



ECS1601

(492161)

May/June 2016

ECONOMICS IB

Duration : 2 Hours

100 Marks

EXAMINERS :
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Use of a non-programmable pocket calculator is permissible.

Closed book examination.

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This paper consists of 22 pages including two (2) pages for rough work (pp 21 to 22) plus the special front page.

STUDENT NUMBER									

Read all instructions CAREFULLY before answering the questions:

This paper consists of two (2) **compulsory** sections: A and B.

Section A consists of four (4) questions. You have to answer all the questions in section A in the space provided. The questions and space provided for answering section A start on page 2.

Section B consists of **30** 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 20 (in case your mark-reading sheet gets lost). The instructions for completing section B are on page 12 and the questions for section B starts on page 13.

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.

(2)

(1b) Distinguish between the three broad functions of government.

(3)

(1c) Define the South African balance of payments. (2)

(1d) Differentiate between nominal and real prices. (2)

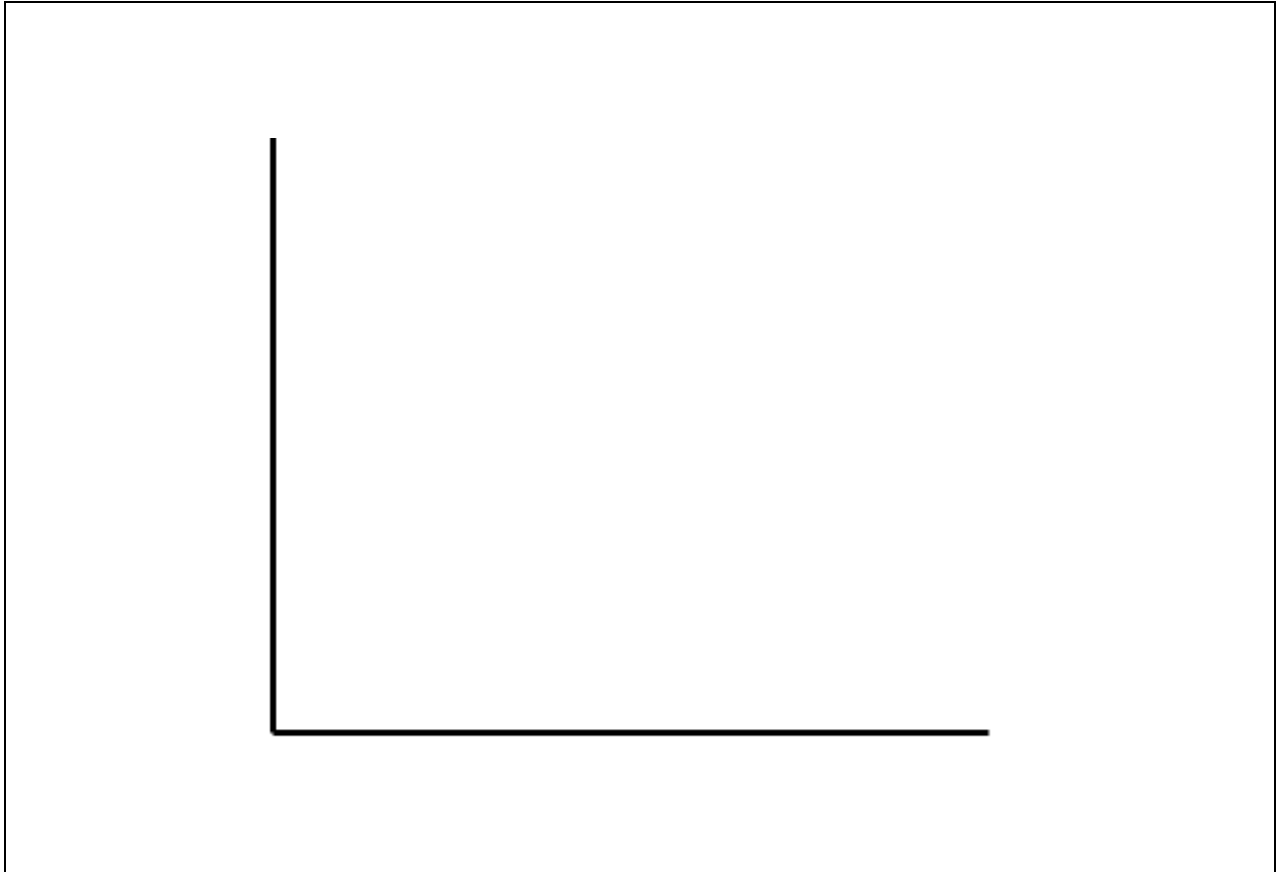
(1e) List four problems associated with GDP as a measure of total production in the economy. (4)

