

## Multiple Choice Questions (Section A):

### (A)

1. A normal good is one for which the income elasticity is greater than one.
  - a. True
  - b. False
  
2. The demand for a good, perceived by the consumer to be a necessity, will tend to be elastic.
  - a. True
  - b. False
  
3. Macroeconomics is concerned with the study of how households and firms make decisions and how they interact in specific markets
  - a. True
  - b. False
  
4. Price and quantity demanded for most goods are positively related
  - a. True
  - b. False
  
5. If three variables are related, one of them must be held constant when plotting the other two in the by-coordinate system
  - a. True
  - b. 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
  - a. True
  - b. False
  
7. Absolute advantage is a comparison based on productivity
  - a. True
  - b. False

8. A decrease in the price of soft drinks will increase their demand (will shift the curve to the right).
- a. True
  - b. False
9. If pizza and hamburgers are substitutes, a decrease in the price of pizza would increase the demand for hamburgers.
- a. True
  - b. False
10. Voluntary unemployment occurs when individuals choose not to be employed because they are not willing to work for the current wage rate.
- a. True
  - b. False
11. Cyclical unemployment is the result of a downturn in economic activity.
- a. True
  - b. False
12. An increase in the price level is the same as a decrease in the value of money.
- a. True
  - b. False
13. If the nominal interest rate is 7% and the inflation rate is 5%, the real interest rate is 12%.
- a. True
  - b. False
14. A change in prices of a good indicates that the market for that good is in equilibrium.
- a. True
  - b. False
15. The impact lag is shorter for monetary policy than for fiscal policy.
- a. True
  - b. False

**(B)**

1. 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.
2. 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
3. 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
  2. R2 750 3
  3. R3 500
  4. R 750
4. 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 m the price of fitness balls
  3. A fall in the income of consumers
  4. A decrease in the price of hand pumps, a complement
5. 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

6. 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
7. 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
8. 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
9. 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
10. 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
11. 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.

12. 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 13 and 14.

Microwaves and ovens are substitutes Cars and tyres are complements.

13. 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

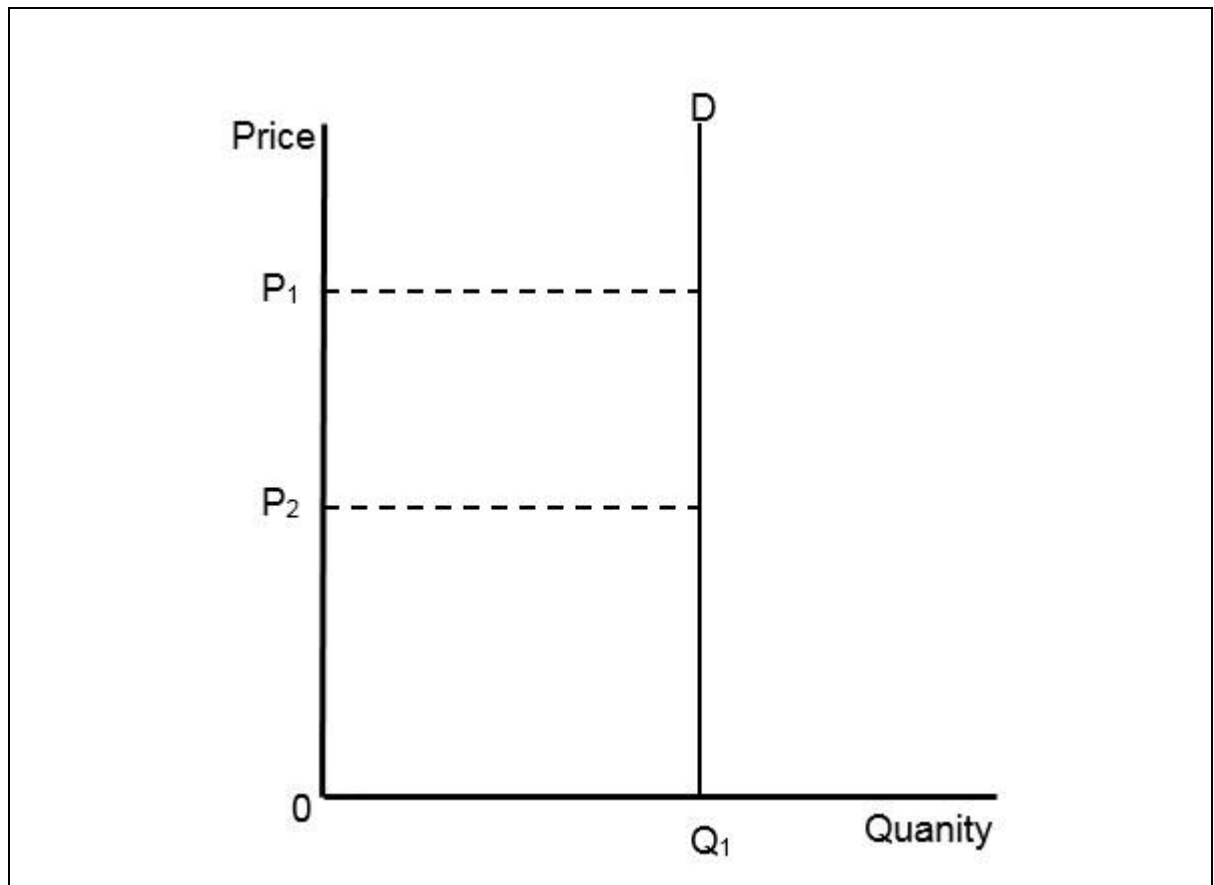
14. Given that a 10% increase in the quantity demanded of microwaves results from a 5% increase in the price of ovens, which one of the following statements is **INCORRECT**?

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

15. 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 16



The figure represents

16. This 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 17:

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.

17. 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.

18. 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.

19. 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.

20. 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 21 to 23.

**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 Government	3 458 459	2 587 301
Gross capital formation Gross fixed capital formation Change in inventories	357 4	218 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)		

21. 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
22. 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
  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.
23. 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?
- 23.1. 2%
  - 23.2. 3%
  - 23.3. 5%
  - 23.4. 7%
24. 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.
25. 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.

