

<b>ECS1028</b>	( 489720)	May/June 2009
<b>ECN1M2Z</b>	( 421767)	
<b>EFE1M2E</b>	( 490254)	
<b>RCN1M29</b>	( 468585)	
<b>REC102Y</b>	( 453723)	

### ECONOMICS 1B (ECONOMICS 102)

Duration 2 Hours

100 Marks

EXAMINERS  
FIRST  
SECOND

MR WJ LE ROUX  
MR FHB SERFONTEIN

Use of a non-programmable pocket calculator is permissible

This partial fill-in paper consists of 18 pages plus instructions for the completion of a mark-reading sheet

Read the following instructions **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 the completion of the mark-reading sheet

Please ensure that you use the correct unique number on the mark-reading sheet

If you are registered for ECS102-8, use the unique number 489720

If you are registered for ECN1M2-Z, use the unique number 421767

If you are registered for EFE1M2-E, use the unique number 490254

If you are registered for RCN1M2-9, use the unique number 468585

If you are registered for REC102-Y, use the unique number 453723

Your mark-reading sheet can get lost and you **MUST** therefore also write down your answers for this section On the last page of this paper space is provided for this purpose

[TURN OVER]

**SECTION A [50 MARKS]**

Answer ALL the following questions in the blocks provided

**QUESTION 1 [9]**

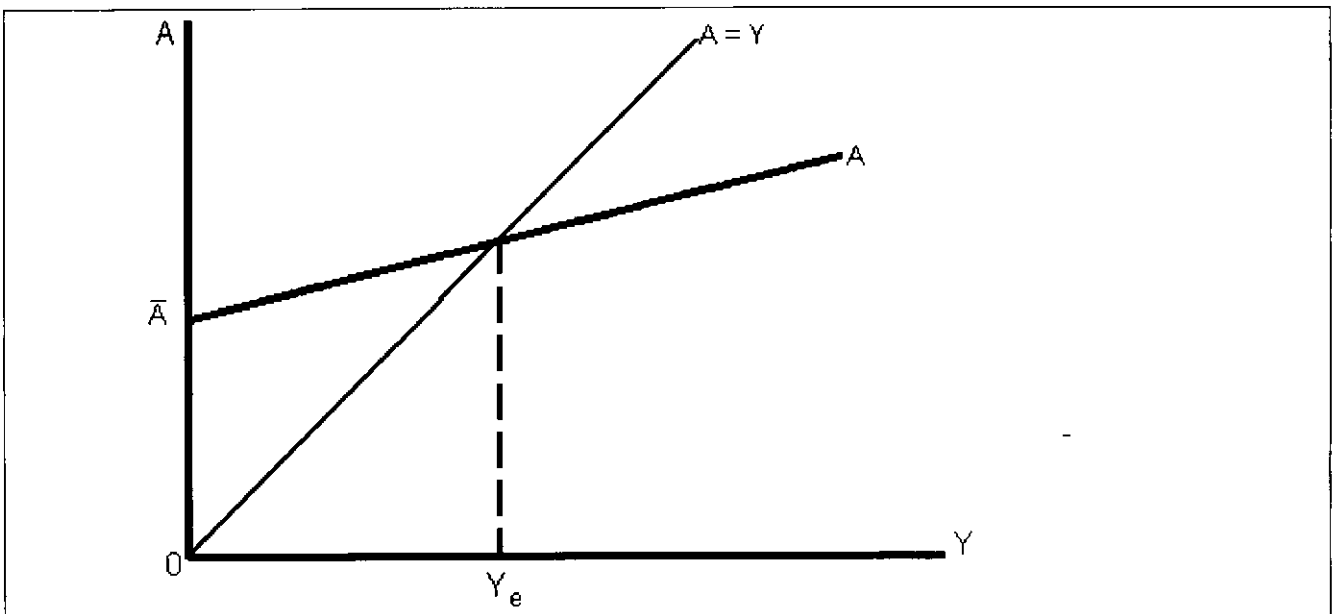
(i) List three important withdrawals from the circular flow of income and spending (3)


(ii) Name the three measures that are used to measure the inequality of the distribution of income (3)


(iii) Define fiscal policy (3)

