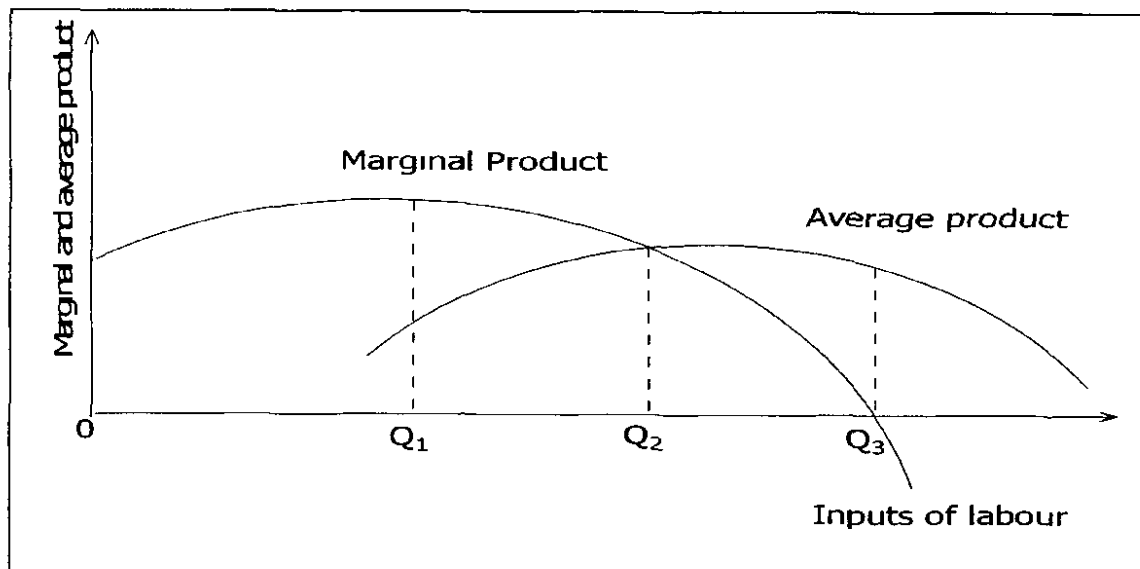
43 Which one of the following statements is **correct**?

- [1] The short run is a time period during which all inputs are variable
- [2] Economic profit is the difference between total revenue and total explicit and implicit costs
- [3] In the short run capital is regarded as a variable input
- [4] Opportunity costs can be regarded as similar to explicit costs

44 Which one of the following statements is **correct**?

- [1] The law of diminishing returns applies to the long run only
- [2] According to the law of diminishing returns, a firm can expand production in the short run through the employment of additional fixed factors of production
- [3] According to the law of diminishing returns, a firm can only expand production in the long run when all the factors of production are variable
- [4] The law of diminishing returns states that as more of a variable input is combined with one or more fixed inputs in the production process, points will eventually be reached where first the MP, then the AP and finally the TP will start to decline

Answer question 45 using the figure below



45 In the figure above, variable inputs of labour are being added to a constant amount of property resources. Marginal cost will be at a minimum for this firm when it is hiring

- [1] Q3 workers
- [2] Q2 workers
- [3] Q1 workers
- [4] more than Q3 workers

46 The average variable cost curve

- [1] initially increases as output increases, and then reaches a maximum
- [2] initially decreases, reaches a minimum and then increases
- [3] initially increases and remains constant thereafter
- [4] decreases at a constant rate

47 The average fixed cost

- [1] decreases as output increases
- [2] remains constant as output increases and is illustrated by a horizontal line
- [3] is the horizontal distance between average (total) cost and average variable cost
- [4] increases as output increases

48 The demand curve for the product faced by the individual firm under perfect competition is

- [1] vertical
- [2] perfectly inelastic
- [3] perfectly elastic
- [4] relatively elastic

49 For perfect competition to exist there must be

- [1] few competitors
- [2] restrictions to the entry of new firms
- [3] competitive advertising
- [4] many buyers and sellers

