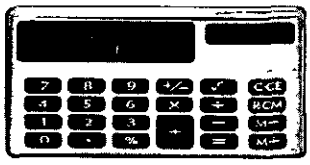
UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA university of south africa

ECS1601 (494261) May/June 2012
REC1601 (469256)

ECONOMICS 1B

Duration 2 Hours 100 Marks

EXAMINERS
FIRST MR WJ LE ROUX
SECOND MR FHB SERFONTEIN

Use of a non-programmable pocket calculator is permissible

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

This partial fill-in paper consists of 14 pages plus instructions for the completion of a mark-reading sheet

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

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

SECTION A

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

SECTION B

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

Please ensure that you use the correct unique number on the mark-reading sheet If you are registered for ECS1601, use the unique number 494261 If you are registered for REC1601, use the unique number 469256

As your mark-reading sheet can get lost, you MUST also write down your answers for this section On the last page of this paper space is provided for this purpose

SECTION A [50 MARKS]

Answer ALL the following questions in the blocks provided

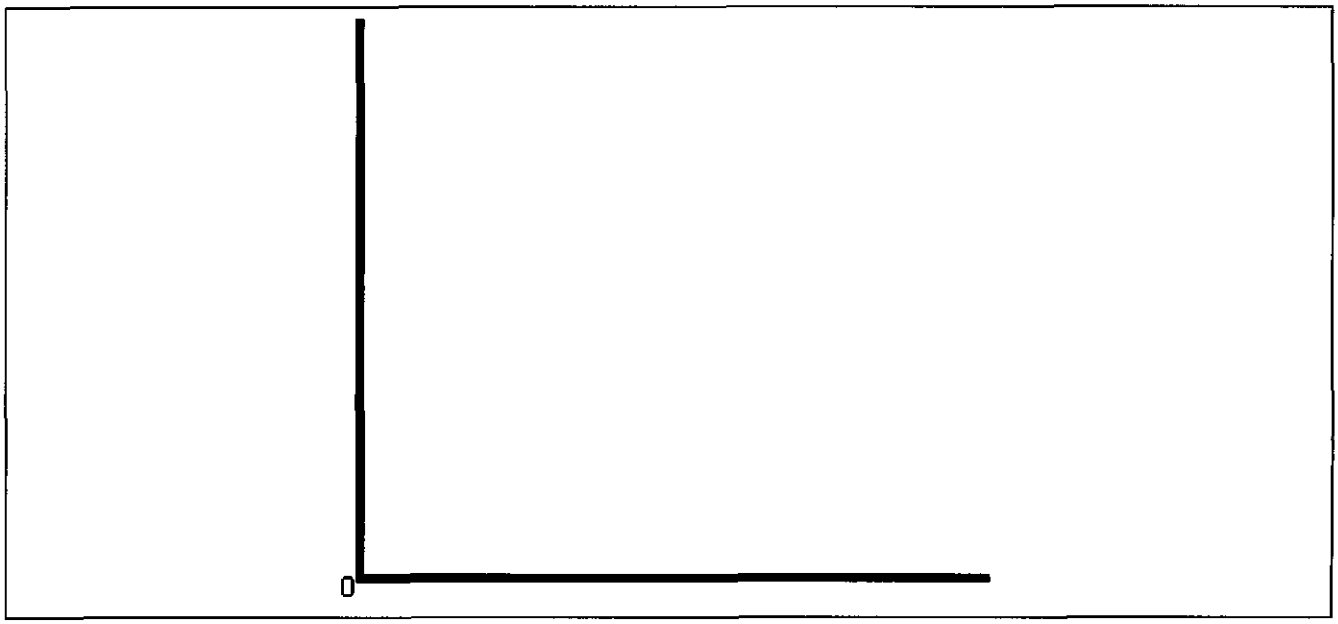
QUESTION 1 **[7]**

(i) Name the three flows associated with the government in the circular flow model. (3)

(ii) Name the four lags associated with the implementation of monetary policy. (4)

QUESTION 2 **[15]**

(i) Illustrate on the following diagram how the imposition of an excise tax affects the equilibrium price and quantity of cigarettes Remember to label your diagram (3)