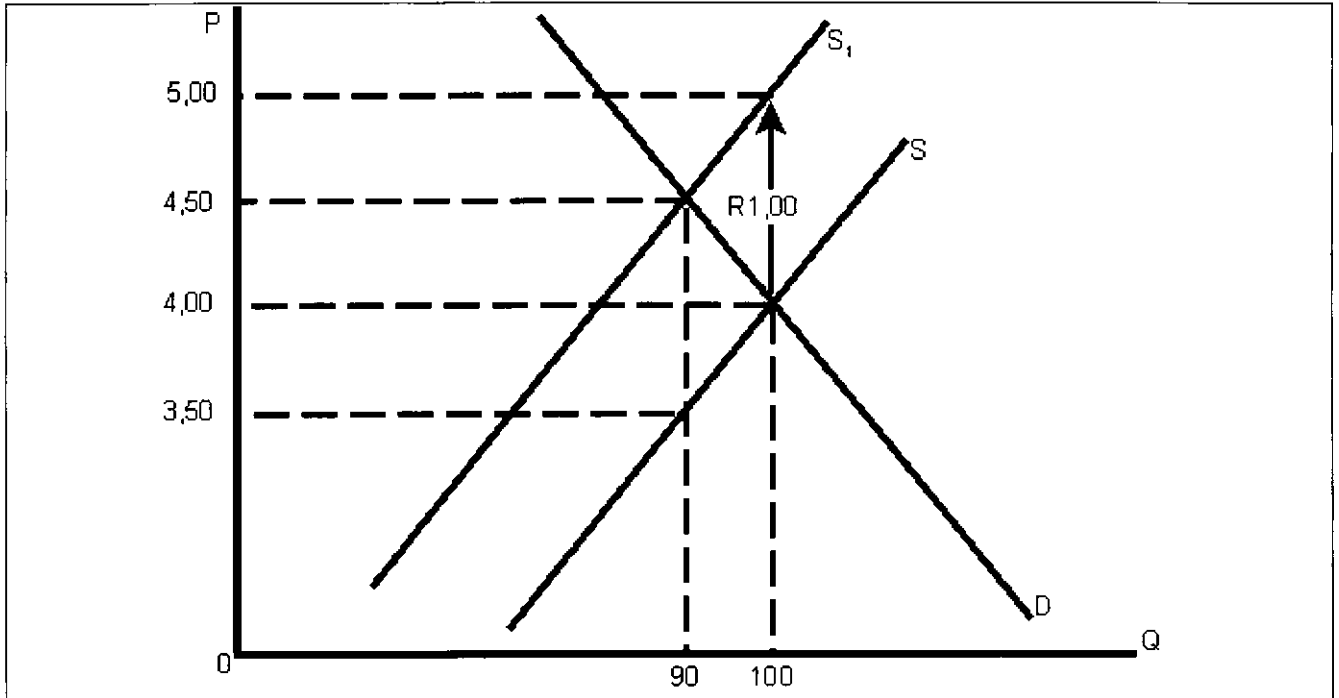

**QUESTION 2 [12]**

(i) Suppose the government changes the tax rate from 5% to 10%. Use the following diagram to show the impact of this change on the equilibrium level of income (3)



[TURN OVER]

- (ii) The following figure represents the introduction of an excise tax of R1,00 on cigarettes. The equilibrium price per packet before the introduction of the excise tax on cigarettes is R4,00

