

UNISA Exam Memo October/November 2012 ECS1601

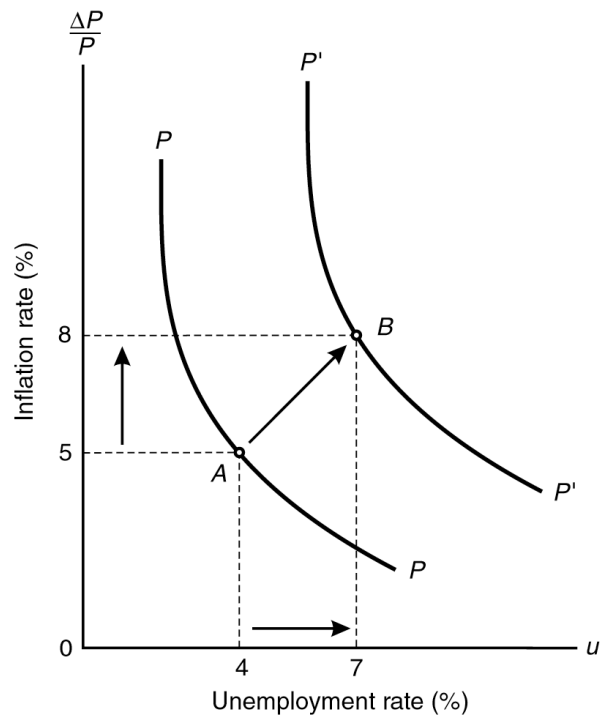
SECTION A (50 MARKS)

QUESTION 1 (8 MARKS)

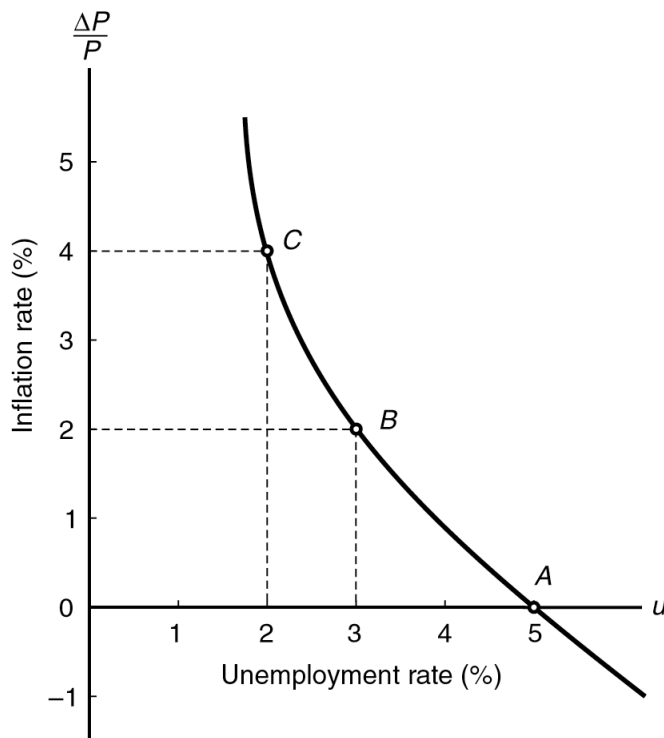
- (i) (4 marks)
- durability,
 - divisibility,
 - portability
 - Uniformity
- (ii) (4 marks) (any 4)
- Balance of payments
 - Dumping
 - Export subsidies
 - Infant industries
 - Employment
 - Government revenue
 - National security

QUESTION 2 (12 MARKS)

- (i) (2 marks)

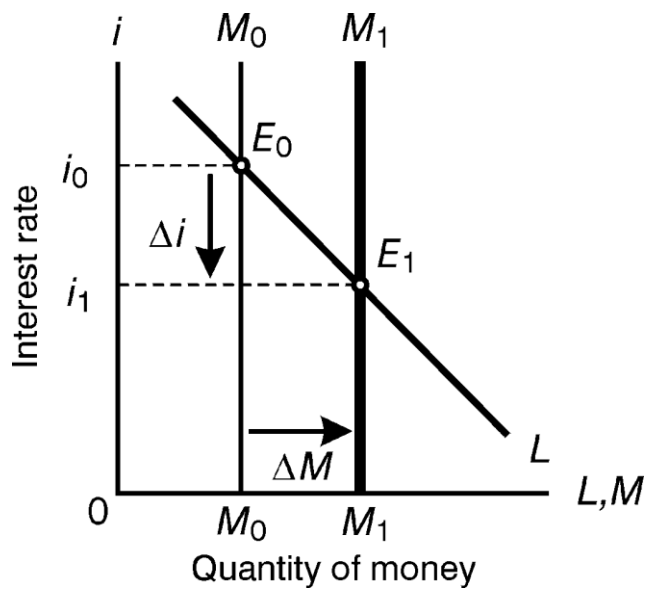


(ii) (3 marks)



- Monetary policy and/ or fiscal policy can be used to reduce stagflation. (1 mark)

(iii) (6 marks)



- Monetary transmission mechanism – the way in which changes in the monetary sector are transmitted to the rest of the economy.

