

# **ECS1500**

## **MOCK EXAM PAPER 1**

**Note that the answers to the question are provided at the end of the paper.**

To test if you are ready for the examination we suggest that you create a simulated examination situation. Give yourself two hours to do the paper and do not refer back to the study material. Use the answers at the end to evaluate your performance to decide if you are ready for the exam and which sections you still need to revise.

Write the answers for each question on the answer sheet provided at the end.

- 1 A normal good is one for which the income elasticity is greater than one.
  - 1 True
  - 2 False
- 2 The demand for a good, perceived by the consumer to be a necessity, will tend to be elastic.
  - 1 True
  - 2 False
- 3 Macroeconomics is concerned with the study of how households and firms make decisions and how they interact in specific markets
  - 1 True
  - 2 False
- 4 Price and quantity demanded for most goods are positively related
  - 1 True
  - 2 False
- 5 If three variables are related, one of them must be held constant when plotting the other two in the xy-coordinate system
  - 1 True
  - 2 False
- 6 A 50% increase in price, which results in a 90% decrease in the quantity demanded, indicates that demand is elastic in this price range
  - 1 True
  - 2 False
- 7 Absolute advantage is a comparison based on productivity
  - 1 True
  - 2 False
- 8 A decrease in the price of soft drinks will increase their demand (will shift the curve to the right).
  - 1 True
  - 2 False

- 9 If pizza and hamburgers are substitutes, a decrease in the price of pizza would increase the demand for hamburgers.
- 1 True
  - 2 False
- 10 Voluntary unemployment occurs when individuals choose not to be employed because they are not willing to work for the current wage rate.
- 1 True
  - 2 False
- 11 Cyclical unemployment is the result of a downturn in economic activity.
- 1 True
  - 2 False
- 12 An increase in the price level is the same as a decrease in the value of money.
- 1 True
  - 2 False
- 13 If the nominal interest rate is 7% and the inflation rate is 5%, the real interest rate is 12%.
- 1 True
  - 2 False
- 14 A changes in prices of a good indicate that the market for that good is in equilibrium.
- 1 True
  - 2 False
- 15 The impact lag is shorter for monetary policy than for fiscal policy.
- 1 True
  - 2 False
- 16 We have observed that both the price and the quantity sold of golf balls are raising over time. This is due to .....
- 1 continual improvements in the technology used to produce golf balls.
  - 2 increases in the price of golf clubs over time.
  - 3 decreases in membership fees for country clubs with golf facilities.
  - 4 an increase in the number of country clubs with golf facilities.

- 17 The price of good A goes up. As a result, the demand for good Q shifts to the left. From this, we can infer that ...
- 1 good A is a normal good
  - 2 good Q IS an inferior good
  - 3 goods A and Q are substitutes
  - 4 goods A and Q are complements
- 18 You decide to take a vacation and the trip costs you R3 500. While you are on vacation, you do not report to work where you could have earned R2 750. The opportunity cost of the vacation is .....
- 1 R6 250
  - 2 R2 750
  - 3 R3 500
  - 4 R 750
- 19 In the market for fitness balls, which of the following variables would decrease demand, ceteris paribus?
- 1 An increase in the price of fitness balls
  - 2 A decrease in the price of fitness balls
  - 3 A fall in the income of consumers
  - 4 A decrease in the price of hand pumps, a complement
- 20 Pete is considering attending a concert where the price of a ticket is R350. He estimates that the cost of driving to the concert and parking there will amount to an additional R20. To be able to attend the concert Pete will have to take time off from his part-time job. He estimates that he will lose five hours at work, at a wage of R60 per hour. Pete's opportunity cost of attending the concert equals ....
- 1 R350
  - 2 R370
  - 3 R300
  - 4 R670
21. Which of the following is most likely to have a high-income elasticity of demand?
- 1 Meals at classy restaurants
  - 2 Lunches at fast food restaurants
  - 3 Packed lunches from home
  - 4 Apples