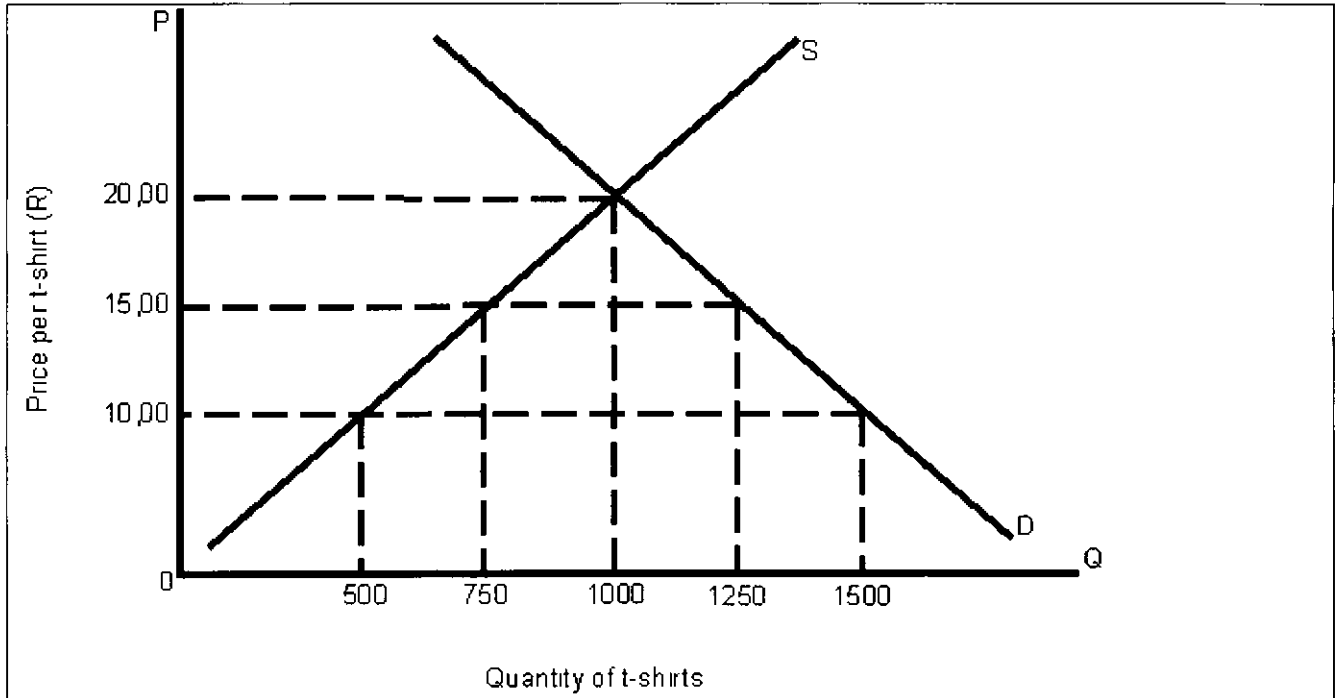


- (a) Explain why the equilibrium price per packet of cigarettes after the imposition of the excise tax is R4,50 and not R5,00 (1)

- (b) What is the amount the consumers have to pay **extra** per packet of cigarettes after the imposition of the excise tax? (1)

- (c) Assume the price of cigarettes did not include any taxes before the introduction of the excise tax. What is the total amount of tax received by the government after the imposition of the excise tax? (1)

- (iii) This question is based on the following figure which represents the impact of a specific import tariff on T-shirts



The original domestic demand and supply curves of T-shirts before international trade are represented by D and S. The world price of T-shirts is R10,00.

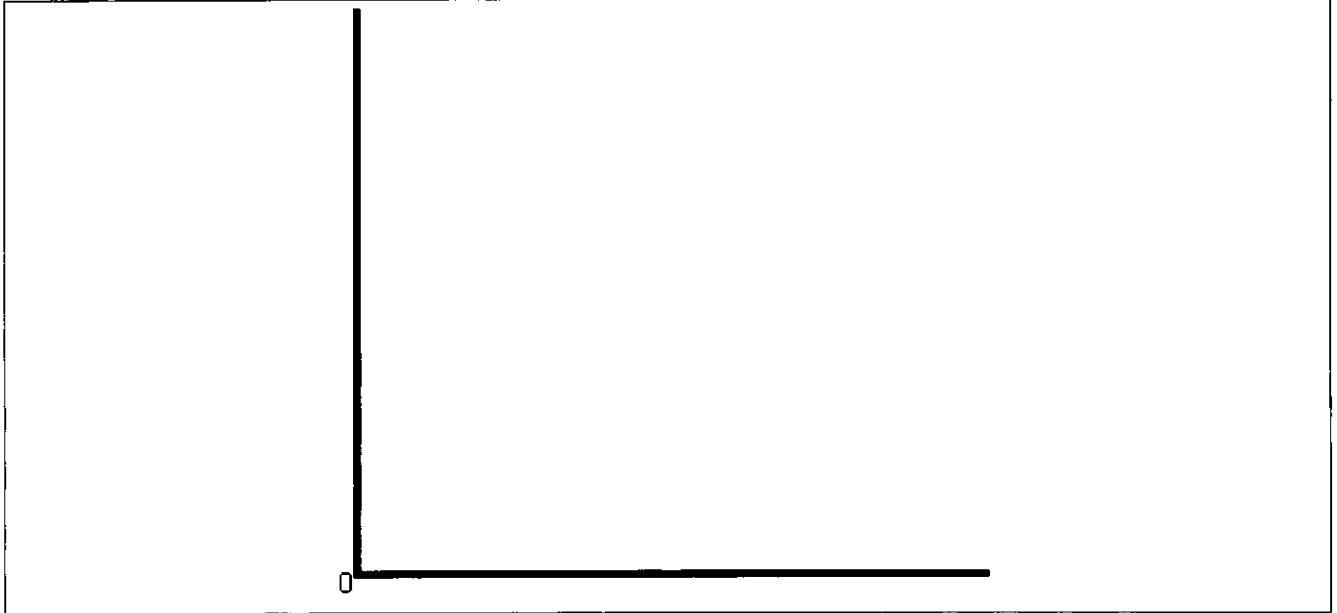
- (a) What is the equilibrium quantity of T-shirts **after** international trade but **without** a tariff? (1)

