UNIVERSITY EXAMINATIONS





ECS1500

(493604)

October/November 2017

Economics 1500

Duration 2 Hours

100 Marks

EXAMINERS FIRST SECOND

PROF AG OOSTHUIZEN MRS CJ VAN ZYL

Use of a non-programmable pocket calculator is permissible

Closed book examination

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Please complete the attendance register on the back page, tear off and hand to the invigilator

STUDENT NUM	BER

The unique number for ECS1500 is 493604





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This examination question paper consists of 21 pages plus instructions for the completion of a markreading sheet. This examination question paper comprises two sections consisting of 65 questions that will be converted to 100 marks.

Section A:

15 True/False questions

[30 marks]

Section B:

50 Multiple-choice questions

[70 marks]

Please complete the attendance register on the back page, tear off and hand to the invigilator

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SECTION A

False

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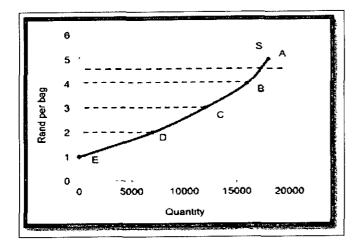
Questions 1 to 15 of the examination question paper are TRUE/FALSE questions
Select the correct option in each case. If the answer is true, mark [1], and if the answer is false, mark [2]

1	The basic economic problem is the reason for the existence of scarcity		
	1	True False	
2		ough the study of economics we seek answers to the questions of what, how and for whom to uce goods and services	
	1 2	True False	
3		apply curve has a positive slope that indicates a direct relationship between price and the attity supplied	
	1 2	True Faise	
4		law of demand states the relationship between the quantity demanded and the income of the umer	
	1 2	True False	
5		the increase in the wheat crop this year after good rains, more wheat will be supplied at the price and the supply curve of wheat will shift to the right	
	1	True	

The market equilibrium position cannot change if both the demand curve and the supply curve move to the right

3

- 1 True
- 2 False



Refer to the supply curve in the above figure. If the price of oranges increases from R2 to R3, the quantity supplied will decrease from 15 000 to 10 000.

- 1 True
- 2 Faise

8 Ceteris paribus is a Latin term used to state that all other variables are assumed to remain the same when we try to determine the effect of price changes on the quantity demanded or supplied

- 1 True
- 2 False

9 An upward shift of the supply curve implies a drop in prices and an increase in quantity supplied

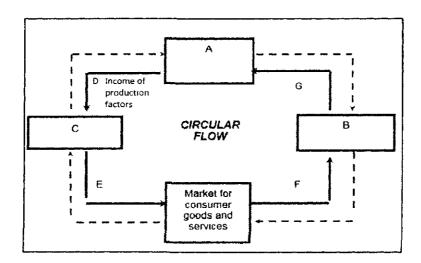
- 1 True
- 2 False

10		If the value of the price elasticity of the demand for blue pens lies between 0 and 1, the demand for blue pens is price elastic			
	1 2	True False			
11		balance of payments is one of the yardsticks used to determine whether South Africa has seved its objective of full employment			
	1 2	True False			
12		nicroeconomics we study the change in price and quantity of milk in South Africa and try to ain changes in this market			
	1 2	True False			
13		he South African context, the two most important macroeconomic objectives are full loyment and economic growth			
	1 2	True False			
14	Doui car	ble counting can be prevented if we add all the prices in the production process of a motor			
	1 2	True False			
15		GDP is the best indication we have of the level of economic activity maintained during a ific period			
	1 2	True False			

SECTION B

Questions 16 to 65 of the examination question paper are **MULTIPLE-CHOICE** questions in each question, select the most correct option

- 16 Economic production and distribution problems in the various economic systems are solved as follows
 - In a command economic system, the market, advised by numerous subordinate committees, takes these decisions
 - In a market economy, these decisions are motivated by collective public interest and are determined in regulated markets
 - In a mixed market economy, these decisions are taken in the market but tempered by government intervention
 - 4 The South African economic system is a pure market economy where the market mechanism governs all economic actions
- 17 Select the statement that will <u>always</u> be correct. In a market economy, the market _____
 - 1 is a physical place where buyers and sellers meet to agree on a price
 - 2 is a national invisible place where all potential buyers and sellers worldwide communicate with each other
 - 3 warns producers and/or consumers against increasing prices
 - 4 brings together buyers and sellers to establish the price and quantity of a good or service