- 22 If the price elasticity of demand is 0,5 then a 20% price hike will lead to a
- 1 5% decrease in quantity demanded
  - 2 10% decrease in quantity demanded
  - 3 20% decrease in quantity demanded
  - 4 40% decrease in quantity demanded
- 23 If a 10% price hike leads to a 30% increase in quantity supplied, then the
- 1 price elasticity of demand to 0,33
  - 2 price elasticity of supply to 0,33
  - 3 price elasticity of demand is 3,0
  - 4 price elasticity of supply is 3,0
- 24 Which of the following would not cause the demand curve for Varsity Cup (rugby) tickets to shift?
- 1 An increase in the price of professional rugby tickets
  - 2 A decrease in the price of university hockey tickets
  - 3 An increase in the price of Varsity Cup tickets
  - 4 A drop in student incomes
- 25 Suppose that the market for baked beans is in equilibrium, and both the supply and the demand curves for baked beans shift to the left. As a result, the equilibrium price \_\_\_\_\_ and the equilibrium quantity will \_\_\_\_\_
- 1 will fall, fall
  - 2 will fall, rise
  - 3 will rise, fall
  - 4 cannot be determined, fall
- 26 Which one of the following statements is **CORRECT**?
- 1 The price elasticity of demand is always positive.
  - 2 Elastic demand means that the quantity supplied is sensitive to the price.
  - 3 Inelastic demand means that the quantity demanded is highly sensitive to the price.
  - 4 Elastic supply means that the quantity supplied is sensitive to the price.

27 Which one of the following statements is **INCORRECT**?

- 1 Normal goods are classified as either luxury or essential goods.
- 2 Goods with a positive income elasticity of demand are called inferior goods.
- 3 If the income elasticity of demand is positive but less than 1, the good is called an essential good.
- 4 The cross elasticity of demand measures the responsiveness of the quantity of a particular good to changes in the price of a related good.

Use the information below to answer questions 28 and 29.

Microwaves and ovens are substitutes  
Cars and tyres are complements.

28 Which one of the following statements is **CORRECT**?

- 1 An increase in the price of a microwave will lead to a decrease in the quantity of ovens demanded
- 2 A decrease in the price of cars will lead to a decrease in the quantity of tyres demanded
- 3 A decrease in the price of ovens will lead to an increase in the quantity of microwaves demanded
- 4 An increase in the price of tyres will lead to a decrease in the quantity of cars demanded

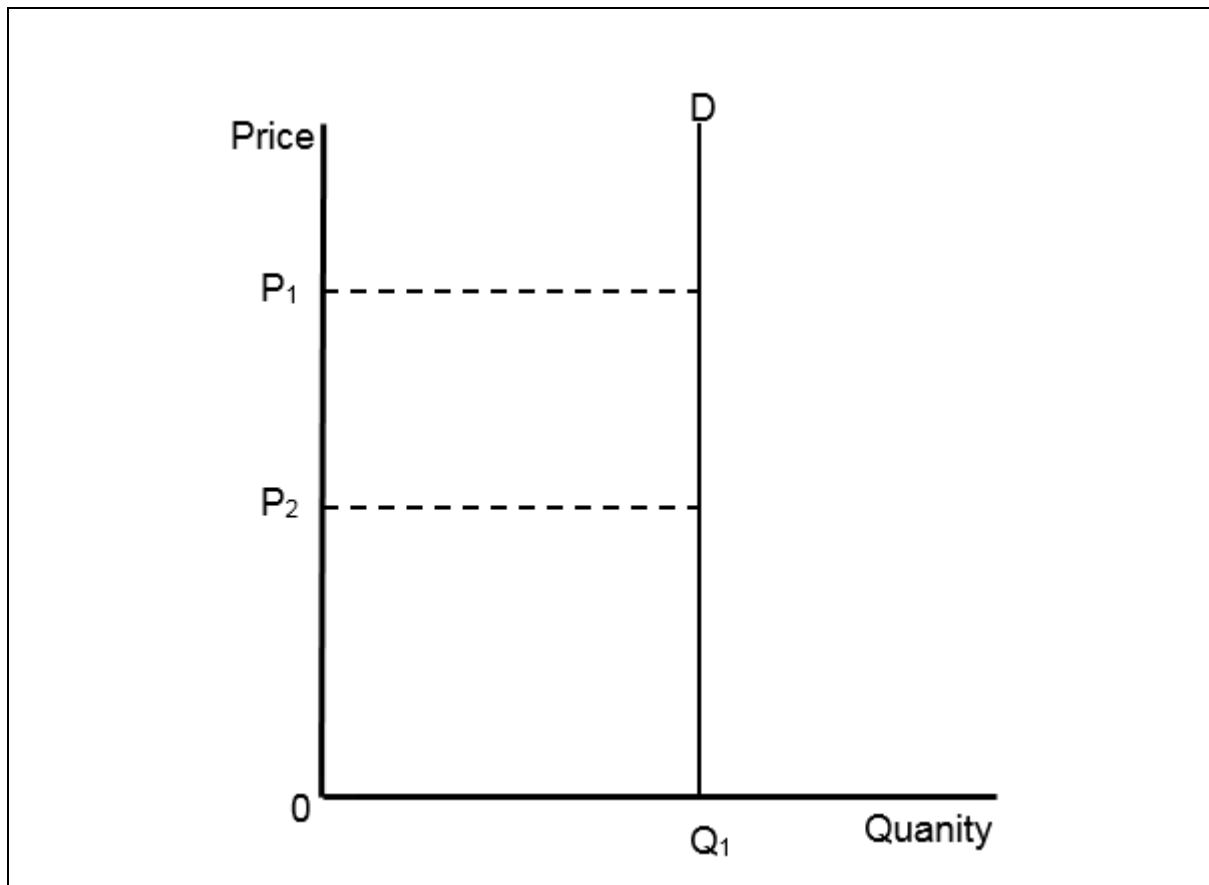
29 Given that a 10% increase in the quantity demanded of microwaves results from a 5% increase in the price of ovens, which one of the following statements is **INCORRECT**?