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.

(3)



Explanation:

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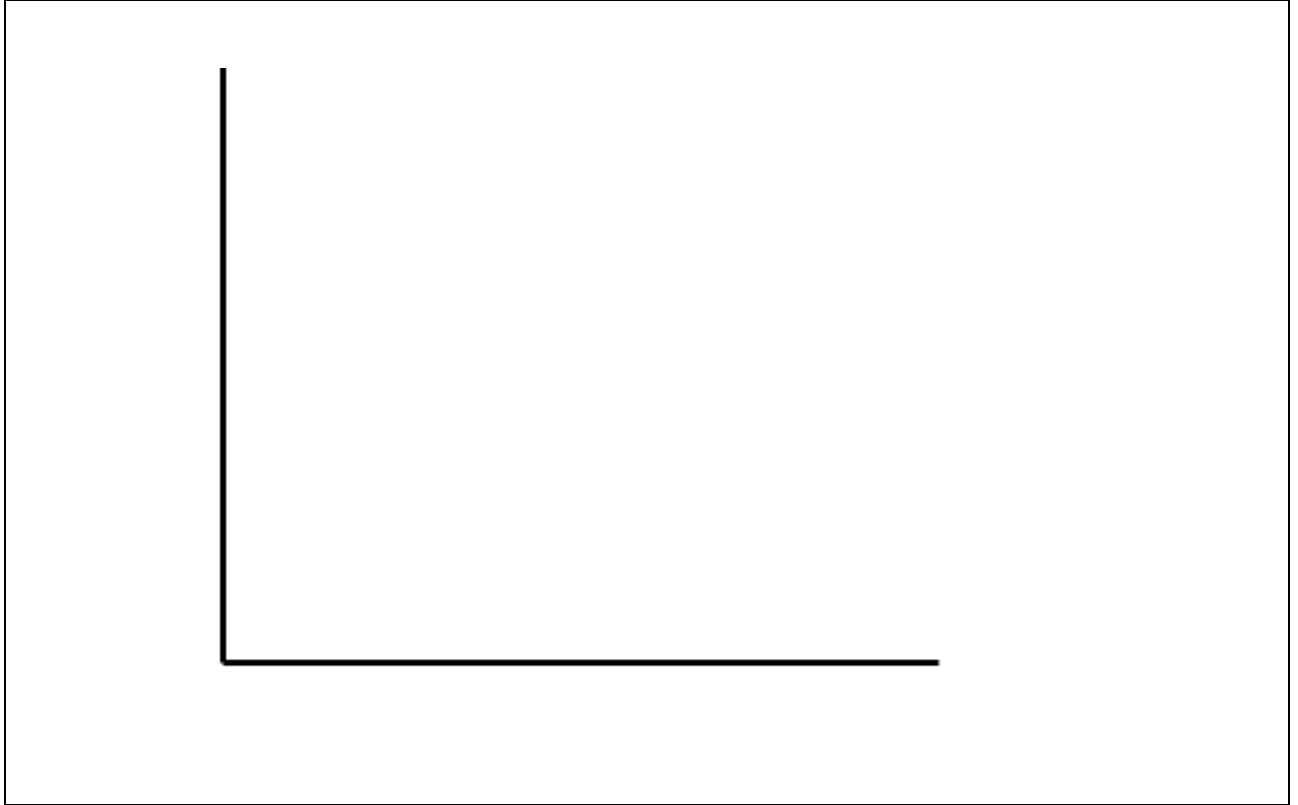
(2b) Due to a change in trade policy, there has been a substantial decrease in the amount of steel produced in South Africa and an increase in the amount of steel imported into South Africa. This has led to a substantial increase in total imports. Explain how this will affect the economy by making use of the Keynesian model. Also mention how this will affect employment in South Africa. (4)



Explanation:

(2c) Use the AD-AS model to explain the effect of an increase in the interest rate level in the economy.