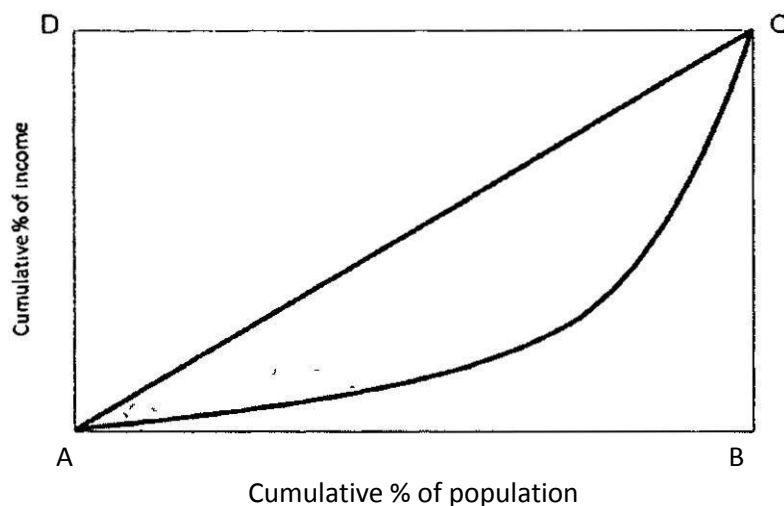
26. Which one of the following statements relating to structural unemployment is **CORRECT**?

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.

27. 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 28.



28. 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.

29. 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

30. 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 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).

31. 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"

32. 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.

33. 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.

34. 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

35. 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.

36. 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.

37. 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.

38. 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.

39. An important tool of monetary policy is

1. the inflation rate
2. taxation
3. banks
4. the repo rate

40. 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

41. Which theory is generally included under microeconomics?

1. Price theory
2. Income theory
3. Employment theory
4. None of the above

42. 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.

43. 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

44. 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.

45. 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.

46. 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

47. 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.

48. 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

49. 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

50. 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 (Section A)**  
**CORRECT ANSWERS**

<b>(A)</b>							
<b>Question</b>	<b>Answer</b>						
1	a						
2	b						
3	b						
4	b						
5	a						
6	a						
7	a						
8	b						
9	b						
10	a						
11	a						
12	a						
13	b						
14	b						
15	b						
<b>(B)</b>							
<b>Question</b>	<b>Answer</b>		<b>Question</b>	<b>Answer</b>		<b>Question</b>	<b>Answer</b>
1	3		22	3		43	4
2	4		23	2		44	1
3	3		24	2		45	2
4	3		25	1		46	1
5	4		26	1		47	4
6	1		27	3		48	4
7	2		28	4		49	2
8	4		29	2		50	4
9	3		30	4			
10	4		31	1			
11	4		32	4			
12	2		33	4			
13	4		34	3			
14	2		35	2			
15	1		36	4			
16	3		37	2			
17	3		38	2			
18	2		39	4			
19	4		40	3			
20	1		41	1			
21	2		42	2			

## Multiple Choice Questions (Section B):

### (A)

1. Scarcity applies to the poor only.
  - a. True
  - b. False
  
2. A decrease in the supply of apples is illustrated by an upward or a leftward shift of the entire supply curve.
  - a. True
  - b. False
  
3. The four factors of production are land, labour, entrepreneurship and capital goods.
  - a. True
  - b. False
  
4. If the supply of, as well as the demand for apples were to increase, there would be a decrease in the price of apples, but the direction of the change in the equilibrium quantity of apples would be impossible to predict accurately.
  - a. True
  - b. False
  
5. A lower tea price will shift the demand curve for tea to the right.
  - a. True
  - b. False
  
6. Elasticity is a unit-free measure.
  - a. True
  - b. False
  
7. An elasticity of 0, 5 can be described as “small”.
  - a. True
  - b. False

8. A price elasticity of demand = 0 can be described as perfectly elastic demand.
- a. True
  - b. False
9. External equilibrium implies keeping the inflation rate as low as possible.
- a. True
  - b. False
10. GDP may be defined as the total value of all goods and services produced within the boundaries of a country during a certain period.
- a. True
  - b. False
11. The “economically active population” excludes those who are unemployed.
- a. True
  - b. False
12. The flow of goods and services between South Africa and the rest of the world is recorded in the financial account.
- a. True
  - b. False
13. A future contract is an example of a derivative instrument.
- a. True
  - b. False
14. An increase in South African imports from the United States will give rise to an increase in the demand for rand from such importers.
- a. True
  - b. False

15. According to the vertical equity rule rich people should pay more tax than poor ones.
- a. True
  - b. False
16. Stabilisation policy is enhanced by policy lags.
- a. True
  - b. False
17. Commodity money entails that the intrinsic value of the commodity is equal to the exchange value assigned to it.
- a. True
  - b. False
18. Commercial banks are responsible for issuing of notes and coins in South Africa
- a. True
  - b. False
19. When the rand/dollar exchange rate is known, enough information is available to determine the dollar/rand exchange rate.
- a. True
  - b. False
20. Absolute advantage implies comparative advantage.
- a. True
  - b. False

**(B)**

1. Which **one** of the following statements is **not** correct? The solution to the basic economic problem is found in the answers to the following questions:
- 1. Who should produce?
  - 2. For whom should be produced?
  - 3. How should there be produced?
  - 4. What should be produced?

2. Wants...
  1. Equals needs.
  2. Equals necessities.
  3. Equals means.
  4. Are unlimited.
3. The market economy is regulated by...
  1. The government.
  2. The minister of finance.
  3. Profits.
  4. Competition.
4. In every economic system ...
  1. Scarcity disappears with time.
  2. Scarcity disappears when there is limitless spending power.
  3. Scarcity eventually disappears in the government sector.
  4. Scarcity never disappears.
5. The concept of opportunity cost arises from ...
  1. Limited wants.
  2. Unlimited means.
  3. Limited wants and unlimited means.
  4. Scarcity.
6. A "mixed economy" refers to an economy where...
  1. Consumers are of different races.
  2. The public sector and the private sector coexist.
  3. There is demand as well as supply.
  4. Prices can go up or down.
7. Which one of the following is **not** an important decision maker in the economy?
  1. Households.
  2. Firms.
  3. Governments.
  4. The balance of payments.

8. Market equilibrium for a product implies ...

1. A price that cannot change.
2. Market forces at work to change the equilibrium price.
3. Government intervention.
4. A balance between buyers and sellers at a certain price.

9. In a pure market economy ...

1. The government uses prices as a principal means of directing resources.
2. The government determines prices.
3. Prices are the main mechanism of matching wants and resources.
4. The economy is regulated by the self-interest of the government.

10. Which one of the following would most clearly represent a macroeconomic issue?

1. A big retailer reduces its selling price of bread.
2. The GDP decreases.
3. A major flu epidemic strikes the country.
4. The state president resigns.

11. A decrease in the demand for milk (*ceteris paribus*) is represented by ...

1. An upward movement along the demand curve for milk.
2. A downward movement along the demand curve for milk.
3. A rightward shift in the demand curve for milk.
4. A leftward shift in the demand curve for milk.