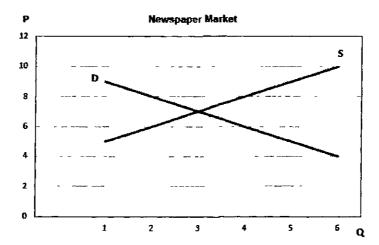


- 18 In the above diagram, households are represented by _____, and business enterprises by _____
 - 1 C, B
 - 2 A, C
 - 3 B, C
 - 4 C, A
- 19 In the above diagram, the flow of goods and services is represented by the _____ line, while the money flow is represented by the _____ line
 - 1 dotted, solid
 - 2 D, F
 - 3 E, G
 - 4 solid, dotted

TYear S	Number of cars sold
2005	15 000
2006	15 500
2007	15 800
2008	17 000
2009	17 500
2010	18 000
2011	16 500
2012	15 000
2013	14 000
2014	15 000
2015	16 000

- 20 A graph illustrating the data in the above table _____
 - 1 is known as a linear curve that indicates a positive relationship
 - 2 will show the reasons for the changes in the number of cars sold
 - 3 will indicate a non-linear time-series curve
 - 4 will be a cross-section graph to illustrate a negative relationship
- 21 The quantity of any product we plan to buy, depends on _____
 - 1 the price of that product as well as the prices of related goods
 - 2 our income and preferences
 - 3 the size of our household
 - 4 All of the above

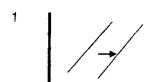
- The quantity of goods a producer plans to sell on the market depends on, among others,
 - 1 the income and preferences of households
 - 2 technology and weather conditions
 - 3 the price of complementary products
 - 4 the availability of substitutes
- 23 The law of demand _____.
 - 1 is explained by the substitution and income effects
 - 2 is illustrated by an upward sloping demand curve
 - 3 explains why consumers will buy more eggs when the price of eggs increases
 - 4 explains why the demand curve will shift to the right when the price decreases
- 24 The supply curve will shift to the right when _____
 - 1 the price of the product increases
 - 2 the technology used in the production process improves
 - 3 factors of production needed to produce the product become more expensive
 - 4 weather conditions deteriorate and increase the cost of production

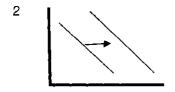


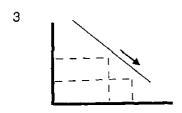
Use the above figure depicting the newspaper market to answer questions 25, 26 and 27

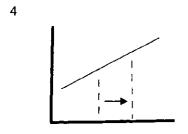
- The demand schedule that was used to draw the demand curve for newspapers, will indicate the following quantity demanded per price
 - 1 eight newspapers demanded at R1
 - 2 six newspapers demanded at R10
 - 3 seven newspapers demanded at R7
 - 4 five newspapers demanded at R5

- 26 At a price of R6, there will be _____
 - 1 an excess demand of two newspapers
 - 2 an excess supply of two newspapers
 - 3 equilibrium in the newspaper market
 - 4 downward pressure on the price
- 27 What will the effect be of an increase in the price of news delivered by electronic media?
 - 1 The demand curve will shift to the right
 - 2 The supply curve will shift to the left
 - 3 There will be a movement to the left along the demand curve
 - 4 There will be a movement to the right along the supply curve
- 28 An increase in the demand for fried chicken, ceteris paribus, can be illustrated as follows

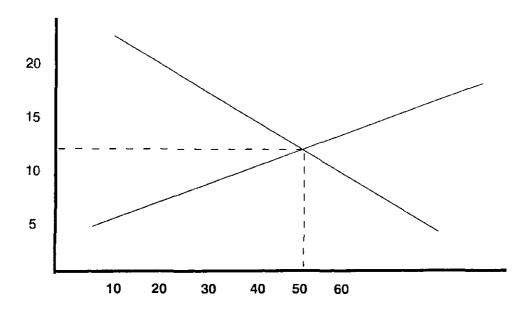








- 29 The ceteris paribus condition is used _____
 - 1 by economists to invoke the law of demand
 - 2 to isolate the effect of price changes on demand or supply
 - 3 by economics lecturers to illustrate the importance of price changes in various markets
 - 4 to illustrate the relationship between supply and demand in a market