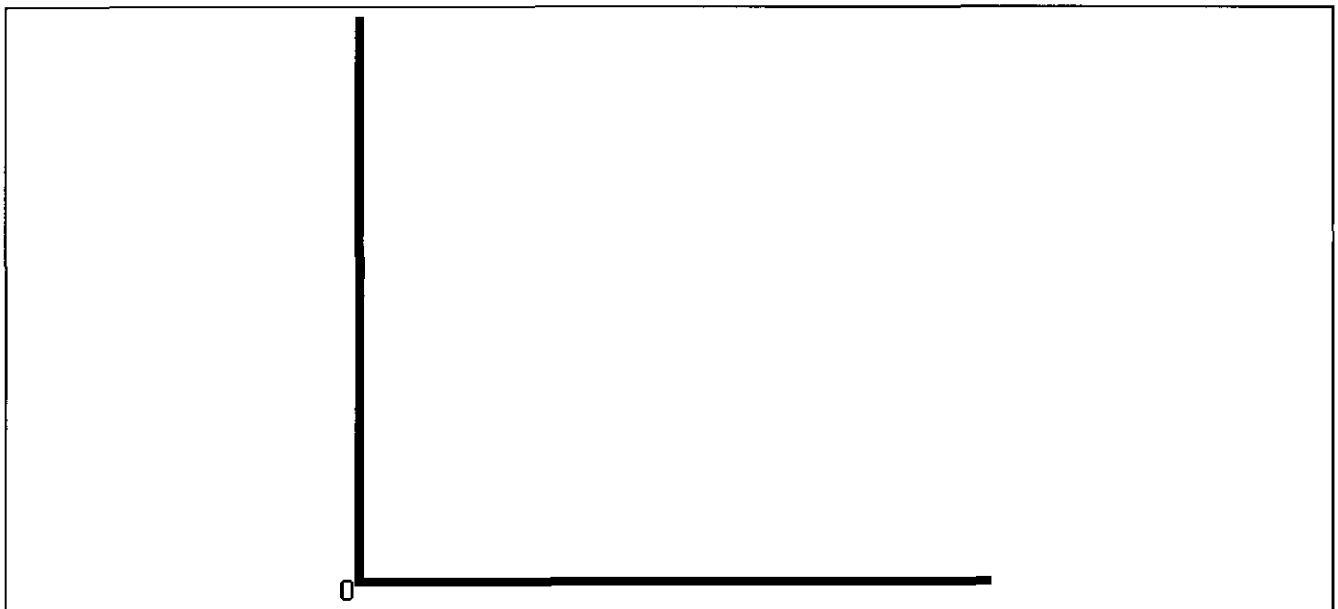


(ii) You are the chief economic advisor for the government of Mahala Mahala is experiencing demand-pull inflation despite the stated objective of the government to achieve price stability

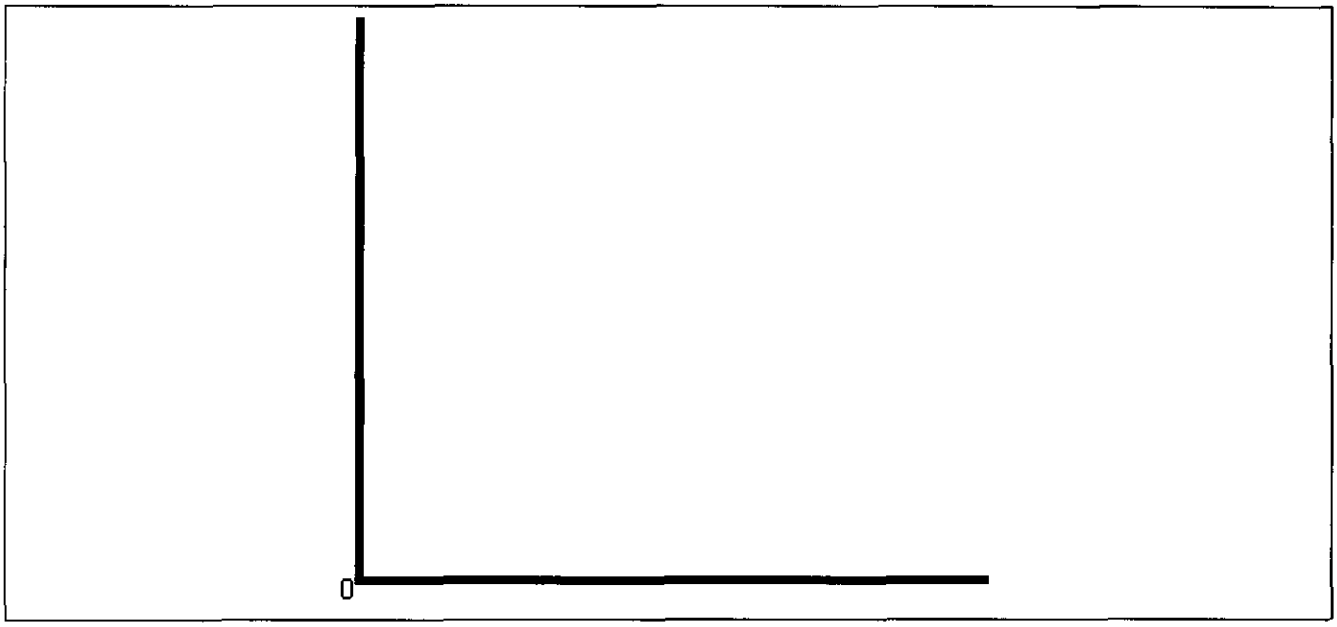
Explain, with the aid of the following diagram, what steps the government of Mahala should take to achieve this objective (9)