12. According to the law of supply, as the price of milk decreases, ...

1. The quantity supplied of milk will decrease.
2. The quantity supplied of milk will increase.
3. The supply of milk will decrease.
4. The demand for coffee will increase.

13. If the income elasticity of a good is smaller than one, the product is definitely not ...

1. An essential good.
2. An inferior good.
3. A luxury good.
4. A normal good.

14. If the price of coffee, a substitute in consumption for tea, increases, we would expect the equilibrium quantity of tea to ...

1. Decrease.
2. Increase.
3. Stay the same.
4. Be indeterminate (increase or decrease).

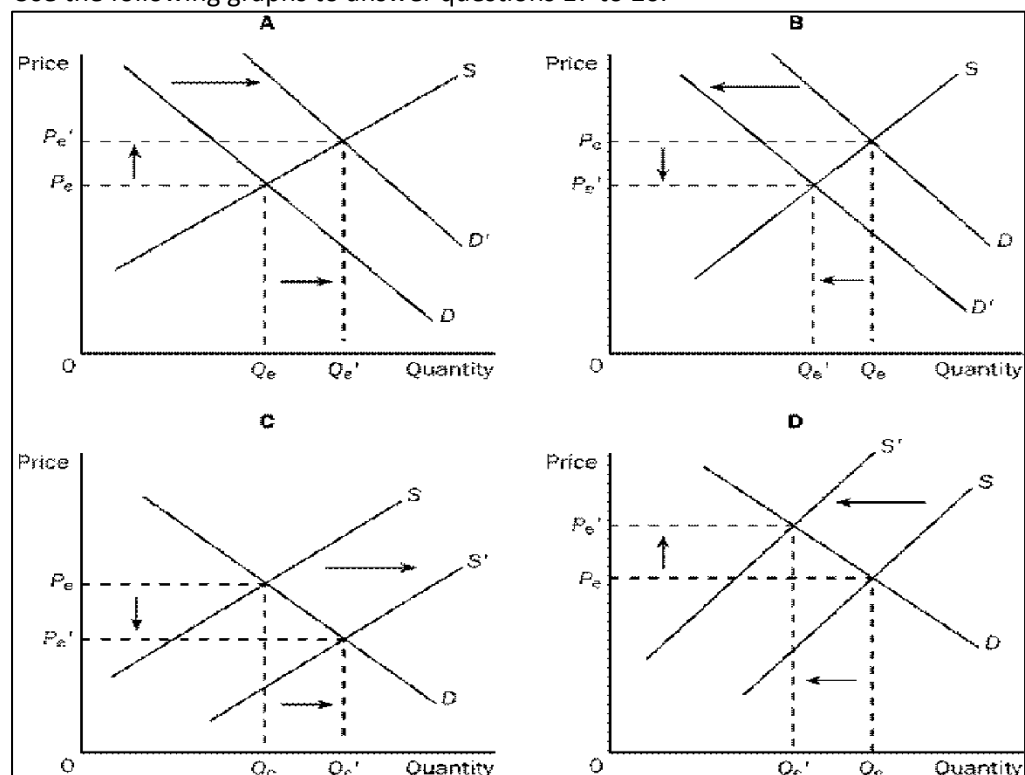
15. Which of the following is **not** a function of the South African Reserve Bank?

1. Formulation of monetary policy
2. Implementation of monetary policy.
3. Banker for the government and other banks.
4. Control of government spending.

16. Which of the following is **not** an example of a financial intermediary in the South African economy?

1. Stokvels.
2. Development Bank of South Africa.
3. Postbank.
4. The Treasury.

Use the following graphs to answer questions 17 to 20.



17. Refer to graph A. Graph A indicates...

1. An increase in demand and an increase in quantity supplied.
2. An increase in demand and an increase in supply.
3. Excess demand.
4. An increase in supply and an increase in quantity demanded.

18. Refer to graph B. The shift of the demand curve could be a result of ...

1. A decrease in the price of the product.
2. A decrease in the price of a complement.
3. An increase in the price of a complement.
4. An increase in the price of a substitute.

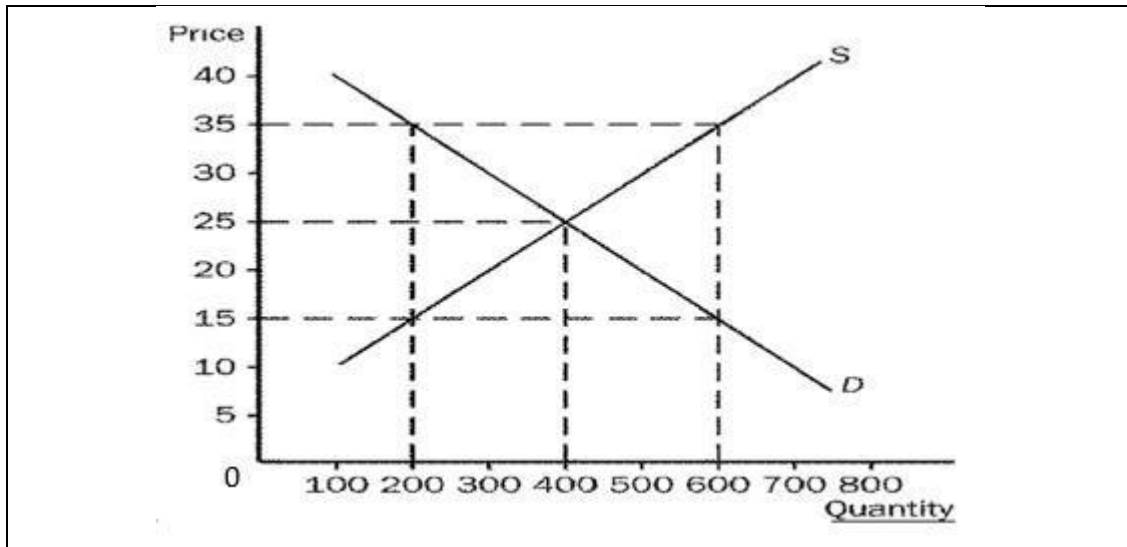
19. Refer to graph C. Graph C indicates ...

1. An increase in demand and an increase in quantity supplied.
2. An increase in demand.
3. Excess supply.
4. An increase in supply and an increase in quantity demanded.

20. Refer to graph D. The shift of the supply curve could be a result of ...

1. An increase in the price of the product.
2. A decrease in the price of inputs.
3. Cost increasing changes in technology.
4. A decrease in the price of substitutes in production.

Use the following graph to answer questions 21 and 22.



21. At a price of R 25.00...

1. There would be a shortage of 400 units.
2. There would be a surplus of 400 units.
3. There would be equilibrium in all markets.
4. There would be an equilibrium in the market for the product.

