UNISA Exam Memo October/November 2011 ECS1601

SECTION A (50 MARKS)

QUESTION 1 (7 MARKS)

(i) (4marks)
- the total value of all final goods and services produced within the boundaries of a country in a particular year
- Most important barometer of the performance of the economy.
- Real GDP takes into account inflation, i.e. adjusted for changes in the price level.
- Nominal GDP is not adjusted for inflation
- Nominal GDP and GDP at current prices are synonyms.

(ii) (3 marks)
- Inflation is defined as a continuous and considerable rise in prices in general.
- Divided into cost-push inflation and demand-pull inflation
- Cost-push inflation is triggered by increases in the cost of production. Increases in production costs push up the price level.
- Demand-pull inflation occurs when the aggregate demand for goods and services increases while the aggregate supply remains unchanged.
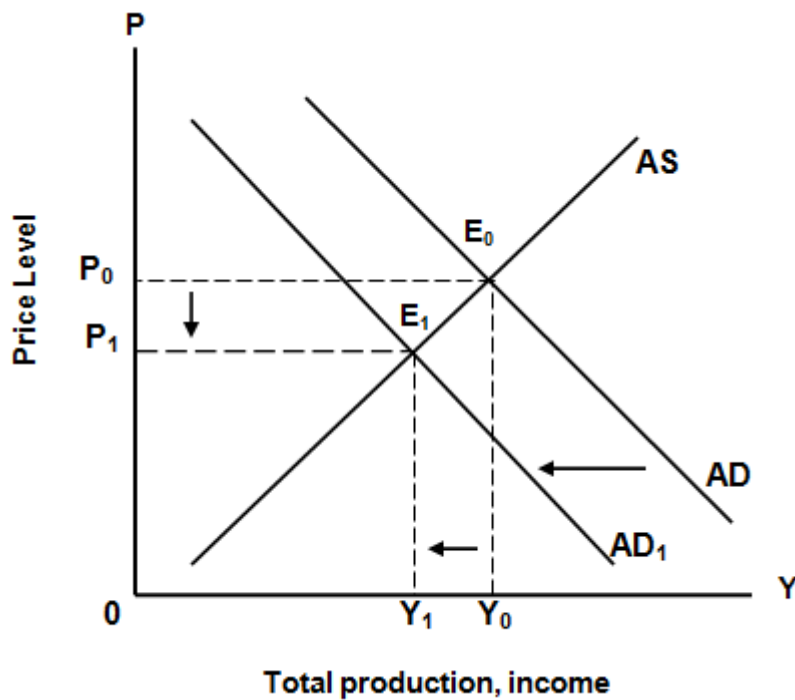
QUESTION 2 (15 MARKS)
(i) (3 marks)
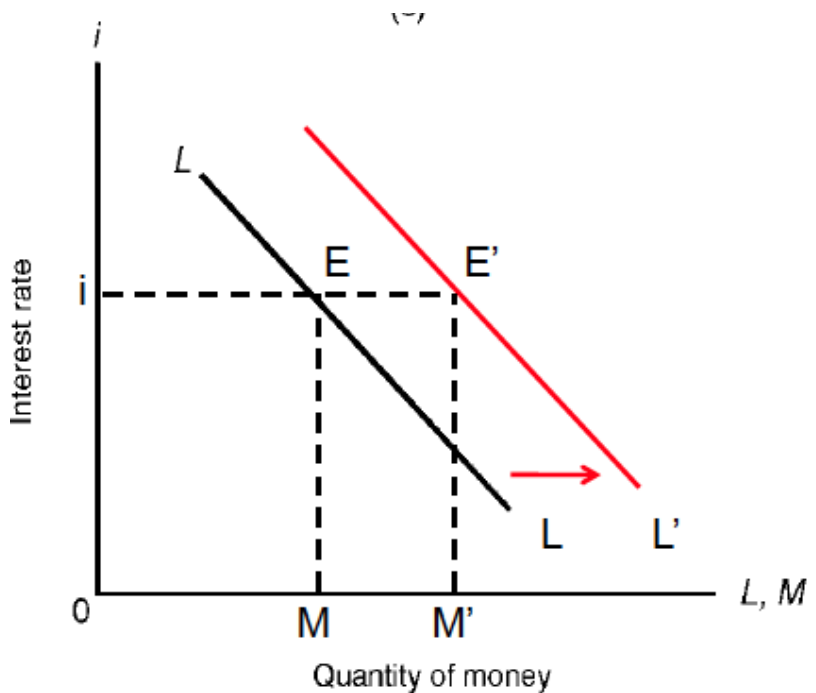
(ii)   (3 marks)
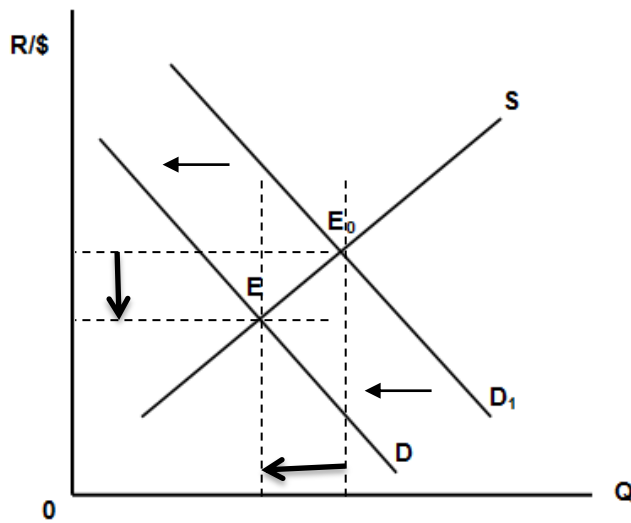
D for $ will (- shift to the left; $ depreciates; ZAR appreciates)