- Clearly indicate on the diagram any changes to aggregate demand or aggregate supply, prices and production that might result from the actions taken by the government The diagram counts three (3) marks

- In your explanation you must deal with the following:
  The instruments of fiscal policy, how they are applied and what effects they have
  Your explanation counts six (6) marks



(iii) Given a Keynesian model of an open economy, illustrate on the following diagram the impact of an **increase** in autonomous imports on the equilibrium level of income Remember to label your diagram (3)



QUESTION 3 **[8]**

Given the following information

$C = 400 + 9/10Y_d$
$\bar{I} = 500$
$\bar{G} = 1\ 280$
$t = 1/3$
$\bar{X} = 900$
$Z = 600 + 1/10Y$
Full-employment level of income = 5510

Calculate (Show all your calculations)

(i) the marginal propensity to save (2)

(ii) the multiplier. (2)

(iii) the equilibrium level of income (2)

(iv) the increase in exports required to move the economy to the full employment level of income (2)

QUESTION 4 **[20]**

(i) Explain the difference between nominal GDP and real GDP (2)

(ii) Discuss how an **increase** in the dollar price of gold will affect the value of the rand on the South African foreign exchange market (4)

(iii) What are the determinants of induced consumption in the Keynesian model of an open economy with a government sector? (4)

(iv) Briefly explain why a decrease in the interest rate would lead to an increase in the income level in the AD-AS model. Comment on the factors which have an influence on the size of the increase in income (5)

(v) Briefly discuss the policy dilemma in an open economy (5)

**** * ****

SECTION B [50 MARKS]

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

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

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

2 The positive balance on your cheque account is

[1] an asset for you and a liability for your bank.
[2] a liability for you and an asset for your bank.
[3] an asset for both you and your bank
[4] a liability for both you and your bank

3 The quantity of money available will increase when

[1] a person deposits his or her money with a bank
[2] banks keep their reserves with the Reserve Bank.
[3] banks make loans that result in additional deposits
[4] the government keeps its funds with the Reserve Bank

4 If the required reserve ratio is increased, the money multiplier

[1] decreases
[2] remains the same, as long as banks hold no excess reserves.
[3] could either increase or decrease
[4] increases.

5 An rightward shift in the demand for money curve will lead to

[1] a lower interest rate and the same quantity of money
[2] a higher interest rate and the same quantity of money.
[3] a higher quantity of money but lower interest rates
[4] a higher quantity of money but the same interest rate

6 An appropriate measure of government's involvement in economic activity is

[1] the volume of government subsidies
[2] the total government spending.
[3] the share of government spending in total spending in the economy
[4] the growth of government spending

7 _____ takes a smaller proportion of income from the high-income groups than from the low-income groups?

[1] Company tax
[2] Value-added tax
[3] Personal income tax
[4] Capital gains tax

8 If the supply curve of coffee has its normal shape and the price elasticity of the demand for coffee is relatively elastic, then a specific tax of R1 placed on each kilogram of coffee will be borne

[1] entirely by consumers.
[2] entirely by producers
[3] more by consumers than by producers
[4] more by producers than by consumers

9 According to Adam Smith, international trade mainly arises because of

[1] differences in foreign currencies.
[2] differences in factor endowment
[3] trade barriers.
[4] trade agreements.