22. The equilibrium quantity is ...

1. 200
2. 600
3. 400
4. 25

Suppose that the quantity of cheese demanded falls from 100 000 kg per week to 90 000 kg per week as a result of a 10% increase in its price. Use this information to answer questions 27 and 28.

23. The price elasticity of demand for cheese is ...

1. 10,0
2. 1,0
3. 11,0
4. 0,1

24. We know that cheese is...

1. An inferior good.
2. A luxury good.
3. A normal good.
4. A substitute.

25. Which **one** of the following statements is not correct? If the quantity demanded of butter increase by 10% as a result of a 10% increase in the price of margarine, then...

1. The cross elasticity for butter is 1.
2. Demand elasticity cannot be calculated with the available information.
3. Supply elasticity cannot be calculated with the available information.
4. Butter is a complement for margarine.

26. If someone with an income of R100 000 pays R10 000 tax and the following year, when his income increases to R200 000, he pays R15 000 tax, the tax system can be described as ...

1. Progressive.
2. Proportional.
3. Regressive.
4. Marginal.

27. If the total population is 30 million of which 20 million is between the ages of 15 and 64 years and 5 million are older than 64, the economically active population equals ...

1. 30 million.
2. 25 million.
3. 15 million.
4. 20 million.

28. Frictional unemployment...

1. Occurs when an individual chooses to be unemployed because of low wages.
2. is the consequence of external disequilibrium
3. Arises as a result of fluctuations in the demand for goods and services.
4. Is not really considered as serious.

29. The Gini coefficient...

1. Can vary between 0 and 100.
2. Allows comparisons of inequality in income distribution.
3. Is used to derive the Lorenz curve.
4. Equals the area of inequality.

30. Which of the following is **not** an element of a typical business cycle?

1. Downswing.
2. Peak.
3. Boom.
4. Equilibrium.

31. GNI equals...

1. GDP plus primary income from the rest of the world minus primary income to the rest of the world.
2. GDP plus primary income to the rest of the world minus primary income from the rest of the world.
3. GDP plus primary income from the rest of the world plus primary income to the rest of the world.
4. GDP minus primary income from the rest of the world plus primary income to the rest of the world.

32. When the consumer price index rises with 10%, it implies that ...

1. All prices increased by 10%.
2. All prices increased.
3. The producer price index increased by 10%.
4. There was a decline in the real value of money.

33. Which one of the following does **not** form part of the M1 measure of money supply?

1. Notes and coins in circulation inside the monetary sector.
2. Deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.
3. Transmission deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.
4. Cheque deposits of the domestic private sector with monetary institutions that can be withdrawn immediately.

34. Assume that changes in the consumer price index are considered as the measure of inflation. If the index was 200 in 2015 and 210 in 2016, what was the inflation rate?

1. 5%
2. 10%
3. 20%
4. The inflation rate is impossible to determine without knowing the base year.

35. In a proportional tax system ...

1. The total amount of tax paid is constant as income decreases.
2. The average rate of tax increases as income increases.
3. The average rate of tax falls as income increases.
4. The average rate of tax is constant as income increases.

36. Unrecorded transactions ...

1. Are not recorded in the South African balance of payments.
2. Are recorded in the financial account of the South African balance of payments.
3. Are recorded in the capital transfer account of the South African balance of payments.
4. Are a recording of errors and omissions?

37. Which of the following would **not** be included in the South African balance of payments?

1. A Britain earns income in South Africa.
2. A South African farmer sells his American-manufactured tractor to his neighbour.
3. A South African earns income in Britain.
4. An American purchases shares in a South African company.

38. If the rand depreciated against the US dollar, then ...

1. The US dollar has appreciated against the rand.
2. More US dollars are required to buy a Rand than before.
3. This will lead to a decline in exports by the United States to the Eurozone.
4. The euro has appreciated against the US dollar.

Suppose Botswana and Korea can produce only two possible products, maize and meat. If they devote all their resources to the production of maize, Botswana as well as Korea can produce 4 tons of maize per person-hour. If they devote all their resources to the production of meat, Botswana can produce 8 tons of meat per person-hour and Korea 12 tons. With reference to this information, answer questions 59 and 60.

39. Which one of the following statements is correct? Korea has ...

1. A comparative advantage in the production of maize and meat.
2. A comparative advantage in the production of meat.
3. An absolute advantage in the production of maize and meat.
4. An absolute advantage in the production of maize.

40. Which one of the following statements is correct?

1. Korea will specialise in the production of maize.
2. Botswana will specialise in the production of maize and meat.
3. Korea will specialise in the production of meat.
4. No specialisation is possible.

**Answer Sheet (Section B)**  
**CORRECT ANSWERS**

Question	Answer		Question	Answer		Question	Answer
(A)			(B)				
1	2		1	1		21	4
2	1		2	4		22	3
3	1		3	4		23	2
4	2		4	4		24	3
5	2		5	4		25	4
6	1		6	2		26	3
7	1		7	4		27	4
8	2		8	4		28	4
9	2		9	3		29	2
10	2		10	2		30	4
11	2		11	4		31	1
12	2		12	1		32	4
13	1		13	3		33	1
14	2		14	2		34	1
15	1		15	4		35	4
16	2		16	4		36	4
17	1		17	1		37	2
18	2		18	3		38	1
19	1		19	4		39	2
20	2		20	3		40	3

## Multiple Choice Questions (Section C):

### (A)

1. As an economic concept, scarcity applies to
  1. Neither the poor nor the rich.
  2. The poor but not the rich.
  3. The rich but not the poor.
  4. Both the poor and the rich.
  
2. Due to scarcity of resource,
  1. The government must decide how to allocate available resources.
  2. Some members of the society must live in poverty.
  3. Every society must choose among competing uses of available resources.
  4. Every society must undertake central planning.
  
3. Microeconomics focuses on all of the following **EXCEPT** the
  1. Purchasing decisions made by an individual consumer.
  2. Relationship between inflation and unemployment rates.
  3. Employment decision made by a business.
  4. Decision by a firm to expand its output due to an increase in demand.
  
4. Macroeconomics focuses on all of the following **EXCEPT**
  1. The measurement of a nation's inflation rate.
  2. How producers and consumers interact in individual markets.
  3. How tax policies influence economic growth.
  4. The total output of the economy.
  
5. Which **one** of the following is a positive economic statement?
  1. Government should not redistribute income.
  2. Businesses ought to contribute more to charities.
  3. Households are the primary source of saving.
  4. [4] The foreign sector should be more tightly controlled.

6. "Senior citizens deserve an income that will allow them to live in comfort for the remaining years." This is
1. Neither a normative nor a positive statement.
  2. Both a positive and a normative statement.
  3. A positive statement.
  4. A normative statement.