The above figure illustrates the market for oranges and should be used to answer questions 30 and 31

- 30 When the demand for and supply of oranges increases at the same time, _____
 - the direction of change in both price and quantity will be uncertain
 - 2 price will increase but the direction of the change in quantity will be uncertain
 - 3 quantity will increase but the direction of the change in price will be uncertain
 - 4 quantity will decrease but the direction of the change in price will be uncertain
- 31 When demand for oranges increases but the supply decreases at the same time, ____
 - 1 the direction of change in both price and quantity will be uncertain
 - 2 price will increase but the direction of the change in quantity will be uncertain
 - 3 quantity will increase but the direction of the change in price will be uncertain
 - 4 quantity will decrease but the direction of the change in price will be uncertain

32 The price elasticity of demand

- 1 is equal to \frac{\% change in price of a product}{\% change in quantity demanded of a product}
- 2 Is equal to $\frac{\% \ change \ in \ price \ of \ a \ product}{\% \ change \ in \ demand \ for \ a \ product}$
- 3 is the percentage change in the quantity demanded of a product if the price of the product changes by 1%, *ceteris paribus*
- 4 is the percentage change in the quantity supplied of a product if the price of the product changes by 1%, *ceteris paribus*
- 33 Which one of the following statements is correct?
 - 1 Price elasticity of demand is always negative because quantity demanded and price change in opposite directions
 - Price elasticity of demand for maize, which is a staple food, can be expected to be higher than price elasticity of demand for truffle oil, which is a luxury flavouring agent
 - 3 Price elasticity of demand for standard school shirts can be expected to be higher than price elasticity of designer jackets
 - If demand is not price elastic, it means that the quantity demanded will change a lot for even a small change in the price
- The economy of Country Z is growing and the average income of consumers in this country is increasing. The company ELECZ is the provider of electricity in this country. Which one of the following can ELECZ use to help it decide how much electricity to provide in future, given the change in the income of consumers?
 - 1 price elasticity of demand for electricity
 - 2 income elasticity of demand for electricity
 - 3 cross elasticity of demand for electricity and coal
 - 4 price elasticity of supply of electricity
- When the price of product A increases by 10%, the quantity demanded of product B increases by 5% Which of the following statements is correct, based on this information?
 - 1 Products A and B are complements
 - 2 Products A and B are substitutes
 - 3 Product A is a luxury good
 - 4 Product B is an essential good

36 Which one of the following statements is correct?

When the quantity supplied does not change at all when the price of a product changes, we say that price elasticity of supply is ______

- 1 perfectly inelastic
- 2 inelastic
- 3 unit elastic
- 4 elastic
- 5 perfectly elastic

37 Gross domestic product is equal to _____

- 1 total production in a country exports + imports
- 2 total production in a country + exports imports
- 3 C+1+G
- 4 C + I + G + X Z
- 5 C + I + G X + Z
- 38 A change in real gross domestic product _____
 - 1 indicates changes in production per worker
 - 2 includes the informal sector
 - 3 accounts for changes in the economic welfare of different income groups
 - 4 indicates changes in the quantity of products and services that was produced

Question 39 is based on the following table that provides information on the consumer prices for certain goods according to the COICOP classification in 2016 as well as the CPI for all goods from 2013 to 2016

Consumer prices for goods according to the COICOP classification

	Weights	2013	2014	2015	2016
Food and non-alcoholic beverages	15 41				96 6
Alcoholic beverages and tobacco	5 43			1	99
Clothing and footwear	4 07			<u> </u>	978
Housing and utilities	5 21		1	 	97 2
Household contents, equipment and maintenance	2 44				99 4
Transport	12 31			<u> </u>	977
Recreation and culture	0 13	· · · · · · · · · · · · · · · · · · ·			98 3
Miscellaneous goods	1 96		ļ -		98
Total goods	49 86	83	88 2	91 2	97.5

