

**ECS1601**  
**REC1601**

( 494140)    October/November 2013  
( 482007)

**ECONOMICS IB**

Duration    2 Hours

100 Marks

EXAMINERS  
FIRST  
SECOND

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Use of a non-programmable pocket calculator is permissible

Closed book examination

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This exam paper consists of 16 pages plus instructions for the completion of a mark reading sheet

Please read the following **CAREFULLY** before answering the paper

The paper is divided into two sections Section A and Section B

**Section A**

Candidates must answer **ALL** the questions in this section

**SECTION B**

**IN this section ALL the questions must be answered on the mark reading sheet which is supplied** Carefully follow the instructions for completion of the mark reading sheet

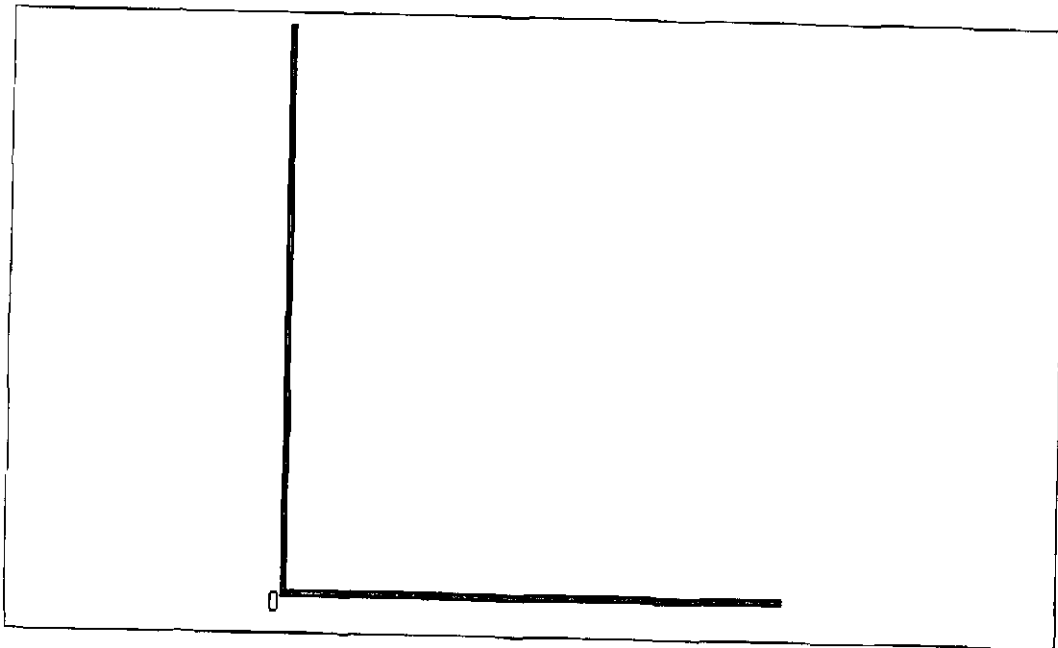
As your mark reading sheet can get lost, you must also write down your answers for this question On the last page of this paper space is provided for this purpose

**SECTION A [50 marks]****QUESTION 1****(9)**

- 1 1 Name the main components of fiscal policy (3)
- 1 2 Name four main functions of the South African Reserve Bank (4)
- 1 3 What is the purpose of an import tariff? (2)