- (b) What is the level of domestic production of T-shirts **after** international trade but **without** a tariff? (1)

Assume an import tariff of R5,00 per t-shirt is imposed.

- (c) How many T-shirts are imported **after** international trade but **with** the imposition of the tariff? (1)

- (iv) Use the following diagram to show how the equilibrium in the money market changes if the level of income in the economy **decreases**. Remember to label your diagram. (3)



**QUESTION 3**

[11]

- (i) An economy produces the following combinations of two goods, pork and maize, only

	2004		2005	
	Quantity	Price	Quantity	Price
Pork	205	8	210	9
Maize	310	4	320	5

- Calculate the value of the nominal GDP in 2005. Show all your calculations. (2)

[TURN OVER]

(ii) Given the following information

Year	Nominal GDP	Real GDP
2001	280	280
2002	315	260
2003	305	300

Calculate the increase in real GDP between 2001 and 2003. Show all your calculations. (2)

(iii) Given the following information

Year	CPI
2005	100
2006	125
2007	135

Calculate the inflation rate between 2006 and 2007. Show all your calculations. (2)

(iv) Given the following information

Autonomous consumption	=	R100 million
Investment spending	=	R200 million
Government spending	=	R250 million
Net exports	=	- R50 million
Proportional tax rate (t)	=	20%
Marginal propensity to consume (c)	=	$\frac{3}{4}$
Full employment income (Y <sub>f</sub> )	=	R1500 million

[TURN OVER]

Calculate (Show all your calculations)

- the marginal propensity to save (2)

--

- the budget deficit at the equilibrium level of income (3)

--

**QUESTION 4 [18]**

- (i) Explain the difference between direct taxes and indirect taxes (2)


- (ii) Discuss the effect of an increase in South African imports from the USA on the value of the rand on the South African foreign exchange market (3)


- (iii) Explain why government spending is classified as part of autonomous spending in the Keynesian model (2)


[TURN OVER]

(iv) How does government spending affect the multiplier in the Keynesian model? (1)


(v) What are the determinants of induced consumption in the Keynesian model of a closed economy with a government sector? (3)


(vi) Given a Keynesian model of an economy with a government and a foreign sector Explain the impact of a **decrease** in the tax rate on the equilibrium level of income (4)


(vii) Explain what measures can be taken to get rid of cost-push inflation (3)


\*\*\*\* \* \*\*\*\*

**SECTION B [50 MARKS]**

Answer **ALL** the questions in this section on the mark-reading sheet which is supplied. Each question is worth 1¼ marks. **Note** Only **ONE** statement per question is correct.