- 1 The cross price elasticity of demand for microwaves and ovens is 2.
- 2 Microwaves and ovens are actually complements and not substitutes
- 3 The cross price elasticity of demand for microwaves and ovens is positive
- 4 It will be impossible to calculate the income elasticity of demand for microwaves with the given information

30 Which one of the following statements is **CORRECT**?

- 1 Price elasticity is measured by comparing the percentage change in price and the percentage change in quantity.
- 2 A vertical demand curve is perfectly price elastic.
- 3 A horizontal demand curve implies that the quantity demanded cannot change without any change in the price level.
- 4 A perfectly inelastic demand curve means that a change in price level has a great impact on the quantity demanded.

Study the figure below and answer question 31



31 The figure represents

- 1 a demand curve with an elasticity that is greater than 0.
- 2 an elastic supply curve.
- 3 a perfectly inelastic demand curve.
- 4 a perfectly elastic demand curve.

Study the Information below and answer question 32:

The price elasticity of demand for hamburgers is 0,5  
The income elasticity of demand for a bar of soap is -0,1  
The cross price elasticity of demand for textbooks is -0,8.

32 Which one of the following statements is CORRECT?

- 1 The demand for hamburgers is price elastic and soap is an inferior good.
- 2 Textbooks are a complement to another good while hamburger have a unitary elasticity.
- 3 A bar of soap is an inferior good while textbooks are a complement to another good.
- 4 Textbooks are a substitute for another good and the price elasticity of demand for hamburgers is inelastic.

33 Which one of the following statements is **INCORRECT**?

- 1 The emphasis in microeconomics is mainly on the prices of goods and services, known as the price theory.
- 2 Microeconomics and macroeconomics are rarely viewed as separate branches of economics.
- 3 Some knowledge of microeconomics is important in order to understand macroeconomics.
- 4 The forces of demand and supply in an individual market are dealt with in microeconomics.

34 Which one of the following statements is INCORRECT?

- 1 The full employment macroeconomic policy objective of South Africa is seen as most important because of the high levels of unemployment in the country.
- 2 The field of macroeconomics is strongly involved with economic policy.
- 3 Keeping within the inflation target of the country relates to the macroeconomic policy objective of price stability of the country.
- 4 Micro economists are mainly concerned with the policy objectives of fiscal and monetary policy.



35 Which one of the following statements is CORRECT?

- 1 In measuring GDP, prices are used to determine the value of goods and services in the economy.
- 2 The gross domestic Income (GNI) is the most comprehensive measure of total production in an economy.
- 3 If an economy is experiencing high economic growth, it implies that the resources of the country will move further from full employment than it was before.
- 4 Most countries are unable to measure their macroeconomic policy objectives, as indices such as the consumer price Index generally tend to be unreliable measures.

Use the information displayed to answer questions 36 to 38.