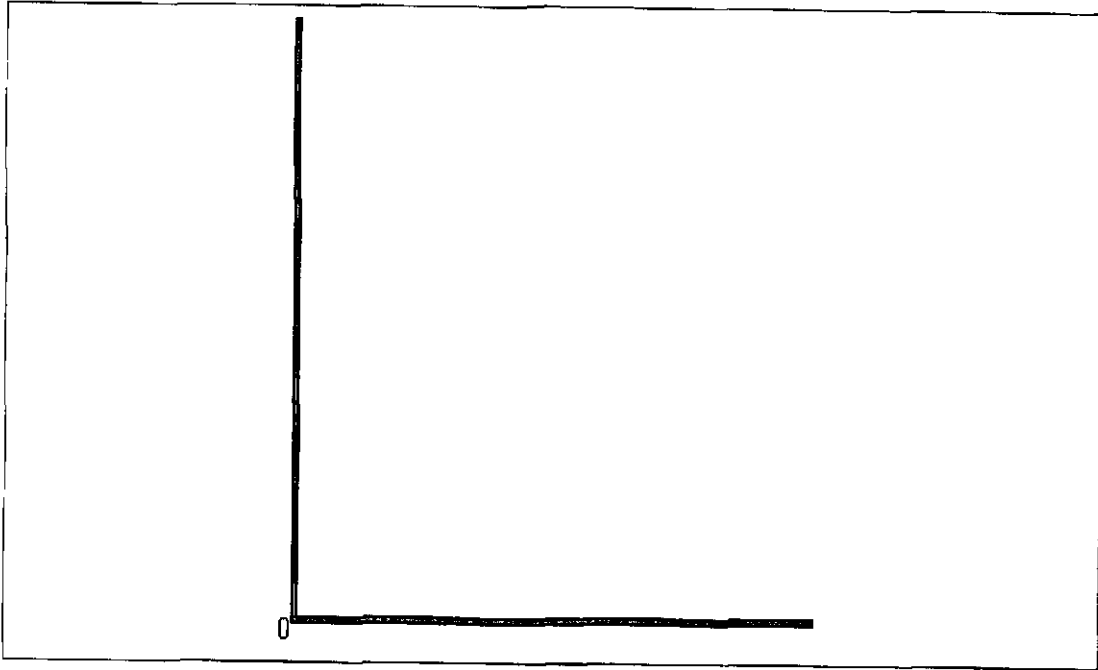
**QUESTION 2****(11)**

- 2 1 (a) Draw a Lorenz curve depicting a skewed income distribution (3)  
 (b) Describe the calculation of the Gini coefficient (1)
- 2 2 Use the following sets of axes to draw a diagram of each model below. The first one has only households and the second has households and businesses (investors). Clearly indicate the values of total autonomous expenditure and the equilibrium level of income.
- 2 2 1 Consumption function  
 $= 100 + 0,75Y$  (4)

**[TURN OVER]**

$$\begin{aligned}
 &2.2.2 \text{ Consumption function} \\
 &= 100 + 0,75Y \\
 &\text{Investment} \\
 &= 200
 \end{aligned}$$

(3)

**QUESTION 3**

(8)

You are provided with the following information about an independent island

Autonomous consumption	150
Autonomous imports	50
Consumption function	$150 + 0,5625Y$
Exports	250
Full-employment output	1 900
Government expenditure	400
Investment expenditure	300
Marginal propensity to consume	0,75
Marginal propensity to import	0,15
Tax rate	0,25