50 Which one of the following statements is **correct** under conditions of perfect competition?

- [1] The average revenue curve is identical to the marginal revenue curve
- [2] The marginal revenue curve lies below the average revenue curve
- [3] The marginal revenue curve runs parallel to the price axis
- [4] Marginal cost and marginal revenue are equal at all possible levels of output

51 Which one of the following statements is **correct**?

- [1] If  $MR > MC$  under perfect competition, profit can be increased by expanding production
- [2] If  $MC > MR$  under perfect competition, profit can be increased by expanding production
- [3] If  $MR = MC$  under perfect competition, profit can only be increased by increasing the quantity produced
- [4] None of the above



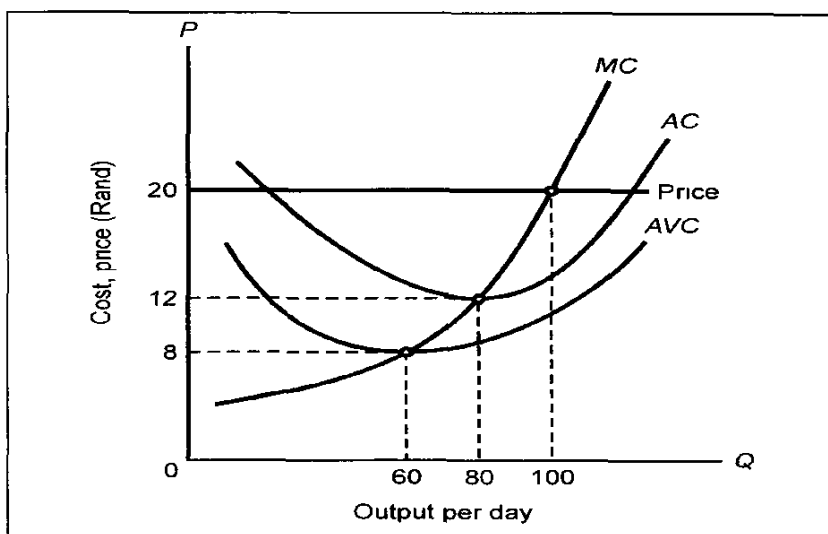
52 Under perfect competition, the supply curve of the firm is

- [1] the rising part of the firm's marginal cost curve from the minimum point of the MC curve to the minimum point of the AC curve
- [2] the rising part of the firm's marginal cost curve above the minimum of the average variable cost curve
- [3] the rising part of the firm's MC curve between the AC and AVC curves
- [4] the rising part of the firm's marginal cost curve above the minimum of the average cost curve

53 Normal profit implies that

- [1] economic profit is zero
- [2] all factors employed are earning an amount equal to their opportunity costs
- [3] firms are earning enough to cover all the costs of production
- [4] price must be greater than average variable cost

Use the information in the diagram below to answer questions 54 – 56 The diagram shows the price, marginal cost and average cost curves facing a perfectly competitive firm in the short run



54 The firm will maximise profit in the short run where

- [1] the AC and MC curves intersect
- [2] the MC and AVC curves intersect
- [3] the MC curve intersects the price line
- [4] None of the above

- 55 What is the total revenue of the profit-maximising firm in the short run?
- [1] R800
  - [2] R2 000
  - [3] R960
  - [4] R720
- 56 What is the firm's profit-maximising output in the short run?
- [1] 100 units
  - [2] 140 units
  - [3] 80 units
  - [4] 60 units
- 57 Under perfect competition the industry will be in equilibrium in the long run if all firms
- [1] are making normal and economic profits
  - [2] are making economic losses
  - [3] leave the industry
  - [4] are making normal profits
- 58 Which of the following statements is/are **correct** with reference to the monopoly?
- a The demand curve for its product is the same as the market demand curve for the product of the industry
  - b The firm faces a perfectly elastic demand curve
  - c The monopolistic firm can continue to earn economic profits in the long run, as long as the demand for its product remains intact
- [1] All the statements are correct
  - [2] a and b
  - [3] a and c
  - [4] b and c
- 59 Which of the following is **not** an important feature of monopolistic competition?
- [1] Each firm produces a differentiated (heterogeneous) product
  - [2] There can be a large number of firms in the industry
  - [3] Under monopolistic competition there is an incentive for sellers (suppliers) to advertise their products
  - [4] Each firm is faced with a horizontal (perfectly elastic) demand curve for its products