10 Consider the following production possibilities for Countries A and B.

Country A		Country B	
Warships	Houses	Warships	Houses
80	80	40	60

[1] Country A should produce both warships and houses
[2] There is no basis for trade between these two countries
[3] Country A should produce houses and Country B should produce warships.
[4] Country A should produce warships and Country B should produce houses.

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

[1] and GDP in the domestic economy will increase
[2] and GDP in the domestic economy will decrease
[3] will increase and GDP in the domestic economy will decrease.
[4] will decrease and GDP in the domestic economy will increase

12 If the SARB reduces the interest rates relative to the rates in the USA, it will result in

[1] more capital inflows into South Africa, increasing the supply of dollar leading to a depreciation of the rand.
[2] more capital inflows into South Africa, increasing the demand for dollar leading to an appreciation of the rand
[3] more capital outflows from South Africa, decreasing the supply of dollar leading to a depreciation of the rand
[4] more capital outflows from South Africa, increasing the demand for dollar leading to a depreciation of the rand.

13 Under a system of floating exchange rates

[1] the currencies of countries with a relatively high inflation rate tend to appreciate
[2] the currencies of countries with a relatively high inflation rate tend to depreciate
[3] the currencies of countries with a relatively low inflation rate tend to depreciate
[4] exchange rates are insensitive to differences in the rate of inflation between countries.

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

[1] investment spending, government spending and imports
[2] exports, taxes and savings.
[3] exports, investment and government spending
[4] savings, imports and consumption

15 The objective of price stability means

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

16 The three ways of calculating GDP are

[1] production, price and income methods
[2] income, product and services methods
[3] expenditure, spending and production methods
[4] income, expenditure and production methods.

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

[1] imports
[2] capital flight.
[3] income earned by foreigners
[4] depreciation

18 In macroeconomic theory

[1] total spending during any particular period is always equal to total production
[2] total spending may be equal to, greater than or less than total income
[3] equality between total spending and total income is guaranteed.

19. In an economic model, an endogenous variable is

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

20 Gabriel's disposable income increases from R2 000 to R2 500. As a result his saving increases from R300 to R450. This implies that his marginal propensity to consume is

[1] 0,3
[2] 0,7
[3] 0,76
[4] 0,82

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

[1] The marginal propensity to consume in South Africa will decrease.
[2] The marginal propensity to consume in South Africa will increase.
[3] Autonomous consumption in South Africa will increase
[4] Autonomous consumption in South Africa will decrease

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

[1] stay the same; stay the same, stay the same
[2] increase, stay the same; stay the same
[3] increase; increase; stay the same
[4] increase; increase; increase

23 The marginal propensity to import

[1] increases as income increases
[2] decreases as income increases
[3] remains constant as income increases

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

[1] the marginal propensity to save is 1/3
[2] the induced component is 300
[3] imports are seen as autonomous.
[4] 2/3 is the proportion of any increase in income that is spent on imports

Use the following information to answer questions 25 and 26

$C = 100 + 0{,}8Y_d$
$\bar{I} = 250$
$\bar{G} = 170$
$\bar{X} - Z = 540 - 0{,}25Y$
$T = 0{,}1Y$
Equilibrium level of income = 2000

25 The budget surplus at the equilibrium level of income is

[1] 30
[2] 70
[3] 400
[4] There is not enough information to calculate the value of the budget surplus

26 Net exports at the equilibrium level of income is

[1] 20
[2] 40
[3] -100
[4] There is not enough information to calculate the value of net exports

27 An increase in leakages from the Keynesian model with a government leads to _____ in the multiplier

[1] a decrease
[2] no change
[3] an increase

28 Investment demand is negatively related to the real interest rate because

[1] a lower real interest rates makes more investment projects profitable
[2] consumers are willing to spend less and hence save more at higher real interest rates.
[3] interest rate flexibility in financial markets assures an equilibrium in which saving equals investment

29 The investment demand curve shifts rightward if

[1] the expected profit rate increases
[2] the real interest rate falls.
[3] savings increase
[4] the economy moves into a recession.

30 If autonomous expenditure changes, the multiplier determines the size of

[1] the shift of the aggregate supply curve.
[2] the shift of the production possibilities curve
[3] the shift of the aggregate demand curve.
[4] the movement along the aggregate demand curve.