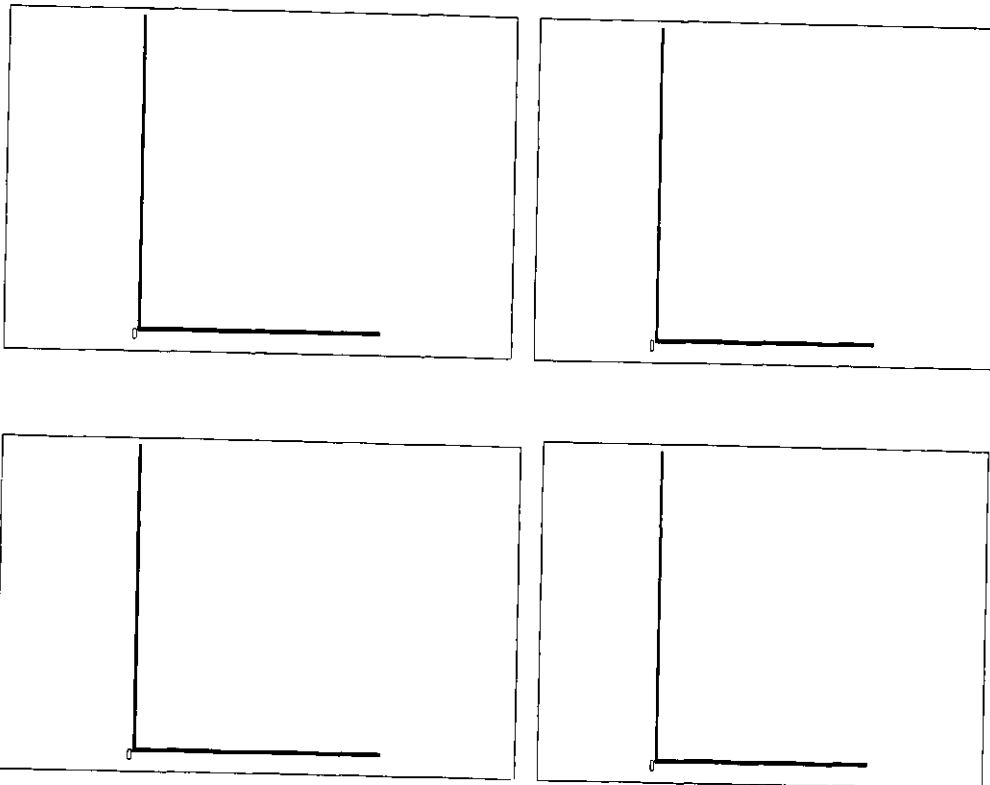
Show ALL calculations

[TURN OVER]

- 3.1 Derive the saving function (2)
- 3.2 Calculate the multiplier (2)
- 3.3 Calculate the equilibrium level of income (4)

**QUESTION 4****(22)**

- 4.1 Explain the use of open-market policy in increasing the money supply (4)
- 4.2 Distinguish between the private ownership of businesses and privatisation (3)
- 4.3 Explain the main distinctions between savings and investments using the simple Keynesian model (2)
- 4.4 Explain, with reference to the AD/AS model, how a decrease in interest rates affect the price level and income level in the economy. You may use graphs to assist you with the explanation, but graphs are not a requirement and will therefore not count any marks (5)



4 5

- 4 5 1 Name and describe four types of unemployment (4)
- 4 5 2 Which type of unemployment do you think is dominant in South Africa? Substantiate your answer (1)
- 4 6 Explain why exports are viewed as autonomous in the simple Keynesian model of an open economy with a foreign sector, and how it is treated in the model (3)

**MULTIPLE-CHOICE QUESTIONS****SECTION B [60 marks]**

Choose the correct answer to each question below from the options given

- 1 Which of the following is not considered a macroeconomic issue?
  - [1] The unemployment rate of a small town in the Free State
  - [2] A decline in the trade deficit due to increasing output
  - [3] The decline in agricultural prices during the 1980s
  - [4] The rise in worldwide inflation during the 1970s
  
- 2 The two basic markets shown in the simple circular flow model are
  - [1] capital goods and consumer goods
  - [2] free and controlled markets
  - [3] factor market of and goods market
  - [4] households and businesses
  
- 3 The circular flow model reveals that an increase in South African imports will
  - [1] increase revenue to South African firms and increase income to South African factors of production
  - [2] reduce output and income in the rest of the world, further boosting South African imports
  - [3] increase South African exports by more than the increase in imports
  - [4] increase revenues to foreign firms and increase income to foreign factors of production
  
- 4 Which of the following is a final good or service?
  - [1] Diesel fuel bought for a delivery truck
  - [2] Fertiliser purchased by a farm supplier
  - [3] A haircut paid for by a student
  - [4] Motor vehicle windows purchased by a motor assembly plant

- 5 Rational behaviour suggests that
- [1] everyone will make identical choices
  - [2] resource availability exceeds material wants
  - [3] individuals will make different choices because their information and constraints differ
  - [4] an individual's economic goals cannot involve tradeoffs
- 6 Which of the following is a macroeconomic statement?
- [1] The gross profits of all South African businesses were measured and calculated to be five percent more last year than the year before
  - [2] The price of beef declined by three percent last year
  - [3] The Spar Group's profits increased in 2012
  - [4] The productivity of steelworkers increased by one percent in 2012
- 7 Gross domestic product (GDP) may be defined as
- [1] the monetary value of all goods and services (final, intermediate and non-market) produced in a given year
  - [2] total resource income less taxes, savings and spending on exports
  - [3] the economic value of all economic resources used in the production of a year's output
  - [4] the market value of all final goods and services produced in a country in a specific year
- 8 Transfer payments are
- [1] excluded when calculating GDP because they only reflect inflation
  - [2] excluded when calculating GDP because they do not reflect current production
  - [3] included when calculating GDP because they are a category of investment spending
  - [4] included when calculating GDP because they increase recipients' spending
- 9 Government transfer payments
- [1] have been virtually eliminated by government policy decisions
  - [2] have virtually no effect on the distribution of income
  - [3] make the distribution of income less equal
  - [4] make the distribution of income less unequal