- 1 The three major flows in a macro economy are
  - [1] total production, total investment and total spending
  - [2] total income, total wages and total rent
  - [3] total production, total spending and total savings
  - [4] total production, total income and total spending
  
- 2 In the circular flow model of the economy, income is equal to spending because
  - [1] injections and withdrawals are always equal
  - [2] withdrawals are a function of the level of income
  - [3] governments will change taxes and expenditure to ensure equilibrium
  - [4] expenditure equals income less taxes
  
- 3 In the base year a country produced 50 units of output at a price of R3,00 each for a nominal GDP of R150,00. This year it produces 60 units of output at a price of R5,00 each. What is the percentage change in real GDP since the base year?
  - [1] 10%
  - [2] 20%
  - [3] 40%
  - [4] 66,7%
  
- 4 If product prices in South Africa were stated in terms of litres of milk (instead of rands and cents), then milk would be functioning primarily as
  - [1] a store of value
  - [2] a unit of account
  - [3] a medium of exchange
  
- 5 When the entire banking system makes use of excess reserves to grant new loans in the form of deposits,
  - [1] the credit multiplier decreases
  - [2] the credit multiplier increases
  - [3] the credit multiplier remains unchanged
  
- 6 The quantity of money demanded for precautionary purposes decreases if
  - [1] total output decreases
  - [2] consumer incomes increase
  - [3] the interest rate increases
  - [4] the inflation rate increases

[TURN OVER]

- 7 The South African Reserve Bank feels that the South African economy is overheated. To correct the problem the SARB could
- [1] sell bonds on the open market
  - [2] increase tax rates
  - [3] decrease government spending
  - [4] lower the reserve requirement
- 8 The rate at which each additional rand of income is taxed is called the
- [1] effective tax rate
  - [2] marginal tax rate
  - [3] average tax rate
  - [4] general tax rate
- 9 If the tax on beer is R4 per 330ml irrespective of a beer's selling price, then the tax is known as
- [1] a specific tax
  - [2] an ad valorem tax
  - [3] a value-added tax
  - [4] a proportional tax

Questions 10 and 11 are based on the following table showing the production possibilities of two countries

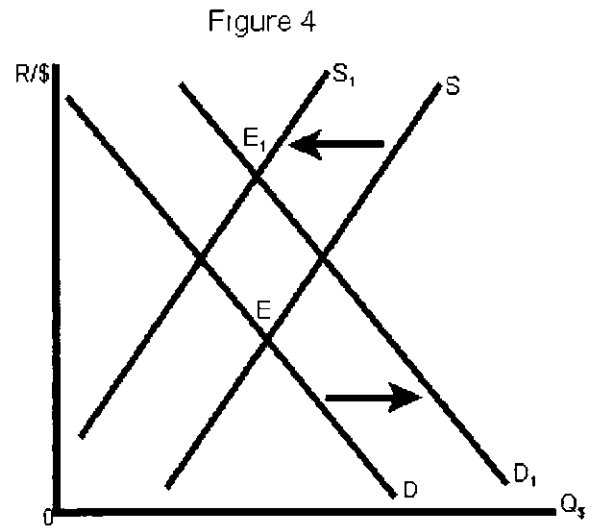
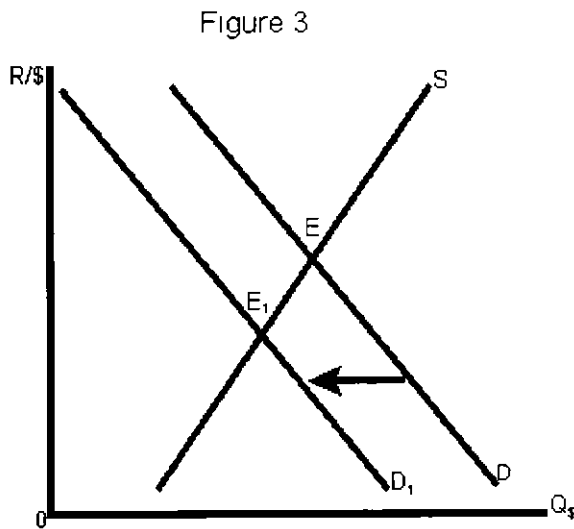
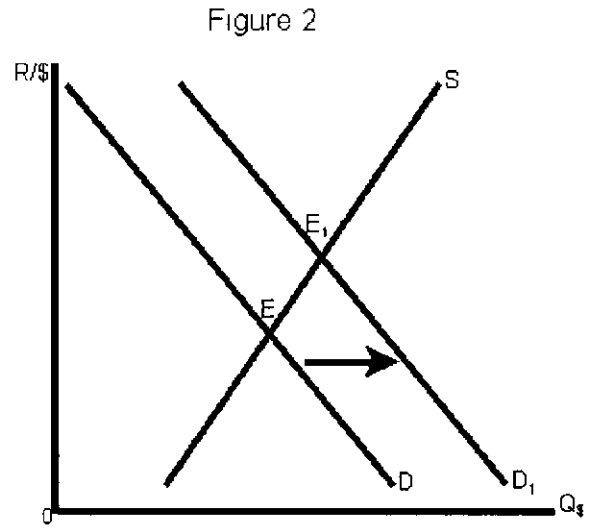
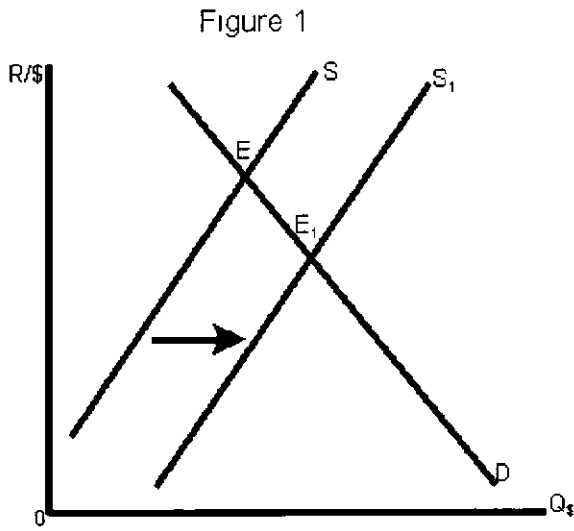
South Africa	50 guns or 100 teddy bears
USA	75 guns or 300 teddy bears