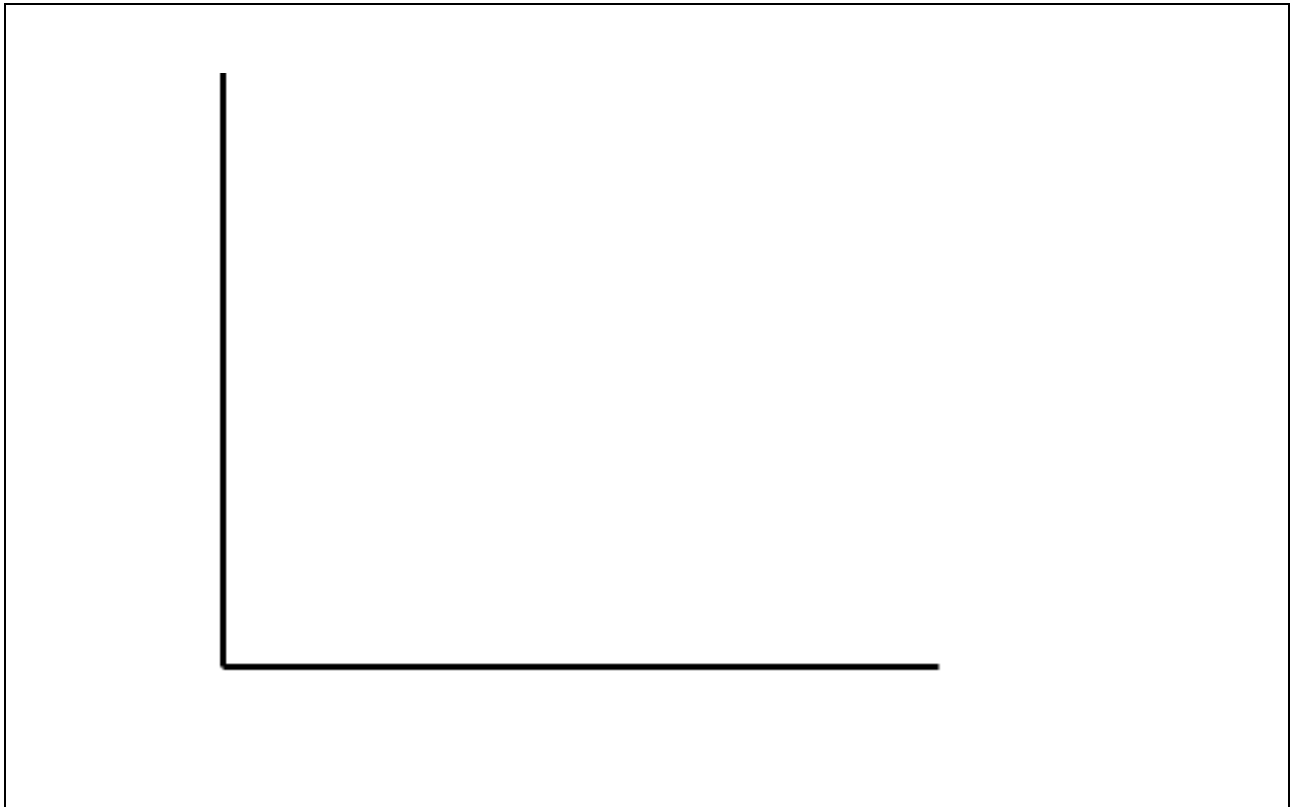
(4)



Explanation:

[TURN OVER]

- (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. (5)



Explanation:

[TURN OVER]