- 10 If nominal GDP rises
- [1] real GDP may either rise, fall or stay the same
  - [2] we can be certain that the price level has risen
  - [3] real GDP must fall
  - [4] real GDP must also rise
- 11 The phase of the business cycle in which real domestic output declines is called
- [1] the peak
  - [2] a recovery
  - [3] a recession
  - [4] the trough
- 12 A recession is a period in which
- [1] cost-push inflation is present
  - [2] nominal domestic output falls
  - [3] demand-pull inflation is present
  - [4] real domestic output falls
- 13 A price index is
- [1] a comparison of the current price of a market basket from a fixed point of reference
  - [2] a comparison of real GDP in one period to real GDP in another period
  - [3] the cost of a market basket of goods and services in a base period divided by the cost of the same market basket in another period
  - [4] a ratio of real GDP to nominal GDP

- 14 Recently a labour union argued that the standard of living of its members was falling. A critic of the union argued that this could not possibly be true, because the union had been acquiring significant increases in the nominal incomes of its members through collective bargaining. Is the critic correct?
- [1] Yes, because when you have large nominal earnings your standard of living automatically increases
  - [2] No, because real income may fall if price increases are proportionately more than the increase in nominal earnings
  - [3] No, because real income may fall if price increases are proportionately less than the increases in nominal earnings
  - [4] Yes, because real income may fall if price increases are proportionately less than the increases in nominal earnings
- 15 Eckstein has lost her job in a Cape Town textile plant because of import competition. She intends to take a short course in electronics and move to Johannesburg where she anticipates new jobs will be available. We can say that Eckstein experienced \_\_\_\_\_ unemployment.
- [1] seasonal
  - [2] cyclical
  - [3] structural
  - [4] frictional
- 16 The presence of discouraged workers \_\_\_\_\_
- [1] increases the size of the labour force, but does not affect the unemployment rate
  - [2] reduces the size of the labour force, but does not affect the unemployment rate
  - [3] may cause the official unemployment rate to understate unemployment figures
  - [4] may cause the official unemployment rate to overstate unemployment figures
- 17 Net exports are negative when \_\_\_\_\_
- [1] a nation's imports exceed its exports
  - [2] the economy's stock of capital goods is declining
  - [3] depreciation exceeds domestic investment
  - [4] a nation's exports exceed its investment

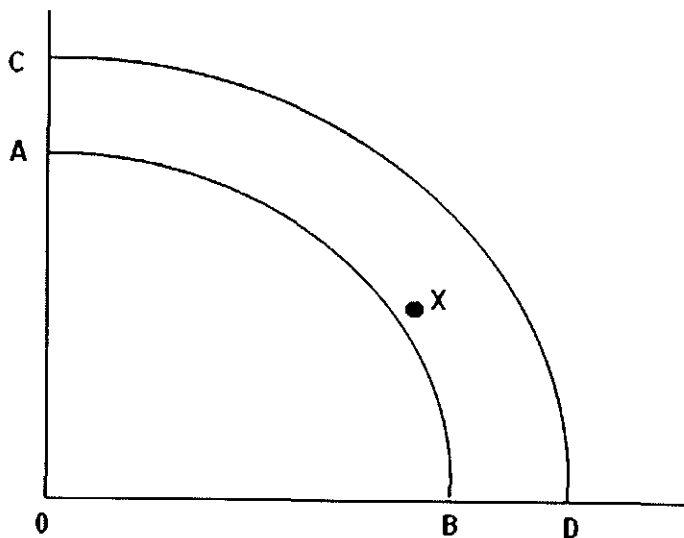
- 18 Other things equal, recessions in the economies of South Africa's trading partners will
- [1] have no perceptible impact on the South African economy
  - [2] cause inflation in the South African economy
  - [3] depress real output and employment in the South African economy
  - [4] stimulate real output and employment in the South African economy
- 19 The consumption function shows
- [1] that the marginal propensity to consume increases in proportion to GDP
  - [2] that households consume more when interest rates are low
  - [3] that consumption primarily depends upon the level of business investment
  - [4] the amounts households plan or intend to consume at various possible levels of aggregate income
- 20 An increase in taxes of a specific amount would have a smaller impact on the equilibrium GDP than a decline in government spending of the same amount would have, because
- [1] the marginal propensity to consume is smaller in the private sector than it is in the public sector
  - [2] declines in government spending always tend to stimulate private investment
  - [3] disposable income will fall by some amount smaller than the tax increase
  - [4] some of the tax increase will be paid out of income which would otherwise have been saved
- 21 If the consumption schedule coincided with the 45-degree line
- [1] the multiplier would be 2
  - [2] consumption would equal income at all income levels
  - [3] the marginal propensity to save would be 1
  - [4] the marginal propensity to consume would be zero