60 Collusion is possible under

- [1] monopolistic competition
- [2] perfect competition as well as monopolistic competition
- [3] oligopoly
- [4] monopoly

61 What is the effect of fixing a maximum price below the equilibrium price?

- a It can lead to black market activities
- b It creates shortages
- c Excess demand and excess supply exist

- [1] a and b
- [2] a and c
- [3] Only a
- [4] Only b

62 For a minimum price to be effective in the market, it should be set

- a below the equilibrium price
- b above the equilibrium price
- c either above or below equilibrium price

- [1] Only a
- [2] Only b
- [3] a and b
- [4] Only c

63 Which one of the following statements is **true**?

- [1] If labour productivity rises more than nominal wages rise, then real wages will decrease
- [2] If nominal wages increase by less than inflation, real wages will increase
- [3] As real wages increase, nominal wages will fall
- [4] If labour productivity rises more than wages rise, then costs per unit of output will fall

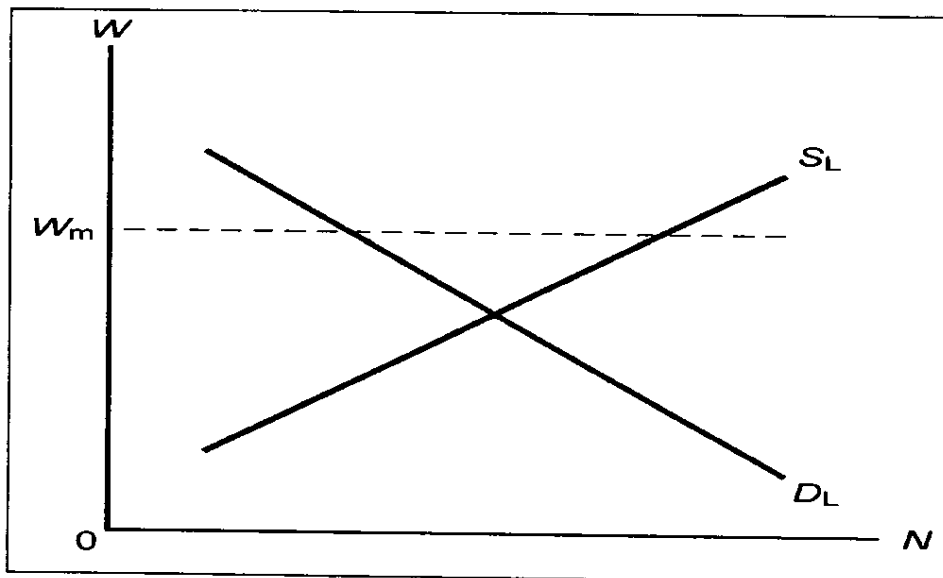
64 Which of the following will NOT shift the market supply of labour?

- [1] A change in the size of the population due to a change in birth or death rates
- [2] A change in the wages of the workers
- [3] A change in the labour force participation rate (for example, of women)
- [4] A change in migration

65 A change in wages causes a

- [1] shift in the marginal revenue product curve for labour
- [2] shift in the marginal physical product curve for labour
- [3] shift in the marginal revenue curve for labour
- [4] movement along the demand for labour curve

Use the diagram below which illustrates the imposition of a minimum wage  $w_m$  in a perfectly competitive labour market and answer question 66



66 Which one of the following statements about the diagram is **false**?

- [1] The minimum wage,  $w_m$ , may have been introduced in an attempt to ensure a certain minimum standard of living for all workers
- [2] With the imposition of  $w_m$  the supply curve of labour will shift outwards
- [3] At  $w_m$  there is an excess supply of labour
- [4] The imposition of  $w_m$  may increase the employers' costs of production