**Question 7, 8 and 9 are based on the following production possibilities.**

Table 1

Point	Production of grain (tons)	Production of LCD televisions (units)
<b>A</b>	<b>0</b>	<b>420</b>
<b>B</b>	<b>10</b>	<b>400</b>
<b>C</b>	<b>20</b>	<b>360</b>
<b>D</b>	<b>30</b>	<b>300</b>
<b>E</b>	<b>40</b>	<b>200</b>
<b>F</b>	<b>50</b>	<b>0</b>

7. Which of the following combinations is unattainable?
1. 18 tons of grain and 360 LCD televisions
  2. 40 tons of grain and 200 LCD televisions
  3. 32 tons of grain and 300 LCD televisions
  4. 10 tons of grain and 390 LCD televisions
8. Production is inefficient if this economy produces
1. 18 tons of grain and 360 LCD televisions.
  2. 40 tons of grain and 200 LCD televisions.
  3. 32 tons of grain and 300 LCD televisions.
  4. 10 tons of grain and 400 LCD televisions.
9. What is the opportunity cost of increasing the production of grain from 20 to 40 tons of grain?
1. 80 LCD televisions
  2. 100 LCD televisions
  3. 120 LCD televisions
  4. 160 LCD televisions

10. Which of the following options is **NOT** correct?

1. Consumer goods can be classified as non-durable, durable and semi-durable goods.
2. Intermediate goods are goods that are purchased to be used as inputs in producing other goods.
3. Private good is characterised by non-excludability.
4. The value of capital goods depreciates over time.

11. When a textile company keeps track of its inventory using a computer, while its competitor uses a spread sheet and pencil, they are both answering the \_\_\_\_\_ question.

1. "what"
2. "how"
3. "for whom"
4. [4] "where"

12. When firms in an economy start producing more computers and fewer televisions, they are answering the \_\_\_\_\_ question.

1. "what"
2. "how"
3. "for whom"
4. "where"

13. When firms in an economy start producing more computers and fewer TVs, they are answering the "what to produce" question. Which of the following statements regarding factors of production is/are **correct**?

- a. Profit is income for the entrepreneur, whilst interest is income for capital.
- b. Land and labour are factors owned by firms, whilst capital and entrepreneurs are owned by households.
- c. The quantity of labour depends on the size of the population and the proportion of the population that is able and willing to work.

1. Only a and b
2. Only b and c
3. Only c and a
4. All the statements are correct

14. In the circular flow model of a closed economy with no government sector, households
1. Receive income from buyers of goods and services.
  2. Receive income from the sale of factors of production in the goods market.
  3. Pay firms for the use of their factors of production.
  4. Receive income from producers for the sale of factors of production in the factor market.
15. In terms of the circular flow diagram, firms make expenditure in the \_\_\_\_\_ market and receive income through the \_\_\_\_\_ market.
1. capital; goods
  2. goods; factor
  3. goods; financial
  4. factor; goods
16. Which **one** of the following options **correctly** lists examples of stock variables?
1. Profit, capital and assets.
  2. Assets, liabilities and income.
  3. Wealth, unemployment and investment.
  4. Wealth, capital stock and money supply.
17. In a free market economic system the combination of goods produced will be determined by
1. The government.
  2. The law.
  3. Market forces of demand and supply.
  4. The private sector.
18. In a command economy, all the economic decisions are taken by the
1. Government.
  2. Workers.
  3. Voters.
  4. Consumers.
19. The interaction between the demand for and supply of consumer goods and services takes place in which market?
1. Factor market
  2. Financial market
  3. Goods market
  4. Foreign market

5. None of the above

20. If there is a successful advertising campaign promoting the health benefits of drinking milk, then, *ceteris paribus*,

1. The demand for milk will increase.
2. The demand for milk will decrease.
3. The supply of milk will increase.
4. The supply of milk will decrease.
5. The demand and supply of milk will increase.

21. Market demand

1. Shows how much an individual is willing and able to consume at each and every price.
2. Is the horizontal summation of all the individual demand curves in a market?
3. Is the vertical summation of all the individual demand curves in a market?
4. Has a positive slope.
5. Shows how much individuals are willing to supply at each and every price.

22. Which of the following is true with regard to a decrease in the demand for cheese, *ceteris paribus*?

1. It is represented by a rightward shift of the demand curve.
2. It is represented by a movement upward along the demand curve.
3. It is represented by a movement downward along the demand curve.
4. It is most likely caused by an increase in the price of cheese.
5. It is represented by a leftward shift of the demand curve.

23. The law of demand states that

1. Prices and quantity demanded are inversely related, *ceteris paribus*.
2. The larger the number of buyers in the market, the lower the market price.
3. Prices and quantity demanded are directly related, *ceteris paribus*.
4. Consumers will buy more of a product at higher prices than at lower prices.

24. In the market for air travel, which of the following variables would decrease demand, *ceteris paribus*?

1. An increase in rental rates for hired cars, a substitute in consumption.
2. A rise in income of tourists.
3. A rise in the price of air travel.
4. A rise in the price of hotel accommodation, a complement in consumption.

25. Supply can (also) be defined as follows:

- a. The quantity of goods and services an individual is willing and able to buy at a given market price.
- b. The quantities of goods and services producers are willing and able to supply at a given market, price and time period.
- c. Quantities of goods and services producers supply.

- 1. Only b
- 2. Only a
- 3. Only b and c
- 4. Only c

26. When the supply curve shifts to the right, what will the effect on the equilibrium price and quantity be?

- 1. Price increases, quantity decreases.
- 2. Price increases, quantity increases.
- 3. Price decreases, quantity increases.
- 4. [4] Price decreases, quantity decreases.

27. A decrease in the cost of flour used to bake bread, is most likely to [1] decrease the demand for bread.

- 1. Increase the supply of bread.
- 2. Decrease the equilibrium quantity of bread traded.
- 3. Decrease the quantity of bread demanded.
- 4. Decrease the supply of bread.

28. Prices serve important functions in a market economy. Which of the following is/are **correct?** a)

- a. They only determine whether consumers can survive on their incomes.
- b. Prices ration the scarce supply of goods and services to those who value them the highest and can afford them.
- c. Their main role is to determine whether suppliers can make profits.
- d. They serve as signals that direct the factors of production among different uses in the economy (allocation function).

- 1. Only d
- 2. Only a and b
- 3. All of the above
- 4. Only b and d
- 5. Only c and d

29. In the market for first year economics textbooks, assuming everything else remains unchanged, the equilibrium price of textbooks will increase if [1] there is a surplus of textbooks.

1. The price of university education, a complement, increases.
2. The supply of textbooks increases.
3. The cost of the publication of textbooks increases.
4. There is a decrease in the cost of paper necessary to produce textbooks.