Question 3**(10)**

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

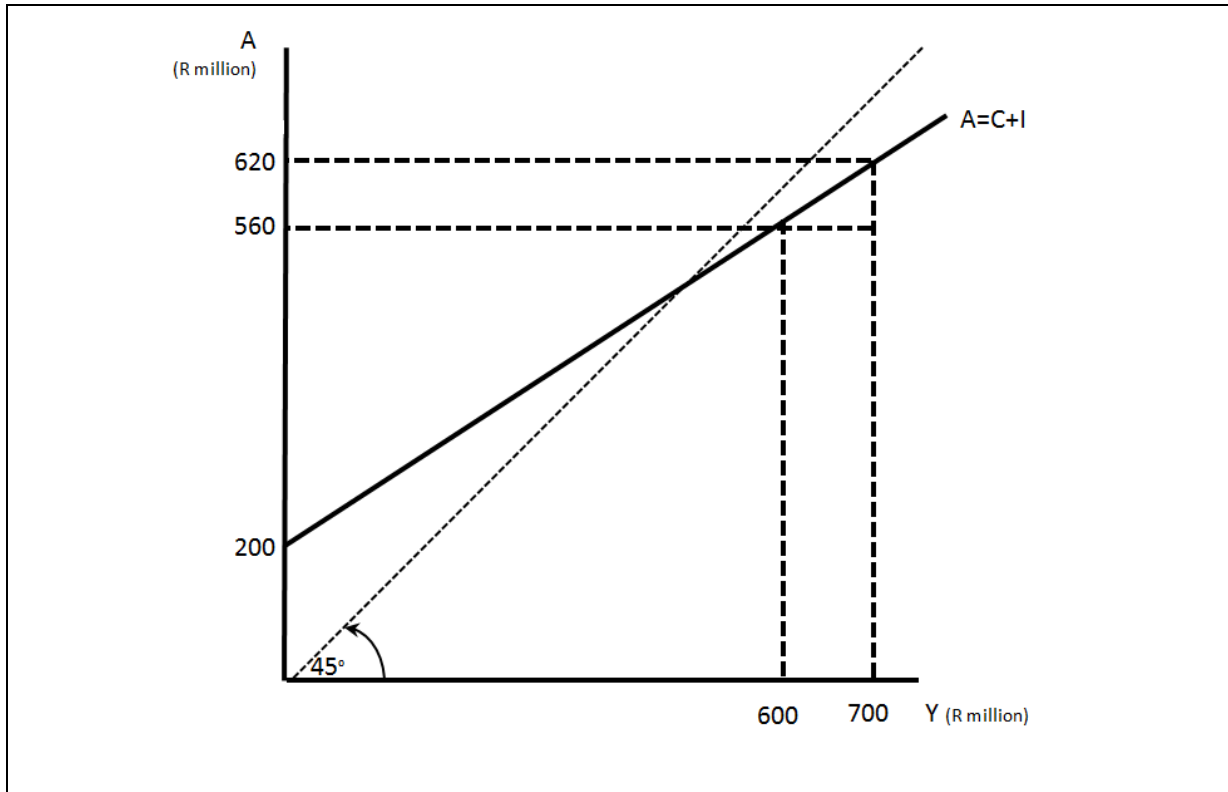
	April to June 2015 (thousands)
Population aged 15 to 64 years	35 955
<u>Labour force</u>	20 887
<i>Employed</i>	15 657
Formal sector (including agriculture and private households)	12 996
Informal sector	2 661
<i>Unemployed</i>	5 230
<u>Not economically active</u>	15 068
Discouraged work-seekers	2 434
Other (not economically active)	12 633

- (i) Calculate the unemployment rate according to the strict definition of unemployment. (2)

- (ii) Calculate the unemployment rate according to the expanded definition of unemployment. (2)

[TURN OVER]

- (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. (2)

- (ii) Calculate the multiplier. (2)

- (iii) Calculate the new equilibrium income level if investment increases by R100 million. (2)

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. (4)

[TURN OVER]

SECTION B**INSTRUCTIONS**

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

- (i) Suppose a question reads as follows:

An increase in the level of production ...