- 67 The demand curve for labour slopes downwards because of
- [1] falling demand for the output that labour produces
  - [2] diminishing returns to labour
  - [3] falling wages, causing more people to demand employment
  - [4] a falling marginal cost curve in the product market
- 68 Which one of the following statements is **incorrect**?
- [1] The labour market is an important factor market in the economy
  - [2] The cost of labour is determined solely by the wages and salaries paid to workers
  - [3] Productivity is an important determinant of the cost of labour
  - [4] There are significant differences between the labour market and the goods market
- 69 Which one of the following is **not** a requirement for perfect competition in the labour market?
- [1] A large number of employers
  - [2] A large number of employees
  - [3] Free entry and exit
  - [4] Labour should be heterogeneous (i.e. each worker must have unique skills)
- 70 Which one of the following statements about a perfectly competitive labour market is **incorrect**?
- [1] A firm is in equilibrium where the marginal cost of labour is equal to the marginal revenue product of labour
  - [2] The marginal cost of labour is illustrated by a downward-sloping curve
  - [3] The marginal cost of labour is equal to the wage rate
  - [4] The marginal cost of labour represents the supply of labour to the firm

## May/June 2015 Suggested Solutions

### Section A

1

i)Page 243

ii)Page 252

iii)Page 291

iv)Page 270

2

i)Figure 14.2 shift left

ii)Figure 14.2 opposite

iii)Figure 16.3

iv)Figure 18.9 c swivel down, similar to 18.4

v)Figure 19.4 opposite

3

i)page 319  $0,75 \times 2000$ ;  $0,25 \times 2000$

ii)Box 17.7Autonomous spending =  $250 + 150$ ; multiplier =  $1/(1-0,8) = 5$ ; Equilibruim =  $400 \times 5 = 2000$

$(2000-1500)/5 = 100$  change in investment

4

i)Table 16.2

ii)Page 330

iii)Page 389

Section B

1.4	11.1	21.4	31.2
2.3	12.1	22.3	32.1
3.4	13.2	23.1	33.4
4.1	14.3	24.3	34.4
5.2	15.2	25.1	35.4
6.1	16.1	26.3	36.3
7.3	17.4	27.3	37.2
8.3	18.1	28.4	38.1
9.3	19.3	29.2	39.1
10.2	20.2	30.4	40.3

## QUESTION & ANSWER SERIES

### Question 1

Which one of the following does NOT represent a key macroeconomic variable?

- A. The unemployment rate.
- B. The inflation rate.
- C. Gross Domestic Product (GDP).
- D. Income distribution.
- E. The population growth rate.

### Question 2

If we were to add up the value of output of all firms in the economy, we would:

- A. obtain GDP at factor cost.
- B. obtain GDP at market prices.
- C. obtain GDP using the income method.
- D. overestimate the value of production taking place in the economy.
- E. underestimate the value of production taking place in the economy.

### Question 3

Questions (a) and (b) are based on the table below, which describes the process by which a loaf of bread is made available to a consumer as a final good.

	Price (R) of a loaf of bread
Farmer sells wheat to miller	5,00
Miller sells flour to baker	6,00
Baker sells bread to grocer	10,00
Grocer sells bread to consumer	12,00



Question (a)

The total value of a loaf of bread is:

- A. R7,00
- B. R12,00**
- C. R4,00
- D. R33,00
- E. R10,00

Question (b)

The value added by the grocer equals:

- A. R12,00
- B. R10,00
- C. R2,00**
- D. R5,00
- E. R4,00

Question 4

Net product is equal to gross product net of:

- A. inflation.
- B. indirect taxes.
- C. subsidies.
- D. net factor payments.
- E. depreciation/consumption of fixed capital.**

### Question 5

If dairy farming is subsidised, we would expect the value of a litre of milk to be:

- A. equal to the price paid by the consumer for a litre of milk.
- B. greater than the price paid by the consumer for a litre of milk.
- C. less than the price paid by the consumer for a litre of milk.
- D. lower because of the subsidy.
- E. higher because of the subsidy.

### Question 6

Nominal GDP calculated at market prices differs from nominal GDP at factor cost. Which of the following items would account for the difference?