30. Which of the following will definitely cause an increase in the equilibrium price?

1. An increase in both demand and supply.
2. A decrease in both demand and supply.
3. An increase in demand combined with a decrease in supply.
4. A decrease in demand combined with an increase in supply. [5] Any of the above, depending on the circumstances.

31. Which of the following will definitely result in a fall in equilibrium price?

1. An increase in both demand and supply.
2. A decrease in both demand and supply.
3. An increase in demand together with a decrease in supply.
4. A decrease in demand together with an increase in supply.

32. Assume that beef and leather are complements **in production**. The price of beef increases because of a decrease in the supply of beef, *ceteris paribus*. [1]

1. The demand curve and the supply curve of leather will shift.
2. The supply curve of leather will shift to the right with an accompanying decrease in the equilibrium price and an increase in the equilibrium quantity of leather.
3. The supply curve of leather will shift to the left with an accompanying increase in the equilibrium price and a decrease in the equilibrium quantity of leather.
4. The demand curve of leather will shift to the left with an accompanying increase in the equilibrium price and a decrease in the equilibrium quantity of leather.

33. Which of the following statements is/are **correct**? The setting of a price ceiling below the equilibrium level will

- A. lead to an excess demand.
- B. have no effect on the market.
- C. lead to demand exceeding supply.
- D. lead to an excess supply.

1. All the statements are correct
2. Only c
3. Only a and c
4. Only a
5. Only b and c

34. Which of the following definitions/formulae of price elasticity of demand is/are **correct**?

a.  $E_p = \frac{\text{percentage } \Delta \text{ in the quantity demanded of the product}}{\text{percentage } \Delta \text{ in the price of the product}}$

b. The percentage change in the quantity demanded if the price of the product changes by one percent.

c.  $E_p = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

d. In case of a linear demand curve the price elasticity of demand can also be stated as:

$\frac{1}{\text{slope}} \times \frac{P}{Q}$

1. All the definitions/formulae are correct Only a, b and c
2. Only a and b
3. Only a
4. Only a and d

35. When the percentage change in the quantity demanded exceeds the percentage change in the price, the price elasticity of demand will be [1] zero.

1. Less than one.
2. Equal to one.
3. More than one.
4. Infinite.

36. If the price decreases and the demand is elastic, then

1. Total revenue will rise.
2. Total revenue will fall.
3. Total revenue will remain unchanged.
4. Any decrease in the price will decrease total revenue.

37. Which **one** of the following options is **correct**?

1. The demand for necessities will be more elastic.
2. The demand for luxuries will be more inelastic.
3. If bread and tea are necessities, then an increase in the price will not lead to a significant decrease in the quantities consumed.
4. If bread and tea are luxuries, then an increase in price will not lead to a significant decrease in the quantities consumed.

38. Which **one** of the following options is **correct**?

1. The price elasticity of demand for Volkswagen motorcars will be smaller than the price elasticity of the demand for motorcars in general.
2. Because bread is food, bread has the same price elasticity of demand as food. [3] The price elasticity of demand for Omo washing powder will be greater than the price elasticity of demand of washing powder. Products that are habit forming will tend to have a relatively high price elasticity of demand.
3. Butter and margarine are regarded as good substitutes. Therefore these goods will tend to have a relative inelastic price elasticity of demand.

39. The income elasticity of demand for luxury goods is greater than one. This means that the

1. Percentage change in quantity demanded is greater than the percentage change in income.
2. Percentage change in quantity demanded is smaller than the percentage change in income.
3. Percentage change in quantity demanded is equal to the percentage change in income.
4. Percentage change in price is greater than the percentage change quantity demanded.
5. Percentage change in quantity demanded is less than the percentage change in price.

40. Which of the following statements is/are **correct**?

- a. The slope, at any point of an indifference curve is equal to the marginal rate of substitution.
- b. The slope of a tangent drawn at any point of an indifference curve is equal to the marginal rate of substitution.
- c. When the budget line intersects the indifference curve the consumer can choose his equilibrium point.
- d. A decrease in the price of one or both products will shift the indifference curves to the right.

- 1. All the statements are correct
- 2. Only a, b and c
- 3. Only a and b
- 4. Only a
- 5. None of the statements is correct

41. Which **one** of the following options is **INCORRECT**?

- 1. When economists measure costs, they consider actual monetary payments and implicit costs.
- 2. Economic costs of production are based on the principle of opportunity cost.
- 3. Total economic cost of production always includes normal profit.
- 4. Accountants use the opportunity cost to calculate the profit of the firm.

42. Which **one** of the following options is **INCORRECT**?

- 1. To calculate total revenue price must be multiplied by the quantity sold.
- 2. In the long run all inputs are variable.
- 3. Both the marginal and average product can be derived from the total product but only the marginal product can become negative.
- 4. According to the law of diminishing returns, the total product can never decrease.
- 5. Total cost is the sum of total fixed cost and total variable cost.

43. As more units of the variable input is employed and the marginal product is falling but not yet negative then

- 1. The total product will decrease as the input increases.
- 2. The average product will increase.
- 3. The average product will decrease.
- 4. The average product may increase or decrease.

Questions 44 and 45 are based on table 1 below. A firm produces a product which it sells in a perfectly competitive market. The price of the product is R24 per unit and the firm's cost structure is as follows:

Table 1

Units produced	Total fixed cost (R)	Total variable cost (R)	Total cost (R)	Average (total) cost (R)	Marginal cost (R)
0			35		
1					34
3				48	
4			120		

44. Which **one** of the following options is **correct**?

1. Total fixed cost is zero if there is no production.
2. The marginal cost indicates the decrease in total cost when an additional unit is produced.
3. Total fixed cost increases if production increases.
4. If there is no production total variable cost is positive.
5. Average cost is not only equal to total cost divided by the quantity but is also equal to average fixed cost plus average variable cost.

45. Which of the following statements is/are **correct**?

- a. It is not possible to calculate the total fixed cost and total variable cost with the given information.
- b. The marginal cost of producing the second unit is R27.
- c. The quantity of units the firm should produce and sell to maximise its total profit is 3 units.

1. Only b and c
2. Only a and b
3. Only a and c
4. Only b
5. Only a

46. Suppose the marginal product (*MP*) for a firm of the 4th unit of labour is 20 and the average product (*AP*) of the same unit of labour is 25. Which one of the following options is **correct**?

1. Marginal product and average product are both rising.
2. Marginal product and average product are both falling.
3. Marginal product is falling while average product is rising.
4. It is impossible to tell if either of the curves is rising or falling.

47. When we say that the firm is a price taker it implies that the demand curve that the firm faces is perfectly inelastic.