Source SARB Quarterly Bulletin, March 2017

- 39 Which of the following statements is correct, based on the information in the table?
 - The prices of alcoholic beverages and tobacco increased by more than the prices of food and non-alcoholic beverages in 2016
 - The prices of food and non-alcoholic beverages increased by more than the prices of recreation and culture goods in 2016
 - 3 Only the prices of goods are included in the basket of items used to calculate the CPI
 - 4 The inflation rate on goods has been positive for all the years shown in the table
- 40 Which of the following applies to both the CPI and the PPI?
 - 1 Measured at the first significant commercial transaction
 - 2 Measured based on a representative basket of items that is adjusted every few years
 - 3 Capital and intermediate goods used in the production process are included in the basket of items
 - 4 Services are included in the basket of items used to determine the index

Question 41 is based on the following information that is provided for Country X on 30 June 2016

Number of employed persons	3 million
Number of unemployed persons who have actively been seeking employment in the previous week	1 million
Number of unemployed persons who have not actively been seeking 1,5 million employment in the previous week	

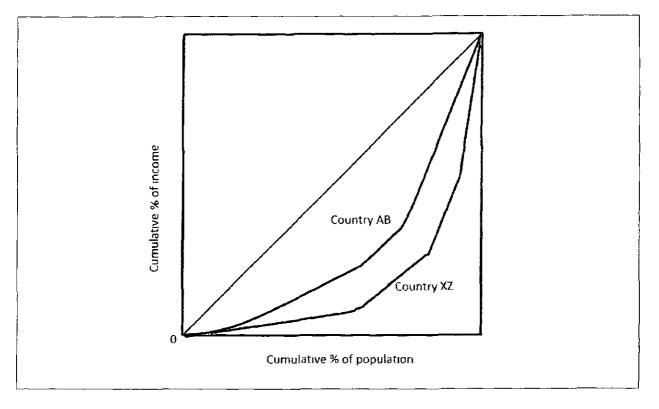
41	The unemployment rate in Country X, based on the strict definition of unemployment,	18	

- 1 25%
- 2 33,33%
- 3 45%
- 4 50%

42	Sam worked as a miner in a coal mine that provided coal to a power station. The power station
	closed down because a decision had been made to encourage green energy. Due to a lack of
	demand for coal, the mine closed down and Sam lost his job. This is an example of
	unemployment

- 1 voluntary
- 2 frictional
- 3 seasonal
- 4 cyclical
- 5 structural

Question 43 is based on the following diagram



- 43 Which of the following options are correct, based on the information in the above diagram
 - a The income distribution in Country AB is more unequal than in Country XZ
 - b The income distribution in Country XZ is more unequal than in Country AB
 - c The Gini coefficient for Country AB is larger than the Gini coefficient for Country XZ
 - d The Gini coefficient for Country XZ is larger than the Gini coefficient for Country AB
 - 1 ac
 - 2 ad
 - 3 bc
 - 4 b d
- The four parts of the business cycle can occur in the following sequence
 - 1 upswing, downswing, peak, trough
 - 2 upswing, trough, downswing, peak
 - downswing, trough, upswing, peak
 - 4 downswing, upswing, trough, peak

- Which one of the following will provide the best measure of an increase in the economic welfare of a country?
 - 1 increase in nominal GDP
 - 2 increase in real GDP
 - 3 increase in GDP at constant prices
 - 4 increase in GNI
 - 5 increase in real GPD per capita
- Which one of the following provides the best definition for a natural monopoly?
 - 1 A situation where markets fail to ensure the best solution to the economic problem
 - 2 A situation where there is only a single supplier of a good or service
 - A situation where a single firm can satisfy the total demand for a good or service in a certain area
 - 4 A situation where no one can be excluded from the benefits of a good or service
- 47 Which one of the following statements is NOT correct?
 - The central government provides important goods and services on a national level, such as the police and the defence force
 - The provincial or regional government provides important goods and services on a regional level, such as education and health services
 - The local governments provide important goods and services on a local level, such as streetlights and refuge removal
 - 4 Public corporations and public enterprises only provide goods and services to the government
- 48 Which one of the following is an example of a negative externality?
 - A beekeeper's bees obtain nectar from the apple orchard of the apple farmer next door but the beekeeper does not pay for it
 - 2 Mr Brown cycles to work every day in order not to increase pollution
 - 3 Mr White only uses electricity provided by a company that generates it with coal that causes pollution
 - 4 Mrs Black uses only solar energy in her house in order not to increase pollution