- A. Depreciation on capital equipment.
- B. Inflation.
- C. Interest on loans.
- D. Indirect taxes and subsidies.
- E. Net incomes from abroad.

### Question 7

If 2010 is the base year for real GDP calculations, we know for certain that nominal GDP:

- A. is less than real GDP in 2010.
- B. is greater than real GDP in 2010.
- C. equals real GDP in 2010.
- D. in 2009 was greater than real GDP in 2010.
- E. in 2009 was less than real GDP in 2010.

Question 8

GDP at \_\_\_\_\_ prices will usually be greater than GDP at \_\_\_\_\_ prices because of \_\_\_\_\_.

- A. constant; current; inflation
- B. current; constant; inflation**
- C. constant; current; depreciation
- D. current; constant; depreciation
- E. current; constant; deflation

Question 9

Since the R200 note was first introduced in South Africa, its value has:

- A. decreased in nominal terms and increased in real terms.
- B. decreased in nominal terms and decreased in real terms.
- C. increased in nominal terms and decreased in real terms.
- D. increased in nominal terms and increased in real terms.
- E. decreased in real terms, although its nominal value has remained unchanged.**

Question 10

If South Africa's GDP is greater than its GNI, then the income earned by foreign investors and foreign workers in South Africa is \_\_\_\_\_ the income earned by South Africans who have invested, or who are working, abroad.

- A. greater than**
- B. added to
- C. subtracted from
- D. less than
- E. deflated by

Question 11

To derive GDP at market prices from Gross Domestic Expenditure, we must:

- A. subtract spending on exports and add spending on imports.
- B. subtract spending on imports and add spending on exports .**
- C. subtract spending on intermediate goods and add spending on exports.
- D. subtract spending on exports and add spending on intermediate goods.
- E. subtract spending on net exports.

Question 12

The table below shows a section of the national accounts for a small country in 2012. Answer Questions

(a) and (b) using the information provided in the table.

Consumption expenditure -10 500

Government expenditure - 3 000

Depreciation - 500

Exports - 1 200 Imports - 1 000

Gross capital formation (investment) – 2 200

Question (a)

The value of Gross Domestic Expenditure is:

- A. 15 900
- B. 15 200
- C. 15 400
- D. 18 400
- E. 15 700**

Question (b)

The value of Net Domestic Product is:

- A. 15 900
- B. 15 700
- C. 15 200
- D. 15 400**
- E. 18 400

Question 13

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 people who are physically unable to work. The unemployment rate in this country equals:

- A. 8%
- B. 10%
- C. 13,3%
- D. 20%**
- E. 25%

Question 14

A consumer's real purchasing power refers to:

- A. the nominal income level of the consumer.
- B. wage income earned through employment.
- C. the maximum volume of goods and services that the consumer can buy.**
- D. nominal GDP per capita.
- E. real GDP deflated by the price level.

Question 15

The inflation rate is measured by:

- A. the ratio of current year CPI to base year CPI.
- B. the percentage change in the CPI from one year to the next.
- C. the percentage change in GDP from one year to the next.
- D. the ratio of current year CPI to the next year's CPI.
- E. the ratio of current year PPI to the next year's PPI.

Question 16

In order to answer Questions (a), (b) and (c) refer to the table below. This table contains information about the consumer price index in Mythopia. The unit of currency in Mythopia is the Myth.

Year	Consumer Price Index
2010	100,0
2011	112,1
2012	120,8

**Question (a)**

Between 2010 and 2012, the purchasing power of the consumer's Myth:

- A. decreased to 20,8 cents.
- B. decreased to 120,8 cents.
- C. decreased to 83 cents.
- D. decreased to 93 cents.
- E. increased to 120,8 cents.

Question (b)

The inflation rate in 2012 was:

- A. 7,8%
- B. 8,7%
- C. 20,8%
- D. 17,2%
- E. 120,8%

Question (c)

Suppose that the inflation rate in 2013, calculated using the CPI, was found to be 8%. What was the value of the CPI in 2013?