QUESTION 3 (10 MARKS)

(i) (6 marks)

- The multiplier (2 marks)

$$Y_0 = \alpha \bar{A}$$

$$\text{therefore } \alpha = \frac{Y_0}{\bar{A}} = \frac{8\,000}{3\,200} = \mathbf{2,5}$$

or

$$c = \text{slope of A curve} = \frac{\Delta A}{\Delta Y} = \frac{8000 - 3200}{8000 - 0} = \frac{4800}{8000} = \frac{3}{5} = 0,6$$

and multiplier:

$$\alpha = \frac{1}{1-c} = \frac{1}{1-0,6} = \frac{1}{0,4} = \mathbf{2,5}$$

- Give the equation of the total expenditure line A. (2 marks)

$$A = \bar{A} + cY$$

or

$$A = C + \bar{I}$$

$$= \check{C} + cY + \bar{I}$$

- Calculate the value of the full employment level of income. (2 marks)

The increase of 400 in \bar{A} will increase the income level with:

$$\Delta \bar{A} = \frac{\Delta Y}{\alpha}$$

$$\Delta Y = \alpha \Delta \bar{A}$$

$$= 2,5 \times 400 \\ = 1000$$

Full employment level of income = 8 000 + 1 000 = **9 000**.

(ii) (4 marks)

- the equilibrium level of income. (2 marks)

$$Y_o = \alpha \bar{A}$$

$$\begin{aligned} &= 2 \times (300 + 200 + 350 + 250 - 100) \\ &= 2 \times 1\,000 \\ &= 2\,000 \end{aligned}$$

- total spending if the economy is at equilibrium. (2 marks)

At equilibrium, total spending equals total income, $A = Y$. The equilibrium level of income is 2000 (see above), and therefore, total spending is also 2 000.

QUESTION 4 (20 MARKS)

(i) (2 marks)

- Nationalisation means that the government takes over the ownership or management of a private enterprise.
- Nationalisation can also be described as the transfer of ownership from private enterprise to government.
- Privatisation is the opposite of nationalisation and refers to the transfer of ownership of assets from the public sector to the private sector.

(ii) (3 marks)

- A depreciation (weakening) of the rand against the US dollar will lead to a decrease in the price of South African products sold in the USA.
- A depreciation of the rand against the US dollar will reduce the competitiveness of American goods and services in South Africa.
- If the rand appreciates against other currencies, South African exports will become more competitive.
- A depreciation of the rand against other currencies will raise the prices of imported capital goods.
- Because of the weakening of the rand against the dollar (or the strengthening of the dollar against the rand) a person in the USA (or who holds dollars), now have to use less dollar to buy a South African produced item.

(iii) (8 marks)

- Fiscal policy is the government's policy in respect of the level and composition of government spending, taxation and borrowing.
- If the government wishes to **increase** the equilibrium level of income, it can **increase** government spending (G) and/or **decrease** taxes (t).
- The **increase** in government spending (G) 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 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.

(iv) (2 marks)

The smaller the **interest elasticity of investment demand**, and also **the steeper the AS curve**, the less effective an expansionary monetary policy will be as a means of stimulating the economy.

(v) (3 marks)

- During inflation, government realises increased revenue from taxation known as fiscal dividend.
- When there is inflation taxpayers **nominal** incomes (eg: wages and salaries) rise even when their real incomes remain unchanged. Therefore if the income tax schedule remains unchanged, inflation raised the average rates of personal income tax. – **Bracket creep**: results in redistribution of income from taxpayers to the government
- The fact that taxpayers are taxed on their nominal incomes, irrespective of what happens to their real incomes, could give rise to bracket creep (as in South Africa).

(vi) (2 marks)

- Cyclical unemployment occurs when a slump or recession in the economy – as a result of a temporary lack of demand – gives rise to unemployment.
- seasonally unemployment – only employed during a specific season (life guard that works during summer)

SECTION B (50 MARKS)

1.2	21.1
2.2	22.2
3.2	23.3
4.4	24.3
5.3	25.2
6.1	26.1
7.3	27.1
8.2	28.4
9.1	29.4
10.1	30.4
11.3	31.4
12.3	32.2
13.3	33.2
14.4	34.2
15.3	35.4
16.3	36.4
17.1	37.4
18.4	38.1
19.2	39.2
20.2	40.4