**GDP figures for South Africa for 2013**

	<b>Current prices (R million)</b>	<b>Constant 2010 prices (R million)</b>
Final consumption expenditure by		
• Households	3 458	2 587
• Government	459	301
Gross capital formation		
• Gross fixed capital formation	357	218
• Change in inventories	4	2
Residual item	23	–45
Gross domestic expenditure (GDE)		
Exports of goods and services	1 578	780
Imports of goods and services	1 687	810
Expenditure on gross domestic product (GDP)		

36 The real gross domestic expenditure (GDE) for 2013 was

- 1 R3 155 million
- 2 R3 063 million
- 3 R3 405 million
- 4 R2 784 million

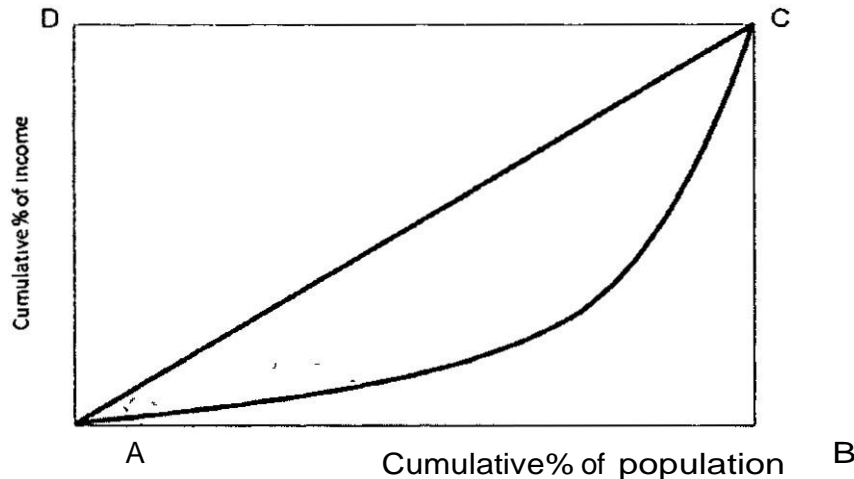
37 The real gross domestic product (GDP) for 2013 was \_\_\_\_, while the nominal gross domestic product (GDP) for 2013 was \_\_\_\_\_

- 1 R 4 589 million, R 4 754 million.
- 2 R 3 262 million, R 3 347 million.
- 3 R 3 033 million, R 4 192 million.
- 4 R 4 653 million, R 7 566 million.

- 38 If the real gross domestic product (GDP) was R2 944 million in 2012, what was the rate of real economic growth between 2012 and 2013?
- 1 2%
  - 2 3%
  - 3 5%
  - 4 7%
- 39 Which one of the following is **NOT** a shortcoming of measuring the economy using gross domestic product (GDP)?
- 1 Only goods and services with a market price are Included in the calculations.
  - 2 The gross domestic product (GDP) cannot account for the effect that inflation has on the economy.
  - 3 Activities in the informal sector are often not taken into account.
  - 4 An increase in expenditure from the perspective of the gross domestic product (GDP) often does not consider the economic welfare of such increases.
- 40 Which one of the following statements is INCORRECT with regards to measuring the CPI and the PPI?
- 1 Prices of imported products are measured when the products leave the factory of the country of origin.
  - 2 CPI often used to calculate the inflation rate over a specified period.
  - 3 PPI includes capital and manufacturing goods
  - 4 PPI is often used to predict what will happen to CPI in a few months' time.
- 41 Which one of the following statements relating to structural unemployment is CORRECT?
- 1 It has to do with changes in the economy causing a mismatch between the skills of workers and the requirements of jobs in the economy
  - 2 It arises from fluctuations in the demand for goods and services in the economy
  - 3 It arises in the time it takes to find a new job or to move from one job to another
  - 4 It occurs when workers are laid off because of the seasonal nature of the work.

- 42 If a recession causes people to lose their jobs due to a fall in aggregate demand, these people will be .....
- 1 frictionally unemployed.
  - 2 seasonally unemployed.
  - 3 cyclically unemployed.
  - 4 structurally unemployed.