1. decreases the level of income in the economy.
2. has no impact on the level of income in the economy.
3. causes firms to employ less factors of production.
4. increases the level of income in the economy.

The correct answer is 4. You must therefore mark 4 on your mark-reading sheet.

- (ii) Only one of the alternatives per question – listed as 1, 2, and so on – is correct. You must therefore not mark more than one alternative per question.
- (iii) For a correct answer, you receive **1²/₃ marks**. No marks are deducted for incorrect answers.
- (iv) Section B consists of **30 questions** and thus counts **50 marks** out of the total of 100.

Your mark reading sheet may get lost. You MUST therefore also write your answers to this section in the table provided on page 20 of your examination answer book.

[TURN OVER]

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?

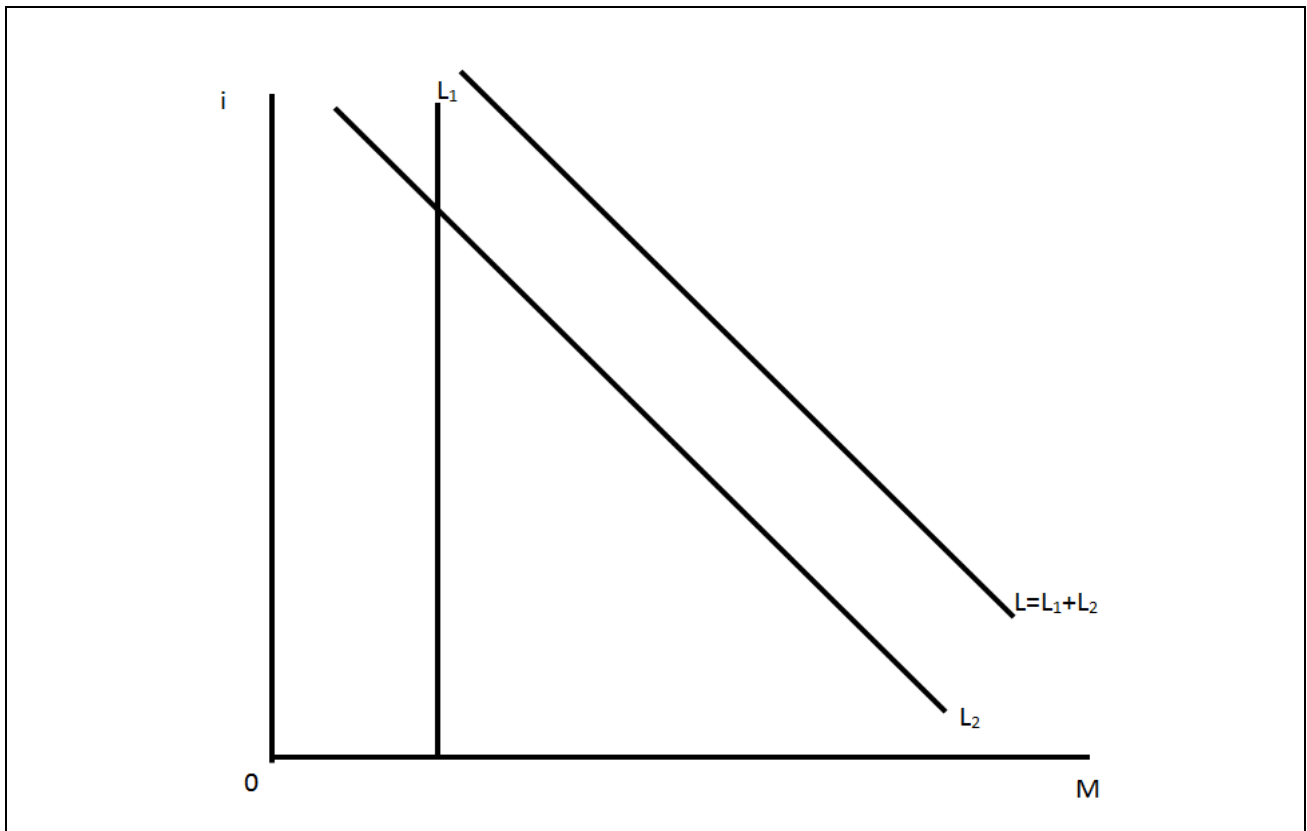
- [1] Investment represents a flow of funds to the financial sector.
- [2] Investment represents a withdrawal from the circular flow of income and spending.
- [3] If the income received by households exceeds the total amounts of taxes paid and consumption by households, savings by households will be 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

[TURN OVER]

Question B5 is based on the following diagram of the demand for money:



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

When the interest rate level decreases ...