- A. 128,8
- B. 130,5
- C. 129,7
- D. 132,0
- E. 124,0

Question 17

The current account of the balance of payments records:

- A. all sales and purchases of goods and services as well as income flows to and from the rest of the world.
- B. the value of exports, but not imports.
- C. the change in the country's gold reserves.
- D. all purely financial flows in and out of the country.
- E. all of the above.

Question 18

If the financial account is in surplus, then:

- A. the value of imports exceeds the value of exports.
- B. the value of exports exceeds the value of imports.
- C. there will be a surplus on the overall balance of payments.
- D. capital outflows exceed capital inflows.
- E. there has been a net inflow of foreign capital into the country.

Question 19

Which one of the following steps is required to construct a Lorenz curve?

- A. Find the cumulative age of the population.
- B. Order the population from youngest to oldest.
- C. Order the population from poorest to richest.
- D. Divide the income of the richest group by the income of the poorest group.
- E. Divide the population into ten equal groups and calculate the average income of these groups.

Question 20

Refer to the table below that describes the income distribution in a country.

<i>Population</i>	<i>Cumulative Percentage</i>	
	<i>Population</i>	<i>Income</i>
Poorest 20%	20	5
Next 20%	40	10
Next 20%	60	25
Next 20%	80	60
Richest 20%	100	100

In this country, the richest 40% of the population earn \_\_\_\_\_ of the total income; whilst the poorest 40% of the population earn \_\_\_\_\_ of the total income.

- A. 40%; 15%
- B. 40%; 10%
- C. 60%; 15%
- D. 75%; 10%
- E. 75%; 15%



### Question 21

The area between the Lorenz curve of a country and the diagonal of perfect equality represents:

- A. the area of equality.
- B. the area of inequality.
- C. The Gini coefficient.
- D. The quantile ratio.
- E. the cumulative percentage of the population.

### Question 22

Which of the following is recorded on the financial account of the balance of payments?

- A. A group of South Africans spends three weeks touring Europe.
- B. A German firm pays R5 million dividends to the holders of its shares in South Africa.
- C. An American firm sells its shares in a South African construction firm.
- D. A group of German tourists visits the Kruger National Park in South Africa for two weeks.

### Question 23

Which of the following summarises transactions involving a country's international exchange of goods, services, current transfers and income?

- A. Current account
- B. Financial account
- C. Balance of payments
- D. Gold standard
- E. Balance of trade

Question 24

Which of the following would most likely contribute to a deficit (or reduce the surplus) on the South African current account?

- A. A depreciation of the Rand.
- B. A Malaysian company invests in a South African oil company.
- C. An increase in transfers from Italian citizens to their South African relatives.
- D. A decline in imports.
- E. An increase in mine workers' transfer earnings to Mozambique.

Question 25

Which one of the following has to be taken into account when GDP is estimated?

- A. John purchases shares to the value of R150 000 in Anglo American plc.
- B. Peter invests in a 24-month tax-free fixed deposit.
- C. A firm buys Mpho, its sales representative, a new car.
- D. Patrick, a university student, buys an old car from a friend.
- E. Anne, a civil pensioner, receives her monthly pension from the government.

Question 26

Which one of the following should not be taken into account when GDP is estimated?

- A. Supreme Limited buys a new truck to deliver finished goods.
- B. Paramount Inc buys a new car for Johnson, one of the firm's sales representatives.
- C. Koos, a wheat farmer, purchases a new tractor for his farm.
- D. Nigel, an accountant, has his private car stolen at work.
- E. Nigel buys a new car to replace the stolen one.

Question 27

Which one of the following statements is correct?

- A. The South African national accounts are compiled by the National Treasury.
- B. The GDP is the total quantity of goods and services produced in the country.
- C. The GDP is estimated according to a double-entry bookkeeping system. All items are therefore counted twice.
- D. The GDP is the total value of all intermediate goods produced in the country.
- E. The GDP can be estimated by adding the value added by all the different sectors of the economy.

Question 28

Which one of the following statements is incorrect?

- A. GDP estimated from the production side is also called gross value added (GVA).
- B. To estimate GDP from the expenditure side, the expenditure on final goods and services should be taken into account.
- C. GDP can also be estimated as the total value of all incomes (wages and salaries, rent, interest and profit) in the economy.
- D. The three methods of estimating GDP should in principle yield the same results.
- E. GDP can be estimated by adding the total value of primary inputs to total value of intermediate goods and services.