49	The government of Country A mainly collect	s tax by means of a progressive income tax system
	and pays a large percentage of this over to u	nemployed, elderly and disabled persons in the form
	of social grants. This is an example of the	function of the government

- 1 allocation
- 2 regulation
- 3 distribution
- 4 stabilisation

50 Which of the following statements is correct?

- 1 When students do not pay for education but government pays for it, it is free because no resources are allocated to it
- 2 The government pays interest on its debt
- 3 During periods of peace no funds are allocated to defence, public order and safety
- The government will never experience a financial deficit because it collects taxes from the public

- a direct tax
- b indirect tax
- c selective tax
- 1 ac
- 2 bc
- 3 only a
- 4 only b

Question 52 is based on the information that is contained in the following table

Person	Income level (monthly)	Amount paid towards tax A
Α	10 000	1 000
В	12 000	1 200
С	15 000	1 500

- 52 Which of the following statements is correct, based on the information in the table?
 - 1 Tax A is progressive
 - 2 Tax A is regressive
 - 3 Tax A is proportional
 - We do not have enough information to determine if tax A is progressive, regressive or proportional

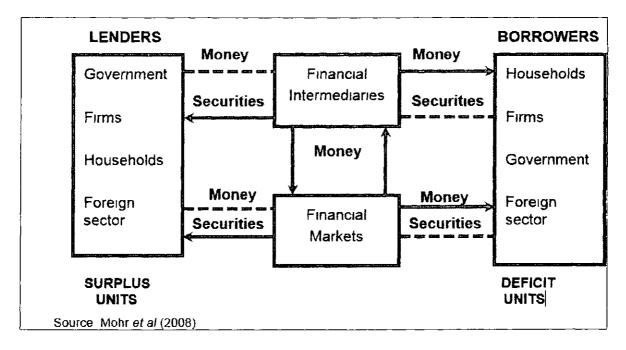
- When the value-added tax rate is increased, consumers immediately experience a decrease in the amount they can spend. This illustrates that the ______
 - 1 recognition lag is short
 - 2 the administrative lag is short
 - 3 the impact lag is short
 - 4 political business cycle is short
- Which of the following statements is correct?
 - 1 M1 money mainly functions as a medium of exchange
 - 2 M3 money mainly functions as a medium of exchange
 - 3 M3 money only functions as store of value
 - 4 Long-term deposits mainly function as a medium of exchange

Question 55 is based on the information in the following table

Aggregate	R (million)
M1	45 345
M2	148 987
M3	243 987

- 55 Long-term deposits are equal to _____
 - 1 R95 000 million
 - 2 R243 987 million
 - 3 R392 974 million
 - 4 R438 319 million
- 56 Which of the following are examples of stock concepts?
 - a The M1 money supply was R543 988 million on 30 September 2017
 - b Mr X retired on 31 March 2017 and received his retirement fund equal to R4 million
 - c Mrs Y retired on 30 June 2017 and now receives R15 000 a month as a pension
 - d On 31 July the banks held R456 987 million cash reserves with the SARB
 - 1 abcd
 - 2 abd
 - 3 bcd
 - 4 ab
 - 5 only c

Question 57 is based on the following diagram



- 57 Which one of the following statements is correct?
 - 1 Financial intermediaries receive surplus funds from deficit units in the economy
 - 2 Financial intermediaries create financial securities that are sold to deficit units in the economy
 - Financial securities that are created by financial intermediaries are sold to surplus units in the economy
 - 4 All financial securities in the economy are created by financial intermediaries

Question 58 is based on the following mission statement of the SARB that appears on the SARB's website

The primary purpose of the Bank is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in ensuring financial stability.