- (a) L_1 will shift to the right.
- (b) L_2 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.

[TURN OVER]

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.

Question B9 is based on the information in the following table:

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	R 1 000	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

[TURN OVER]

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.

[TURN OVER]

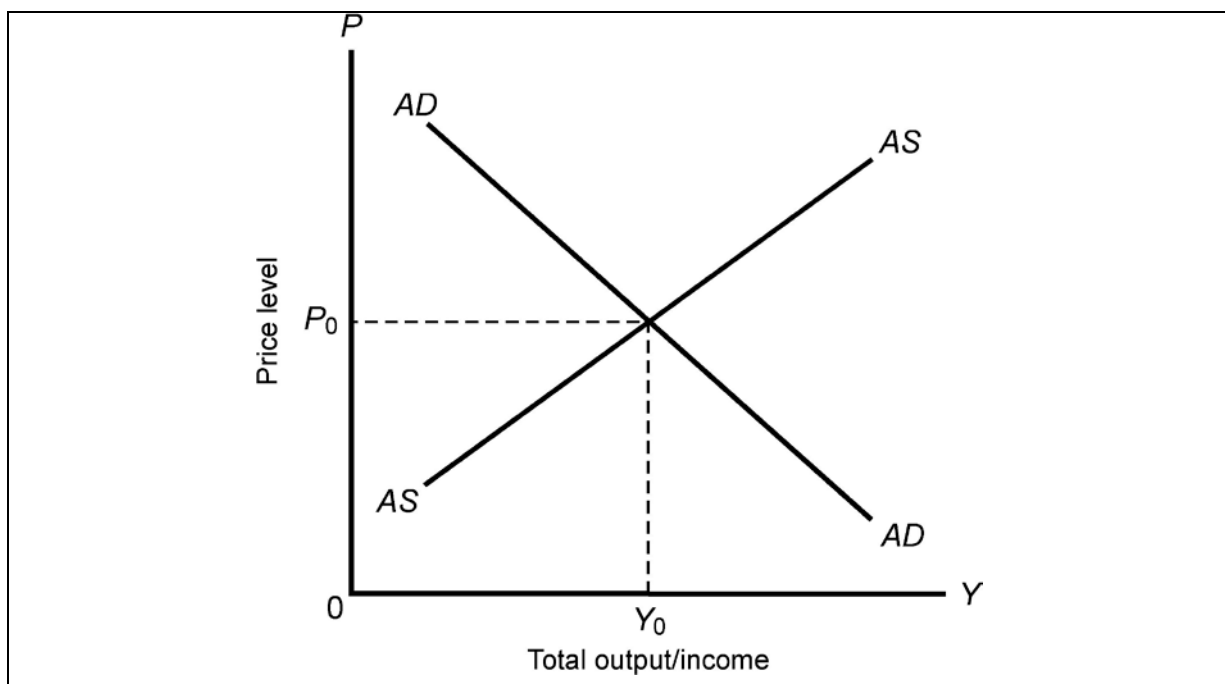
B16. In the Keynesian model, government expenditure ...

- [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.

Question B18 is based on the following diagram:



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.

[TURN OVER]

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.

[TURN OVER]

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.

[TURN OVER]

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

Your mark-reading sheet may get lost and therefore you should please also write down your answers for section B in the space provided below.

B1	B11	B21
B2	B12	B22
B3	B13	B23
B4	B14	B24
B5	B15	B25
B6	B16	B26
B7	B17	B27
B8	B18	B28
B9	B19	B29
B10	B20	B30

[TURN OVER]