(iii)   (9 marks)

Total production, income

- Implement contractionary fiscal policy; (G and/or (T; Ad will decrease – shift to the left; P(and Y(; lower inflation at the cost of production / Y / employment.

QUESTION 3 (11 MARKS)

(i)   the multiplier (2 marks)

$$\alpha = \frac{1}{1-c(1-t)+m} = \frac{1}{1-0,8(1-0,2)+0,1} = \frac{1}{1-0,8(0,8)+0,1} = \frac{1}{0,46} = 2, 17$$

(ii)   the equilibrium level of income (2 marks)

$\bar{A} = \check{C} + \bar{I} + \bar{G} + (\dot{X} - \hat{Z})$

= 400 + 300 + 450 + 600 − 200

= **1550**

Ye = α x Ā

= 2, 17 x 1550 = 3363, 5 ≈ **3364**

(iii)   the value of the induced imports at equilibrium level of income (2 marks)
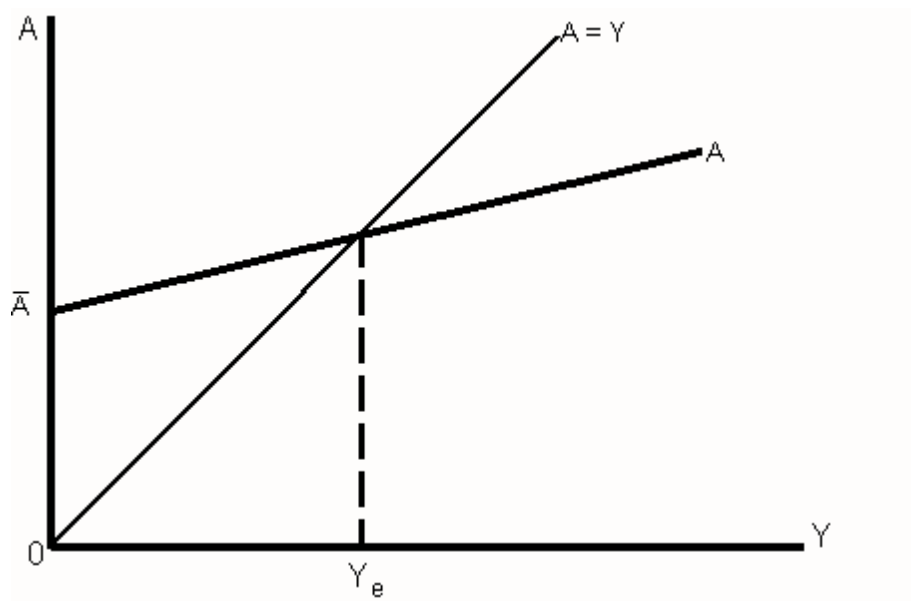
mY = 0,1 x 3363, 5 = 336, 35 ≈ **336,4**