31 A simultaneous decrease in aggregate supply and aggregate demand will always

[1] increase the production level.
[2] reduce the production level
[3] increase the price level
[4] leave the price level unchanged

32 A country experiences an increase in the price level and a decrease in real GDP. Such an outcome might have occurred because aggregate supply _____ and aggregate demand _____

[1]	increased	increased
[2]	decreased	did not change
[3]	increased	did not change
[4]	did not change	increased

33. Demand management policy measures tend to affect

[1] output and the level of employment in opposite directions
[2] output and the price level in opposite directions
[3] the level of employment and the price level in opposite directions
[4] the price level and the level of unemployment in opposite directions

34 An increase in deficit spending by the government that is financed by domestic borrowing would most likely

[1] increase aggregate demand, but at the expense of lower investment spending
[2] decrease aggregate demand, but stimulate investment spending.
[3] increase aggregate demand, and stimulate investment spending
[4] decrease aggregate demand, as well as investment spending

35 Suppose the SARB increase the interest rate while oil prices are rising. What would be the expected effect on the equilibrium level of real GDP and the price level?

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

36 A decrease in the rate of inflation

[1] causes the nominal interest rate to increase
[2] causes the real interest rate to decrease
[3] causes the real interest rate to increase.
[4] has no effect on either the real or nominal interest rate.

37 If the consumer price index (CPI) increases from 100 to 200 and the nominal wage increases from R100 to R400, the change in the real wage is

[1] R100
[2] R200
[3] -R200
[4] R300

Use the information below for country Z and answer question 38 All the figures are in millions

Total population in 2001	1 800
Total labour force in 2000	550
Total labour force in 2001	675
Number of people unemployed in 2001	225

38. The unemployment rate in 2001 is approximately

[1] 12,5%
[2] 22,7%
[3] 33,3%
[4] 40,9%

39 Available data indicate that the level of real GDP will continue to decrease over the next few months. This suggests that the amount of _____ unemployment will be _____.

[1] structural, decreasing
[2] frictional; increasing
[3] cyclical, increasing
[4] seasonal, increasing

40 According to Say's law _____ unemployment does not exist

[1] structural
[2] cyclical
[3] seasonal
[4] frictional

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

1	21
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19	39
20	40

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EXAMINATION MARK READING SHEET EKSAMEN-MERKLEESBLAD

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT e g PSY100-X
STUDIE-EENHEID bv PSY100-X

1

PAPER NUMBER
VRAESTELNOMMER

2

INITIALS AND SURNAME
VOORLETTERS EN VAN

3

DATE OF EXAMINATION
DATUM VAN EKSAMEN

4

EXAMINATION CENTRE (E G PRETORIA)
EKSAMENSENTRUM (BV PRETORIA)

5

STUDENT NUMBER
STUDENTENOMMER

6

7

UNIQUE PAPER NO
UNIEKE VRAESTEL NR

8

9

For use by examination invigilator

Vir gebruik deur eksamenopsiener

IMPORTANT

1 USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
2 MARK LIKE THIS ●
3 CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
4 ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
5 CHECK THAT YOUR STUDENT NUMBER HAS BEEN FILLED IN CORRECTLY
6 CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
7 CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
8 DO NOT FOLD

BELANGRIK

1 GEBRUIK SLEGS N HB-POTLOOD OM HIERDIE BLAD TE VOLTOOI
2 MERK AS VOLG ●
3 KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS
4 VUL U STUDENTENOMMER VAN LINKS NA REGS IN
5 KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
6 KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
7 MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
8 MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

10

1	36	71	106
2	37	72	107
3	38	73	108
4	39	74	109
5	40	75	110
6	41	76	111
7	42	77	112
8	43	78	113
9	44	79	114
10	45	80	115
11	46	81	116
12	47	82	117
13	48	83	118
14	49	84	119
15	50	85	120
16	51	86	121
17	52	87	122
18	53	88	123
19	54	89	124
20	55	90	125
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26	61	96	131
27	62	97	132
28	63	98	133
29	64	99	134
30	65	100	135
31	66	101	136
32	67	102	137
33	68	103	138
34	69	104	139
35	70	105	140

Each row: c1 c2 c3 c4 c5

Specimen only