1. The firm can change its production rate and sales without changing the market price of the product.
2. The firm takes the price as given and tries to influence it through production.
3. The firm can change the market price as it changes its production.
4. At the current market price, the firm can sell an infinite quantity.

48. A firm in a perfectly competitive industry will maximise profits by adjusting

1. Output until marginal revenue equals marginal cost.
2. Average total cost until it equals price.
3. Price until marginal revenue equals marginal cost.
4. Price until average revenue equals average total cost.
5. Output until average revenue equals short run average cost.

**Answer Sheet (Section C)**  
**CORRECT ANSWERS**

<b>Question</b>	<b>Answer</b>	<b>Explanation</b>
<b>1</b>	<b>4</b>	Scarcity is an economic concept that applies to all individuals rich or poor and to all countries regardless of level of development. Generally resources accessible to individuals and other economic agents are limited and insufficient to meet the agents' unlimited desires. No individual has enough resources to do everything that he/she desires and because of that we say resources are scarce. Scarcity must not be confused with poverty; it affects everyone, rich or poor.
<b>2</b>	<b>3</b>	Due to scarcity of resources, economic agents or society must choose amongst competing uses of available resources. Given that factors of production required to produce all goods and services desired by the society are limited, society has to decide on the best way of allocating these limited resources. It has to choose which goods and services should be produced and which needs or wants should be left unsatisfied. The issue of making choices in the context of scarcity is something that is done by everyone, not only the government. All individuals confronted with the problem of scarce resources should make choices.
<b>3</b>	<b>2</b>	In microeconomics the focus is on individual parts of the economy i.e. the behaviour of consumers, firms, etc. Microeconomics studies the price of an individual commodity, the number of people employed in a particular firm or industry, the output produced by firms in a particular sector or industry etc. Microeconomics deals with disaggregated data or individual components of the economy. Inflation and unemployment are macroeconomic issues because they relate to the economy as a whole. Thus macroeconomics is the study of broad economic aggregates like inflation, employment, GDP, etc.
<b>4</b>	<b>2</b>	Macroeconomics is concerned with the economy as a whole. It is a study of broad economic aggregates like inflation, economic growth, government tax policies, total output etc. The interaction of producers and consumers in individual markets relates to microeconomics. In this case we are studying individual components of the economy, not the whole economy and that is why we only look at individual markets.
<b>5</b>	<b>3</b>	A positive economic statement is an objective statement of fact that can also be proven by referring to factual information. Positive statements are usually not characterised by phrases like "should", "ought to" etc. Normative statements are value laden or subjective statements that reflect individual opinion and cannot be verified by referring to facts. Thus the statement that households are the primary source of saving can be proven by looking at the savings pattern in the country. There are statistics gathered by Statistics SA on the savings pattern of businesses, individuals and government in the country. We can use these statistics to see whether a large percentage of national savings is done by households (individuals) or not.

6	4	<p>“Senior citizens deserve an income that will allow them to live in comfort for their remaining years” is a normative statement because it reflects an individual’s opinion and it is difficult to prove the validity of this statement. For example, it is difficult to explicitly and objectively define the meaning of the word “comfort”. Being “comfortable” varies from individual to individual and therefore makes this statement normative in nature.</p>
<b>Question 7, 8 and 9 are based on the following production possibilities.</b>		
7	3	<p><b>Option 1 is attainable</b> It is possible to produce 18 tonnes of grain and 360 LCDs, even though production would be inefficient. If we are producing 360 LCDs, we need to also produce a maximum of 20 tonnes of grain if resources are used efficiently.</p> <p><b>Option 2 is attainable</b> 40 tonnes of grain and 200 LCDs is an attainable combination, as it lies on the production possibility curve, and is also an efficient point because resources are fully utilised in this case.</p> <p><b>Option 3 is unattainable</b> The combination of 32 tonnes of maize (grain) and 300 LCDs is not attainable. If we are producing 300 LCDs, we can only produce a maximum of 30 tonnes of grain.</p> <p><b>Option [4] is attainable</b> If we are producing 10 tonnes of grain, we can also produce a maximum of 400 LCDs. Thus, producing 390 LCDs means we are not fully utilising our resources - this is inefficient production and this point lies inside the production possibility curve.</p>
8	1	<p>Production is inefficient if this economy produces inside its production possibility curve or boundary. Thus 18 tonnes of grain and 360 LCDs represents a point that lies inside the PPC. If the economy is utilising its resources efficiently, the maximum amount of grain that can be produced when 360 LCDs are produced is 20 tonnes, not 18 tonnes. As explained above, option 3 represents an unattainable, not inefficient, production combination.</p>
9	4	<p>The opportunity cost of increasing the production of grain from 20 to 40 tonnes is the number of LCDs foregone (sacrificed to free up resources for the additional grain production). Thus 20 tonnes of grain are associated with 360 LCDs and 40 tonnes of grain are also associated with 200 LCDs. Increasing grain production from 20 to 40 tonnes results in the production of LCDs falling from 360 to 200. Therefore the opportunity cost is <math>360 - 200 = 160</math> LCDs.</p>
10	3	<p>A private good is characterised by excludability in consumption, which means that individuals who are not willing to pay to consume the good have no access to the good. Goods that are non-excludable in nature are called public goods. It is impossible to exclude those people who are not willing to pay from the consumption of public goods. Once street lights have been erected, whether an individual has paid for it or not, he/she is still able to consume“ the light. This is a case of non-excludability</p>
11	2	<p>Keeping track of inventory using a computer or using a spread sheet and pencil are all input issues related to the method of production. Thus they relate to the “how to produce” aspect of economic questions.</p>
12	1	
13	3	<p><b>Statement (a) is correct.</b> The rewards to factors of production are as follows: interest is paid to capital, rent to land or natural resources, wages to labour and profit to the entrepreneur.</p>