- Which of the following functions is the most important function of the SARB, based on the above quotation?
 - 1 controller of note issues
 - 2 banker of the government
 - 3 custodian of gold and other foreign exchange reserves
 - 4 formulation and implementation of monetary policy

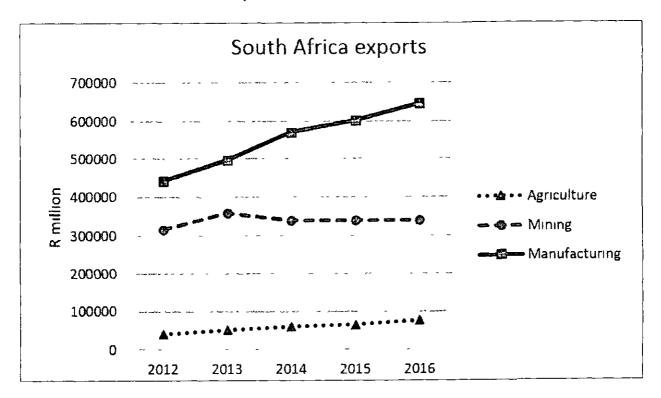
- The government issues treasury bills that will expire in three months' time. Which of the following options are correct?
 - a The treasury bills are issued in the primary market
 - b The treasury bills are issued in the secondary market
 - c The treasury bills are issued in the money market
 - d The treasury bills are issued in the capital market
 - 1 ac
 - 2 ad
 - 3 bc
 - 4 bd
- 60 Which of the following statements is correct?
 - 1 The repo rate is the rate at which the government borrows from the SARB
 - 2 There are many different interest rates in the economy and the level of these rates are not related in any way
 - 3 The real interest rate is the difference between the nominal interest rate and the reporate
 - When the inflation rate is higher than the nominal interest rate, the real interest rate is negative

Question 61 is based on the following information that is provided for Countries A and B

	Country A	Country B
Suits	250 million	280 million
Shoes	180 million	190 million

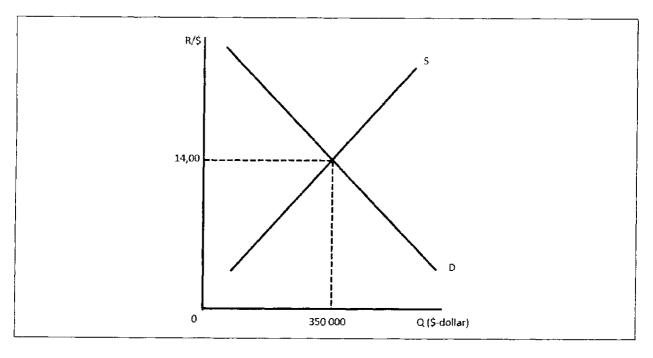
- Which of the following options are correct, based on the information in the table?
 - a Country A has absolute advantage in the production of suits
 - b Country A has absolute advantage in the production of shoes
 - c Country A has comparative advantage in the production of suits
 - d Country A has comparative advantage in the production of shoes
 - 1 b and c
 - 2 a and d
 - 3 only c
 - 4 only d

Question 62 is based on the following diagram that shows the levels of exports from South Africa for three different sectors of the economy



- Which of the following statements is correct, based on the information in the diagram?
 - 1 The manufacturing sector in South Africa grew from 2012 to 2016
 - 2 Mining exports increased from 2013 to 2016
 - 3 South Africa exports more agricultural products than manufactured products
 - 4 Exports by the manufacturing sector increased every year from 2012 to 2016
- The exchange rate of the rand against the dollar changed from R13,25 = \$1,00 to R14,00 = \$1,00 Which of the following statements is correct, based on this information?
 - 1 The rand appreciated against the dollar
 - 2 The dollar appreciated against the rand
 - 3 South African exports became more expensive for Americans
 - 4 American exports became cheaper for South Africans

Question 64 is based on the following diagram



- Which of the following statements is correct, based on the information in the diagram?
 - 1 At an exchange rate of R14,25 = \$1,00 there will be excess demand for dollar
 - 2 At an exchange rate of R13,50 = \$1,00, there will be excess supply of dollar
 - 3 At an exchange rate of R14,00 the quantity of dollar demanded will exceed the quantity of dollar supplied
 - 4 When the demand for dollar increases, South African will pay more rand per dollar