- 10 The opportunity cost of producing a gun in South Africa is
- [1] zero
  - [2]  $\frac{1}{2}$  a teddy bear
  - [3] 2 teddy bears
  - [4] 100 teddy bears
- 11 Trade between South Africa and the USA requires an acceptable exchange or trading ratio. An example of a trading ratio which is acceptable for both countries is
- [1] 1 teddy bear for every gun
  - [2] 2 teddy bears for every gun
  - [3] 3 teddy bears for every gun
  - [4] 4 teddy bears for every gun
- 12 The price rather than the quantity of imported goods would be more directly affected by
- [1] a quota
  - [2] a tariff
  - [3] a voluntary import restraint
  - [4] non-tariff barriers

13 When the rand depreciates against the US dollar,

- [1] South African exports become cheaper in US dollar terms
- [2] South African imports from the USA will increase
- [3] South African exports to the USA will decrease
- [4] South Africans will pay less for each dollar

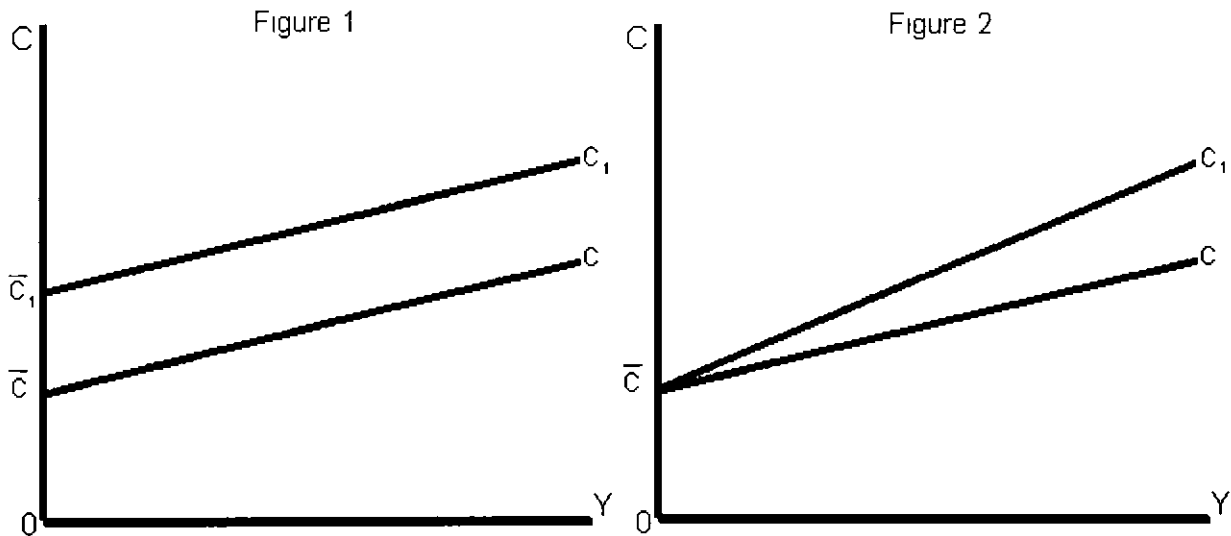
14 Which of the following figures shows the impact of an increase in USA interest rates on the South African foreign exchange market?