- 22 A commercial bank has actual reserves of R9 000 and liabilities of R30 000, and the required reserve ratio is 20%. The excess reserves of the bank is
- [1] R3 000
  - [2] R6 000
  - [3] R7 500
  - [4] R9 000
- 23 If banks lend their excess reserves, the immediate effect will be that
- [1] the money supply remains unchanged
  - [2] money is created
  - [3] interest rates rise
  - [4] the price level will fall
- 24 The money-creating potential of the banking system is reduced when
- [1] bankers choose to hold excess reserves
  - [2] borrowers choose to hold none of the funds they have borrowed in banknotes and coin
  - [3] the South African Reserve Bank (SARB) lowers the required reserve ratio
  - [4] bankers borrow from the SARB
- 25 The primary reason commercial banks must keep required reserves on deposit at the South African Reserve Bank (SARB) is
- [1] to limit deposits at commercial banks
  - [2] to limit the issuance of cheques by the public
  - [3] to add to the liquidity of the commercial bank and to protect it against a "run" on the bank to ensure confidence in the banking system
  - [4] to make the use of cash more attractive than the use of credit cards

- 26 A commercial bank has no excess reserves until a depositor places R600 in cash in the bank. The bank then adds the R600 to its reserves by depositing it with the SARB. The commercial bank then lends R300 to a borrower. As a consequence of these transactions the size of the overall money supply has
- [1] not been affected
  - [2] increased by R300
  - [3] increased by R600
  - [4] increased by R900
- 27 Which of the following is more likely to be affected by changes in interest rates?
- [1] Consumer spending
  - [2] Investment spending
  - [3] Government spending
  - [4] The exports of the economy
- 28 Other things equal, a reduction in personal and business taxes can be expected to
- [1] increase aggregate demand and decrease aggregate supply
  - [2] increase both aggregate demand and aggregate supply
  - [3] decrease both aggregate demand and aggregate supply
  - [4] decrease aggregate demand and increase aggregate supply
- 29 Which one of the following would increase per unit production cost and therefore shift the aggregate supply curve to the left?
- [1] A reduction in business taxes
  - [2] An increase in worker productivity and production advances
  - [3] The deregulation of industry
  - [4] An increase in the price of imported resources
- 30 An appropriate fiscal policy for a recession is
- [1] a decrease in government spending
  - [2] a decrease in tax rates
  - [3] appreciation of the South African rand
  - [4] an increase in interest rates

- 31 If personal income taxes were decreased and input productivity increased simultaneously, the equilibrium
- [1] output would rise
  - [2] output would fall
  - [3] price level would necessarily fall
  - [4] price level would necessarily rise
- 32 The economy is experiencing inflation and the SARB decides to pursue a restrictive money policy. Which set of actions by the SARB would be most consistent with this policy?
- [1] Buying government securities and lowering the repo rate
  - [2] Buying government securities and lowering the reserve ratio
  - [3] Selling government securities and raising the repo rate
  - [4] Selling government securities and lowering the repo rate

Use the following graph to answer question 33:



- 33 If the production possibilities curve for an economy is at CD, but the economy is operating at point X, the reasons are most likely to be
- [1] supply and environmental factors
  - [2] demand and efficiency factors
  - [3] labour inputs and labour productivity
  - [4] technological progress

34 The traditional Phillips curve shows

- [1] the inverse relationship between the rate of inflation and the unemployment rate
- [2] the inverse relationship between the nominal and the real wage
- [3] the direct relationship between unemployment and demand-pull inflation
- [4] the trade-off between the short run and the long run

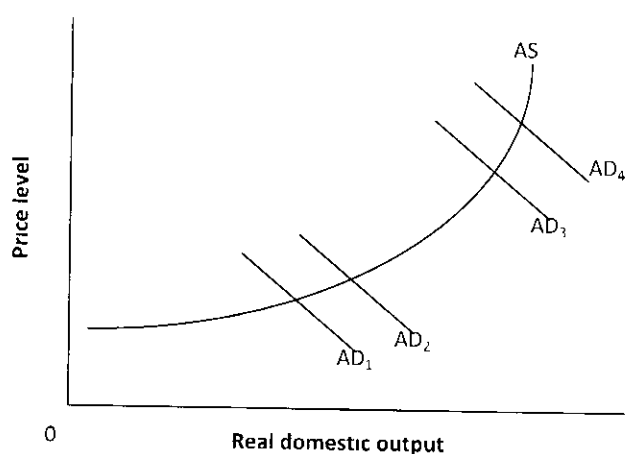
35 Assume that an economy has 1 000 workers, each working 2 000 hours per year. If the average real output per worker-hour is R9, then total output or real GDP will be

- [1] R2 million
- [2] R9 million
- [3] R18 million
- [4] R24 million

36 The repo rate is the rate

- [1] which banks charge for the overnight use of excess reserves held at the SARB
- [2] which banks charge for loans to the most creditworthy clients
- [3] which the SARB charges for short-term loans to commercial banks
- [4] at which the ARB sells government bonds in open-market operations

Use the following graph to answer questions 37, 38 and 39



- 37 A shift from  $AD_1$  to  $AD_2$  would be most consistent with
- [1] an increase in the prime interest rate
  - [2] the buying of securities by the SARB
  - [3] an increase in the repo rate by the SARB
  - [4] the SARB increasing the reserve requirement
- 38 Which shift would be most consistent with the potential effects of restrictive monetary policy in an inflationary period in an economy where prices are flexible?
- [1]  $AD_1$  to  $AD_2$
  - [2]  $AD_3$  to  $AD_4$
  - [3]  $AD_4$  to  $AD_3$
  - [4]  $AD_1$  to  $AD_4$
- 39 If the South African Reserve Bank adopted expansionary monetary policy in a period of high unemployment, the situation can best be characterised by a shift from
- [1]  $AD_1$  to  $AD_2$
  - [2]  $AD_4$  to  $AD_2$
  - [3]  $AD_4$  to  $AD_3$
  - [4]  $AD_4$  to  $AD_1$
- 40 Which of the following is not a supply factor in economic growth?
- [1] An expansion in purchasing power
  - [2] An increase in the economy's stock of capital goods
  - [3] More natural resources
  - [4] Technological progress

As your mark-reading sheet can get lost, you **must** also write down your answer for Section B in the space provided below

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**PART 1 (GENERAL/ALGEMEEN) DEEL 1**

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INITIALS AND SURNAME  
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DATE OF EXAMINATION  
 DATUM VAN EKSAMEN

PAPER NUMBER  
 VRAESTELNOMMER

EXAMINATION CENTRE (E.G. PRETORIA)  
 EKSAMENSENTRUM (BY PRETORIA)

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For use by examination invigilator  
 Vir gebruik deur eksamenopsiener

- IMPORTANT**
- USE ONLY AN HB PENCIL TO COMPLETE THIS SHEET
  - MARK LIKE THIS
  - CHECK THAT YOUR INITIALS AND SURNAME HAS BEEN FILLED IN CORRECTLY
  - ENTER YOUR STUDENT NUMBER FROM LEFT TO RIGHT
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  - CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
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**PART 2 (ANSWERS/ANTWOORDE) DEEL 2**

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Specimen only