Question 29

Money overcomes the problem of a double coincidence of wants inherent in the barter system through its function as a:

- A. medium of exchange.
- B. unit of account.
- C. standard of deferred payment.
- D. store of value.
- E. financial intermediary.

Question 30

The \_\_\_\_\_ demand for money arises out of the need to hold money as a medium of exchange. This demand for money is a function of \_\_\_\_\_.

- A. precautionary; interest rates
- B. transactions; national income**
- C. speculative; interest rates
- D. precautionary; national income
- E. transactions; interest rates

Question 31

An increase in the market interest rates:

- A. will shift the money demand curve downwards.
- B. implies a lower opportunity cost of holding money balances.
- C. will cause the price of bonds to fall.**
- D. will increase the purchasing power of money.

Question 32

A decrease in the rate of interest:

- A. lowers the opportunity cost of money and leads to an increase in the quantity of money demanded.**
- B. raises the opportunity cost of money and leads to an increase in the quantity of money demanded.
- C. lowers the opportunity cost of money and leads to a decrease in the quantity of money demanded.
- D. raises the opportunity cost of money and leads to a decrease in the quantity of money demanded.
- E. does not affect the quantity of money demanded.

Question 33

Which one of the following statements is NOT true?

- A. Money is a unit of account.
- B. Money is a store of value.
- C. Money is a medium of exchange.
- D. Money is another term for income.
- E. Money is the most liquid asset.

Question 34

Which of the following best describes the M1 measure of the money stock?

- A. It is the M3 money measure minus the M2 money measure.
- B. M1 includes cash and medium term deposits.
- C. M1 is cash plus demand deposits.
- D. M1 is cash minus demand deposits.
- E. M1 is the most comprehensive measure of money stock available.

Question 35

Which of the following is true of the money market?

- A. The speculative demand for money is a function of the interest rate.
- B. The liquidity preference curve slopes upward.
- C. The transactions demand for money is a function of the interest rate.
- D. The precautionary demand for money is a function of the interest rate.
- E. Higher rates of interest lead to a higher demand for liquidity.

Question 36

Which of the following will cause the demand curve for money to shift to the right?

- A. An increase in real GDP.
- B. A decrease in the repo rate.
- C. An increase in the quantity of money available.
- D. A decrease in the quantity of money available.
- E. An increase in the price level.

Question 37

Which of the following would be classed as an expansionary monetary policy?

- A. A decrease in the quantity of money.
- B. A decrease in interest rates.
- C. An increase in government taxation.
- D. An increase in government expenditure.
- E. An increase in VAT.

Question 38

Which one of the following is incorrect?

Money serves as:

- A. a means of payment.
- B. a medium of exchange.
- C. a factor of production.
- D. a unit of account.
- E. a store of value.

Question 39

Which one of the following is the essential function of money?

A. Medium of exchange (or means of payment).

B. Store of value.

C. Factor of production.

D. Unit of account.

E. Source of income.

Question 40

Which one of the following statements is correct?

A. In a monetary economy there always has to be a double coincidence of wants.

B. Money can never lose its usefulness as a unit of account.

C. Money is always the best possible store of value.

D. The stock of money consists largely of notes and coins.

E. Money is not the only possible store of value.

Question 41

Which one of the following statements is incorrect?

A. Money is anything that is generally accepted as payment for goods and services.

B. Money and wealth are essentially the same. That is why we say that a rich person has a lot of money.

C. Money and income are different concepts.

D. Money is not a factor of production.

E. During inflation we always have to avoid confusing nominal and real values.

Question 42

Which one of the following statements is incorrect?

- A. In a barter economy there has to be a double coincidence of wants before exchange can take place.
- B. Money is not the only possible unit of account in a monetary economy.
- C. Money is a good store of value during periods of high inflation.
- D. Money always serves as a medium of exchange.
- E. Modern money is not covered by a commodity such as gold.