- [1] Figure 1
- [2] Figure 2
- [3] Figure 3
- [4] Figure 4

- 15 An increase in the rand price of a foreign currency usually
- [1] benefits South African importers
  - [2] benefits South African exporters
  - [3] benefits both South African importers and exporters
  - [4] harms both South African importers and exporters
- 16 A 10 per cent decrease in the value of the rand in the foreign exchange market, is most likely to lead to
- [1] a fall in the South African price of imported food and drink
  - [2] a rise in the foreign price of South African exports of wine
  - [3] a higher demand for imported televisions into South Africa
  - [4] higher demand for South African exports of iron ore
- 17 Expectations of higher South African interest rates are likely to cause a(n) \_\_\_\_\_ of the rand/dollar exchange rate
- [1] appreciation
  - [2] depreciation
  - [3] fall
  - [4] devaluation
- 18 The simple Keynesian macroeconomic model can be used to
- [1] construct a precise version of reality
  - [2] estimate national accounts
  - [3] study the impact of fiscal policy
  - [4] regulate the money supply
- 19 If the marginal propensity to consume increases, then
- [1] the consumption function shifts up
  - [2] the slope of the consumption function increases
  - [3] the consumption function does not change
  - [4] there is a movement along the consumption function

Question 20 is based on the following figures



20 A change in the cost of credit is represented by

- [1] Figure 1
- [2] Figure 2
- [3] Figures 1 and 2 are affected simultaneously
- [4] A change in the cost of credit does not cause a shift or a rotation of the consumption function

Questions 21 and 22 are based on the following consumption function

$$C = 100 + 3/4Y$$

21 The saving function is

- [1]  $S = 100 - 3/4Y$
- [2]  $S = -100 + 1/4Y$
- [3]  $S = -100 + 3/4Y$
- [4]  $S = -100 - 1/4Y$

22 According to the saving function,

- [1] saving is inversely related to the interest rate
- [2] the marginal propensity to save is positive if the marginal propensity to consume is greater than 0,5, and negative if the marginal propensity to consume is less than 0,5
- [3] saving is independent of income
- [4] saving increases as income increases

23 Along the 45-degree line

- [1] investment is equal to net exports
- [2] government spending is equal to savings
- [3] aggregate spending is equal to aggregate consumption
- [4] aggregate demand is equal to aggregate production

[TURN OVER]

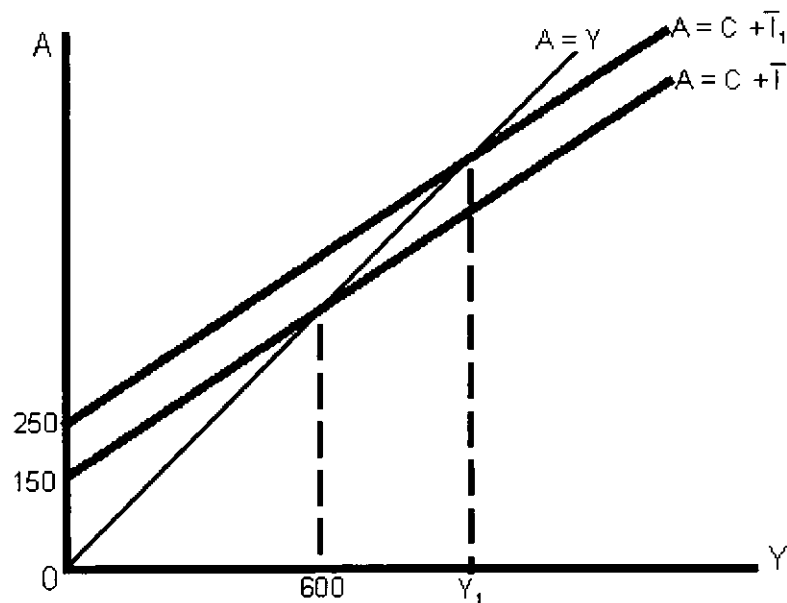
24 The size of the multiplier increases if the