(iv)   the value of net exports at the equilibrium level of income (2 marks)

NX = X − Z

= 600 − (200 + 0,1Y)

=600 -200 -336, 4 = **63,6**

(v)   (3 marks)

Ā =1550

Ye =3364

QUESTION 4 (17 MARKS)

(i)   (3 marks)
- Foreign investment and
- income from X (exports) will increase demand for the Lilangeni (appreciates)

(ii)   (4 marks)
- Active balances = transactions & precautionary motives.
- The demand for active balances adds together the transaction demand and the precautionary demand for money. Determined by level of income.

- Passive balance = speculative motive
- The demand for passive balances refers to the speculative demand for money. Determined by interest rate.

(iii)   (5 marks)

- Increase repo rate = contractionary monetary
- Leads leftward shift of the AD curve
- Decrease the general price level. The price level decreases to P_1
- The new equilibrium is indicated by E_1.
- The level of output and income decreases to Y_1.

Total production, income
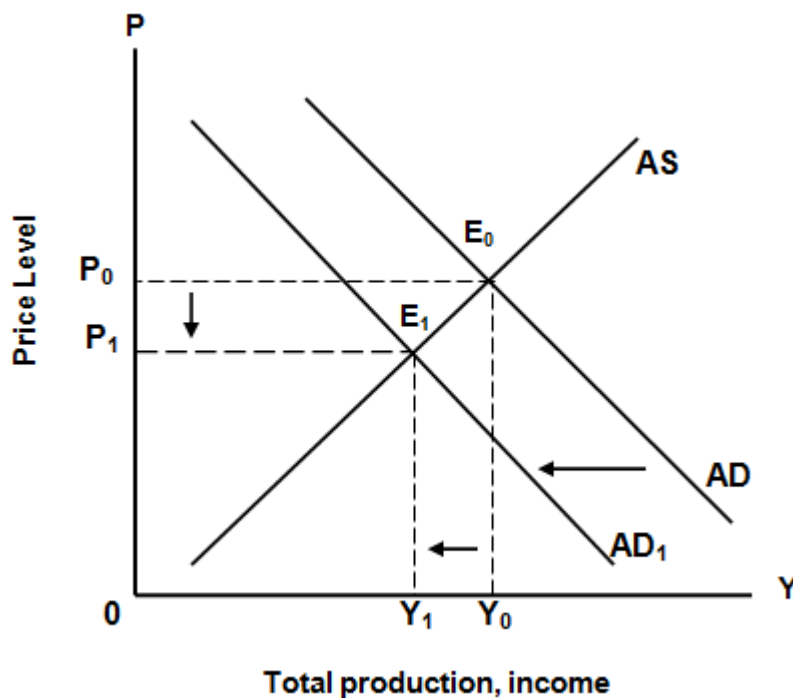
(iv)   (5 marks)

- Stagflation is a situation where inflation and unemployment increase at the same time.
- Stagflation (or cost-push inflation) cannot be remedied by policies that affect aggregate demand in the economy.
- If expansionary monetary and fiscal policies are used to stimulate aggregate demand, unemployment can be lowered but inflation will increase further.
- Similarly, if contractionary monetary and fiscal policies are used to dampen aggregate demand and reduce inflation, unemployment will increase further.
- Demand management policies can be used to counteract the effects of a supply shock on production, income and employment but only at the cost of even higher inflation.
- Expansionary fiscal or monetary policies increase aggregate demand and therefore production, income and employment – but at the same time price levels increase even further.

SECTION B (50 MARKS)

1. 4	21. 3
2. 4	22. 1
3. 2	23. 2
4. 3	24. 4
5. 1	25. 4
6. 2	26. 3
7. 3	27. 4
8. 3	28. 1
9. 1	29. 3
10.2	30. 1
11.2	31. 4
12.2	32. 4
13.3	33. 3
14.3	34. 1
15.3	35. 4
16.4	36. 4
17.4	37. 1
18.4	38. 3
19.3	39. 2
20.1	40. 4