		<b>Statement (c) is correct</b> The size of the labour force represents the number of people willing and able to work. This number depends on the size and the proportion of the population that is by law able and willing to work, which also depends on the age and gender distribution of the population.																																			
14	4	In the circular flow model of a closed economy with no government sector, households receive income from producers for the sale of factors of production in the factor markets. Remember, all factors of production are owned by households and sold in the factor markets in return for factor income in the form of wages, rent, interest and profits.																																			
15	4	In terms of the circular flow of income diagram, firms incur expenditure in the factor market and receive income through the goods market. In the factor market firms will be paying for factor services supplied by households. Firms buy factors of production from households in the factor market and use these factors to produce goods and services, which they sell to households in the goods market. For supplying and selling goods and services in the goods market, firms receive income in the form of sales revenue.																																			
16	4	A stock variable is measured at a particular point in time and thus has no time (period) dimension, whilst a flow variable is measured over a period of time and can thus vary greatly with time. Therefore wealth, capital stock and money supply are all stock variables. Unemployment, investment, income and profits are all flow variables because they change with time.																																			
		<table><tr><td>Units produced</td><td>Total fixed cost (R)</td><td>Total variable cost (R)</td><td>Total cost (R)</td><td>Average (total) cost (R)</td><td>Marginal cost (R)</td></tr><tr><td>0</td><td>35</td><td>0</td><td>35</td><td>0</td><td>0</td></tr><tr><td>1</td><td>35</td><td>34</td><td>69</td><td>69</td><td>34</td></tr><tr><td>2</td><td>35</td><td>61</td><td>96</td><td>48</td><td>27</td></tr><tr><td>3</td><td>35</td><td>85</td><td>120</td><td>40</td><td>24</td></tr></table> <p>A few notes on the completed table:</p> <ul style="list-style-type: none"><li>When there is no production (zero units produced), the total cost = total fixed cost, in this case R35. Total fixed cost, by its very nature, is the same value at all levels of production.</li><li>At production of one unit, the marginal cost = the total variable cost that was added to the total fixed cost to produce this first unit, in this case R34. Total cost then = 35 + 34 = R69.</li><li>If average total cost at production of two units = R48, then total cost = 48 x 2 = R96.</li><li>In all cases total variable cost = total cost – total fixed cost. It is especially important in this table to calculate the total variable cost at production of two and three units. In all cases marginal cost = total cost of producing the next higher number of units (e.g. 2) – (minus) total cost of producing the previous number of units (e.g. 1). It is important in this table to calculate the marginal cost at production of two and three units.</li></ul> <p>Average (total) cost = total cost ÷ units produced, e.g. in the case of three units produced: 120 ÷ 3 = R40.</p>						Units produced	Total fixed cost (R)	Total variable cost (R)	Total cost (R)	Average (total) cost (R)	Marginal cost (R)	0	35	0	35	0	0	1	35	34	69	69	34	2	35	61	96	48	27	3	35	85	120	40	24
Units produced	Total fixed cost (R)	Total variable cost (R)	Total cost (R)	Average (total) cost (R)	Marginal cost (R)																																
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17	3	In a free market economy, the combination of goods (and services) produced will be determined by the market forces of demand and supply. This is a market system where all means of production are owned by private individuals and there is freedom of choice and enterprise. Thus individuals are free to consume any good they want, to work for any company																																			

		that they wish to and to employ factors of production to produce goods and services that they see fit. Self-interest is the major motivating factor in this system and everything is decided by the free inter-play of market forces. By contrast, the government or public sector is dominant in a command economy.
18	1	In a command economy all the economic decisions are taken by the government. The government decides on what to produce, how to produce and for whom to produce.
19	3	The market for goods and services acts as a link between households (demand) and firms (supply).
20	1	Anything that increases the preferences (or tastes) of consumers for a particular good will increase the demand for the good in question (in this case, milk).
21	2	The market demand is the <b>horizontal</b> summation of all the individual demand curves in a market.
22	5	A decrease in the demand for cheese is associated with a shift of the demand curve to the left. Remember the different terminology distinguishing a movement along a demand curve (referred to as a change in quantity demanded), as opposed to a shift of the demand curve (simply referred to as a change in demand).
23	1	The origin of this phenomenon is found in the economic motive of consumers who want to consume more of a product at a lower price and less of the product at a higher price resulting in this negative (inverse) relation between price and quantity demanded. That is why the demand curve has a negative slope.
24	4	An increase in the price of a complement will decrease the demand for air travel.
25	1	
26	3	An outward shift of the supply curve will cause the equilibrium price to decrease and the quantity to increase.
27	2	If there is a decrease in the price of an input (in this case, flour), it will cause the supply of the good (bread) to increase, <i>ceteris paribus</i> . The supply curve for bread will therefore shift rightward (downward).
28	4	<b>Statement b is correct.</b> The consumer must be willing and able to buy the product to be part of the demand for a product. <b>Statement d is correct.</b> Factors of production will always be allocated there where the remuneration is the highest.
29	4	If the cost of production increases, the supply curve will shift to the left (upward), resulting in an increase in the equilibrium price.
30	3	The demand curve will shift to the right, while the supply curve will shift to the left. The price will definitely increase, while the change in the quantity is uncertain and depends on the relative size of the changes.
31	4	The decrease in the price is certain, while the change in quantity depends on the relative size of the changes.
32	3	The supply of leather will decrease and the supply curve shifts to the left. The quantity will decrease while the price increases.
33	4	The introduction of a ceiling price means that you cannot charge a price higher than the ceiling price. At any price lower than the equilibrium price, the quantity demanded will exceed the quantity supplied and result in an excess demand.
34	1	All the statements correctly state various ways to calculate the price elasticity of demand.
35	4	The correct answer in the first place merely reflects a mathematical truth, irrespective of what is being calculated. A larger number divided by a smaller number will always render an answer larger than one. <b>The value of more than one indicates an elastic demand.</b>
36	1	When demand is elastic, total revenue (TR) will increase when price decreases.
37	3	The demand for necessities tends to be inelastic and thus the percentage change in Q is smaller than the percentage change in P.
38	3	

39	1	Option [1] is the correct description of a positive income elasticity of demand, and in particular that of a luxury good.
40	3	
41	4	Option [4] is false, as accountants do not consider opportunity cost, but explicit costs only – i.e. "the monetary payments for the factors of production and other inputs bought or hired by the firm".
42	4	The law of diminishing returns states the following: as more of a variable input is combined with one or more fixed inputs in a production process, points will eventually be reached where first the marginal product, then the average product and finally the total product start to decline. Thus, the statement that total production can never decrease is incorrect.
43	4	It is clear that AP can still increase after MP has started declining, but in due course AP will also decline once MP values become smaller. When TP values become smaller after reaching a maximum value, MP values become negative. The other options in the question are, at best, half-truths.
44	5	This must be true, as total cost = fixed cost + variable cost. Thus, if these totals are all divided by the quantity produced, the averages obtained must still render the same equality.
45	1	The price of the product is given as R24. The firm will maximise profits where $P = MC$ . From the above table it is evident that when three units are produced, $P = MC = 24$ .
46	2	AP is only greater (lies higher) than MP when both are decreasing.
47	2	<b>Price takers</b> have to accept the price as given and can only decide what quantities to supply or demand at that price. The price is determined by the interaction of demand and supply and all the market participants have to accept that price, as their individual actions cannot influence the price.
48	1	The rule of profit maximisation under perfect competition states that profit is maximised at the output where <b>marginal revenue (MR) is equal to marginal cost (MC)</b> .