- [1] marginal propensity to consume decreases
- [2] marginal propensity to save decreases
- [3] level of autonomous consumption increases
- [4] level of income increases

25 If  $C = 200 + 0,75Y$  and  $\bar{I} = 50$ , then the equilibrium level of output is

- [1] 250
- [2] 600
- [3] 800
- [4] 1 000

Question 26 is based on the following diagram



26 By how much must income increase from 600 to reach  $Y_1$ ?

- [1] 100
- [2] 200
- [3] 400
- [4] There is insufficient information to calculate the required increase in income

27 If  $c = 5/6$  and  $t = 1/10$ , the value of the multiplier is

- [1] 2
- [2] 2,5
- [3] 3
- [4] 4

Use the following information to answer questions 28 and 29

autonomous consumption	=	100
investment	=	200
government spending	=	100
exports	=	150
imports	=	50
multiplier	=	2
full-employment level of income	=	1 200

- 28 The value of total expenditure is
- [1] 500  
[2] 600  
[3] 1 000  
[4] 1 200
- 29 By how much must government spending increase to bring the economy to full employment?
- [1] 50  
[2] 100  
[3] 200  
[4] There is no need to increase government spending, since the economy is already at full-employment
- 30 If the aggregate supply curve is perfectly inelastic, an increase in aggregate demand will lead to an increase in
- [1] the price level  
[2] real national output  
[3] the price level and real national output  
[4] real national output and employment
- 31 An increase in the government's budget deficit is most likely to reduce
- [1] the demand for imported goods and services  
[2] unemployment  
[3] interest rates  
[4] inflation
- 32 Suppose the SARB increase the interest rate while oil prices are rising. What would be the expected effect on the equilibrium level of real GDP and the price level?

	Price level	Real GDP
[1]	uncertain	decreases
[2]	uncertain	uncertain
[3]	decreases	decreases
[4]	increases	increases

- 33 If the CPI was 120 in 1994, the typical basket of goods and services
- [1] in 1994 was 20 percent more expensive than in the previous year
  - [2] in 1994 was 120 percent more expensive than in the base year
  - [3] in the base year was 120 percent more expensive than in 1994
  - [4] in 1994 was 20 percent more expensive than in the base year
- 34 If the actual inflation rate is less than the expected inflation rate, then
- [1] borrowers are worse off and lenders are better off
  - [2] borrowers are better off and lenders are worse off
  - [3] both borrowers and lenders are better off
  - [4] both borrowers and lenders are worse off
- 35 According to Say's law \_\_\_\_\_ unemployment does not exist
- [1] structural
  - [2] cyclical
  - [3] seasonal
  - [4] frictional
- 36 If the unemployment rate is 6 percent, it means that 6 percent of
- [1] the population is not working
  - [2] the labour force is not working
  - [3] the individuals who are looking for work cannot find jobs
  - [4] the people do not want to work
- 37 If nominal wages and prices rise at the same rate, say 6,5% per year, then real wages will
- [1] decrease
  - [2] increase
  - [3] remain constant
  - [4] be the same as nominal wages
- 38 An economy is experiencing low unemployment together with high inflation. An appropriate mix of policy measures might be to
- |     |                |                              |                         |
|-----|----------------|------------------------------|-------------------------|
| [1] | increase taxes | decrease government spending | increase interest rates |
| [2] | decrease taxes | increase government spending | decrease interest rates |
| [3] | increase taxes | decrease government spending | decrease interest rates |
| [4] | decrease taxes | increase government spending | increase interest rates |
- 39 It is difficult to compare real GDP per capita between countries because
- [1] the size of populations are different between countries
  - [2] inflation rates are different between countries
  - [3] real GDP is measured in a different currency in each country
  - [4] some countries are not democracies

- 40 Suppose a computer manufacturer develops a new production method that allows them to make more computers with the same number of labourers. This is an example of
- [1] capital deepening
  - [2] technological widening
  - [3] capital widening
  - [4] increased productivity

\*\*\* \* \*\*\*

Your mark-reading sheet can get lost. You **must** therefore also write down your answers for Section B in the space provided below

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