Question 43

Which one of the following statements is correct?

- A. 10 per cent of the money stock in South Africa is backed by gold.
- B. 20 per cent of the money stock in South Africa is backed by gold.
- C. 5 per cent of the money stock in South Africa is backed by gold.
- D. 1 per cent of the money stock in South Africa is backed by gold.
- E. The money stock in South Africa is not backed by gold.

Question 44

Which one of the following statements is incorrect?

- A. The M1 money stock consists largely of demand deposits.
- B. The M2 money stock consists largely of notes and coins.
- C. M3 is the most comprehensive measure of money.
- D. M1 includes everything that normally serves as a means of payment.
- E. M3 relates to the store of value function rather than to the means of payment function of money.



Question 45

Which one of the following is not a function of the South African Reserve Bank?

- A. To formulate and implement monetary policy.
- B. To maintain financial stability.
- C. To finance government expenditure.
- D. To provide economic and statistical services.
- E. To act as banker to other banks.

Question 46

Which one of the following statements is incorrect?

- A. The opportunity cost of holding money balances is the interest that could have been earned if the money had been used to purchase interest-bearing assets instead.
- B. Anyone who wishes to enter into transactions in a monetary economy has to hold money as a medium of exchange.
- C. The quantity of money demanded for transaction purposes depends on the level of income.
- D. The demand for money as an asset is also called the speculative demand for money.
- E. The quantity of money demanded for speculative purposes is positively related to the interest rate.

Question 47

Which one of the following statements is incorrect?

- A. As the level of income in the economy increases, the amount of money demanded for transaction purposes also increases.
- B. As the interest rate increases, the amount of money demanded for speculative purposes also increases.
- C. The demand for money for speculative purposes is also called the demand for passive balances.
- D. The demand for active balances is positively related to the level of income in the economy.
- E. The demand for passive balances is related to the store of value function of money.

Question 48

Which one of the following statements is incorrect?

- A. As interest rates increase, bond prices decrease.
- B. As interest rates decrease, bond prices increase.
- C. There is a positive relationship between interest rates and bond prices.
- D. If interest rates are high, the quantity of money demanded will tend to be low.
- E. If interest rates are low, the quantity of money demanded will tend to be high.

Question 49

Which one of the following statements is incorrect?

- A. In South Africa money is created exclusively by the South African Reserve Bank.
- B. The stock of money consists largely of bank deposits and banks create these deposits by making loans.
- C. Money creation by banks is constrained by the demand for bank loans.
- D. The South African Reserve Bank uses changes in interest rates in an attempt to regulate the rate at which new money is created.
- E. The stock (quantity) of money in the economy is essentially determined by the interaction of the interest rate and the demand for money. There is no independent supply of money.

Question 50

Which one of the following statements regarding monetary policy is incorrect?

- A. Monetary policy in South Africa is implemented by the South African Reserve Bank (SARB).
- B. The key decision-making unit is the Monetary Policy Committee of the SARB.
- C. The key instrument of monetary policy is the repurchase rate (repo rate).
- D. The SARB's main objective is to control the growth of the money stock.
- E. The SARB pursues a formal inflation target, set by the Minister of Finance, in conjunction with the SARB.

Question 51

When the inflation rate is expected to exceed the target rate by a significant margin, the SARB will tend to:

- A. reduce the cost of credit to the banks.
- B. increase the repurchase rate (repo rate).
- C. purchase government bonds on the open market.
- D. decrease the repurchase rate (repo rate).
- E. use moral suasion to persuade banks to provide more loans to their clients.

Question 52

Interest rates in South Africa are essentially determined by:

- A. the cost of capital.
- B. the interaction between the demand for money and the supply of money.
- C. the South African Reserve Bank.
- D. the South African government.
- E. the quantity of money in circulation.

Question 53

The repo rate is:

- A. the rate at which the SARB advances loans to the government.
- B. the best interest rate an investor can obtain on a long-term deposit.
- C. the rate at which banks provide loans to their best customers.
- D. the rate at which the SARB provides loans to other banks.
- E. the rate at which the quantity of money demanded is equal to the quantity of money supplied.