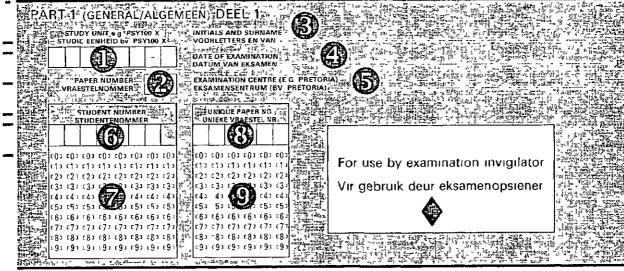
Which of the following statements is correct?

- The trade balance is the difference between total gold plus merchandise exports and total merchandise imports
- The financial account of the balance of payments records all transactions in financial assets and liabilities that took place in South Africa
- 3 The current account shows the total rand amounts of only goods that were imported and exported
- 4 Portfolio investment records transactions related to acquisition of share capital in foreign countries with the purpose of gaining control or a large say in the management of the enterprise in which the investment is made

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UNIVERSITY OF SOUTH AFRICA UNIVERSITEIT VAN SUID-AFRIKA **EXAMINATION MARK READING SHEET**

EKSAMEN-MERKLEESBLAD



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
- 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

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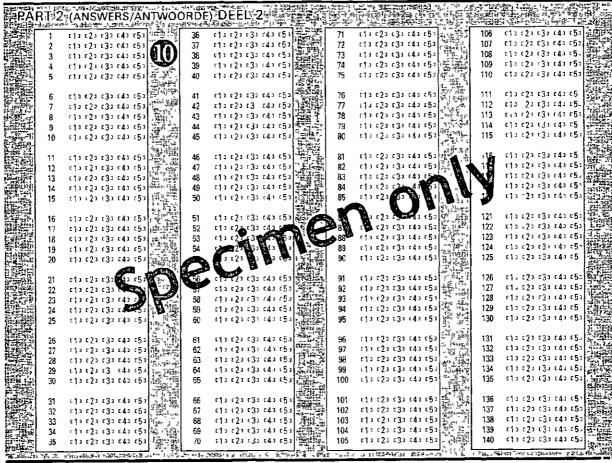
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- VUL U STUDENTENOMMER VAN LINKS NA REGS IN
- KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
- 6 KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
- MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
- 8 MOENIE VOU NIE



MARK READING SHEET INSTRUCTIONS

Your mark reading sheet is marked by computer and should therefore be filled in thoroughly and correctly

USE ONLY AN HB PENCIL TO COMPLETE YOUR MARK READING SHEET

PLEASE DO NOT FOLD OR DAMAGE YOUR MARK READING SHEET

Consult the illustration of a mark reading sheet on the reverse of this page and follow the instructions step by step when working on your sheet

Instruction numbers **1** to **1** refer to spaces on your mark reading sheet which you should fill in as follows

Write your paper code in these eight squares, for instance

|--|

The paper number pertains only to first-level courses consisting of two papers

WRITE 0 1 for the first paper and 0 2 for the second If only one paper, then leave blank

- Fill in your initials and surname
- 4 Fill in the date of the examination
- Fill in the name of the examination centre
- WRITE the digits of your student number HORIZONTALLY (from left to right) Begin by filling in the first digit of your student number in the first square on the left, then fill in the other digits, each one in a separate square
- In each vertical column mark the digit that corresponds to the digit in your student number as follows
 [-]
- WRITE your unique paper number HORIZONTALLY

 NB Your unique paper number appears at the top of your examination paper and consists only of digits (e g 403326)
- In each vertical column mark the digit that corresponds to the digit number in your unique paper number as follows [-]
- Question numbers 1 to 140 indicate corresponding question numbers in your examination paper. The five spaces with digits 1 to 5 next to each question number indicate an alternative answer to each question. The spaces of which the number correspond to the answer you have chosen for each question and should be marked as follows. [-]
- For official use by the invigilator Do not fill in any information here