Use the graph below to answer question 43



- 43 Which one of the following statements is **INCORRECT**?
- 1 The diagonal line from point A to C is the line of perfect equality.
  - 2 The area between the straight line AC and the Lorenz curve is known as the area of inequality.
  - 3 The Lorenz curve is one of the most commonly known measures of inequality.
  - 4 If one person earns 100% of the income and the rest of the population earns nothing, this point will lie on the straight line AC.
- 44 Which one of the following is the typical order of a business cycle?
- 1 Upswing → Downswing → Trough → Peak
  - 2 Downswing → Trough → Upswing → Peak
  - 3 Peak → Upswing → Trough → Downswing
  - 4 Peak → Downswing → Upswing → Trough

- 45 Which one of the following statements IS **INCORRECT**?
- 1 Real economic growth can occur when the actual production of goods and services grows at a faster rate than the increase in population.
  - 2 Gross national income (GNI) per capita is useful to determine the growth in the income earned by the citizens of a country over time.
  - 3 Gross domestic product (GDP) at current prices does not not eliminate the effect of inflation.
  - 4 Growth in per capita gross domestic product (GDP) will always be lower than growth in overall gross domestic product (GDP).
- 46 Suppose that the following headlines appeared in a newspaper. Which would most clearly represent a macroeconomic issue?
- 1 "Reserve Bank Raises Interest Rates"
  - 2 "Auto Dealership to Cut Prices"
  - 3 "Funky Fashion to Lay Off 50 Workers"
  - 4 "United Workers Union to Strike April 15"
- 47 Which of the following is an example of a negative externality?
- 1 Due to a ban in fireworks, a black market in fireworks comes into existence.
  - 2 Because most babies are inoculated against polio even babies who are not inoculated are not likely to get polio.
  - 3 It is not possible to exclude persons who do not pay their rates and taxes from the benefits of streetlights.
  - 4 The fumes from electricity generating plants contributes to climate change.
- 48 An example of privatization is .....
- 1 when private clients visit a national park, which is national asset.
  - 2 when mines which belongs to private companies, are transferred to the government.
  - 3 when land which belongs to the government are made available to use by small farmers.
  - 4 when a state-owned enterprise such as South African Airways is sold to private owners.

- 49 Which of the following does **NOT** form part of the fiscal policy?
- 1 The budget
  - 2 Government debt
  - 3 Stock of money in the economy
  - 4 Increase in expenditure on education
- 50 A progressive tax collects
- 1 less money from a rich person than from a poor person.
  - 2 a higher percentage of income from a rich person than from a poor person.
  - 3 revenues according to benefits received from government programmes.
  - 4 revenues used only for politically correct programmes.
- 51 The best example of a tax usually justified on ability-to-pay grounds is the
- 1 sales tax.
  - 2 property tax.
  - 3 corporate (company) income tax.
  - 4 progressive income tax.
- 52 An efficient tax
- 1 raises large amounts of money quickly.
  - 2 generates revenues at the least cost to the taxpayers.
  - 3 is easy to administer.
  - 4 imposes no costs on the taxpayer.
- 53 The M1 money supply consists of
- 1 cash only.
  - 2 cash plus demand deposits.
  - 3 short-term and medium-term deposits only.
  - 4 cash plus demand deposits plus short-term and medium-term deposits.
- 54 An important tool of monetary policy is
- 1 the inflation rate
  - 2 taxation
  - 3 banks
  - 4 the repo rate

- 55 The ..... is the rate at which banks obtain funds from the South African Reserve Bank when they are experiencing a shortage on reserves
- 1 exchange rate
  - 2 prime overdraft rate
  - 3 repo rate
  - 4 real interest rate
- 56 Which theory is generally included under microeconomics?
- 1 Price theory
  - 2 Income theory
  - 3 Employment theory
  - 4 None of the above
- 57 A government budget deficit implies that
- 1 income is distributed from wealthier to poorer households.
  - 2 government expenditure exceeds tax revenue.
  - 3 the government did not plan the budget carefully.
  - 4 tax revenue has not been collected effectively.
- 58 Australia has an absolute advantage over South Africa in wool production if, during a year, Australia
- 1 can produce more wool than South Africa
  - 2 specializes in wool production
  - 3 can produce less wool than South Africa
  - 4 can produce more wool than South Africa with a given amount of resources
- 59 The current account of the balance of payments records
- 1 the total rand amounts of goods and services imported and exported during a certain period.
  - 2 the total rand amounts of all exports but not imports.
  - 3 the change in the country's gold and foreign exchange reserves.
  - 4 all transactions related to acquisitions of share capital in foreign countries.
- 60 An example of protectionism is ....
- 1 free trade principles.
  - 2 a subsidy to the wine industry to encourage wine exports
  - 3 a tax on petrol to finance projects to limit damage related to carbon emissions.
  - 4 keeping the exchange rate stable.

- 61 When Toys R Us, a South African company, imports toys from China, it will be reflected as .....on the current account of the balance of payments and will result in a(n) .....in net foreign reserves
- 1 merchandise imports, decrease
  - 2 transfer payments, decrease
  - 3 merchandise imports, increase
  - 4 income payments, decrease
- 62 If South Africans dramatically increase imports from the United Kingdom, we would expect the
- 1 supply of pound sterling to increase and the rand to appreciate.
  - 2 demand for pound sterling to increase and the rand to appreciate.
  - 3 supply of pound sterling to increase and the rand to depreciate.
  - 4 demand for pound sterling to Increase and the rand to depreciate.
- 63 According to the principle of comparative advantage .....
- 1 countries with an absolute advantage in the production of every good need not specialize.
  - 2 countries should specialize in the production of goods that they enjoy consuming more than other countries
  - 3 countries should specialize in the production of goods for which they use fewer resources in production than their trading partners
  - 4 countries should specialize in the production of goods for which they have a lower opportunity cost of production than their trading partners
- 64 Suppose the workers of a country can produce 4 watches per hour and 12 rings per hour. If there is no trade
- 1 the domestic price of 1 ring is 3 watches
  - 2 the domestic price of 1 ring is 1/3 of a watch
  - 3 the domestic price of 1 ring is 4 watches
  - 4 the domestic price of 1 ring is 12 watches

65 If the exchange rate of dollar to rand is \$1 = R15 and a car is sold for \$16 000, how much will the car cost in rand?

- 1 R3 200
- 2 R16 000
- 3 R120 000
- 4 R240 000



## ANSWER SHEET

Indicate your answers to each of the questions in the "ANSWER" Column. Once you have answered all the questions, use the key on page 19 to mark your answers and evaluate your results:

Question	Answer	Learning Unit	If you had a particular question correct, place one tick for the correct answer in the block for that particular learning unit, as indicated by the example. The correct answers can be found in the table on the page 19.									
			1	2	3	4	5	6	7	8	9	10
1		5										
2		5										
3		6										
4		3										
5		2										
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7		10										
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33		6										
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35		6										
Totals for this page (add the correct ticks in each column and carry over to next page)												

Question	Answer	Learning Unit	If you had a particular question correct, place one tick for the correct answer in the block for that particular learning unit, as indicated by the example. The correct answers can be found in the table on the page 19.									
			1	2	3	4	5	6	7	8	9	10
Totals from previous page												
36		6										
37		6										
38		6										
39		6										
40		7										
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63		10										
64		10										
65		10										
Add the totals for each learning unit (a)												
Number of questions for each learning unit (b)			1	2	7	4	12	10	8	8	4	9
Percentage correct for each learning unit ( $\frac{a}{b} \times 100$ )												

**CORRECT ANSWERS**

Question	Answer		Question	Answer		Question	Answer
1	1		23	4		45	4
2	2		24	3		46	1
3	2		25	4		47	4
4	2		26	4		48	4
5	1		27	2		49	3
6	1		28	4		50	2
7	1		29	2		51	4
8	2		30	1		52	2
9	2		31	3		53	2
10	1		32	3		54	4
11	1		33	2		55	3
12	1		34	4		56	1
13	2		35	1		57	2
14	2		36	2		58	4
15	2		37	3		59	1
16	3		38	2		60	2
17	4		39	2		61	1
18	1		40	1		62	4
19	3		41	1		63	4
20	4		42	3		64	2
21	1		43	4		65	4
22	2		44	2			

**HOW TO INTERPRET YOUR RESULTS**

The percentage that you obtained for each learning unit should provide an indication of whether you have mastered that learning unit.

If you obtained less than 70% for a particular learning unit, we recommend that you revise that learning unit carefully.

It is important to take note of the fact that certain learning units build on each other, e.g. learning unit 4 require a thorough understanding of learning unit 3, while learning unit 5 require a thorough understanding of both learning units 3 and 4.

We also recommend that you carefully consider each question that you answered incorrectly. If you do not understand why a particular option is the correct answer, you have to revise the study material for that learning unit carefully, and if you still do not understand it, you have to approach your fellow students, e-tutor and/or lecturer to help you solve this problem.