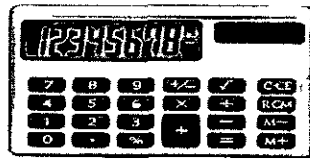


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA | 
university
of south africa

ECS1601
REC1601

(482317) October/November 2012

(497799)

ECONOMICS 1B

Duration 2 Hours

100 Marks

EXAMINERS

FIRST

SECOND

MR WJ LE ROUX

MR FHB SERFONTEIN

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This partial fill-in paper consists of 16 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 ECS1601, use the unique number 482317 If you are registered for REC1601, use the unique number 497799
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As your mark-reading sheet can get lost, you **MUST** also write down your answers for this section. On the last page of this paper space is provided for this purpose

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SECTION A [50 MARKS]

Answer ALL the following questions in the blocks provided

QUESTION 1**[8]**

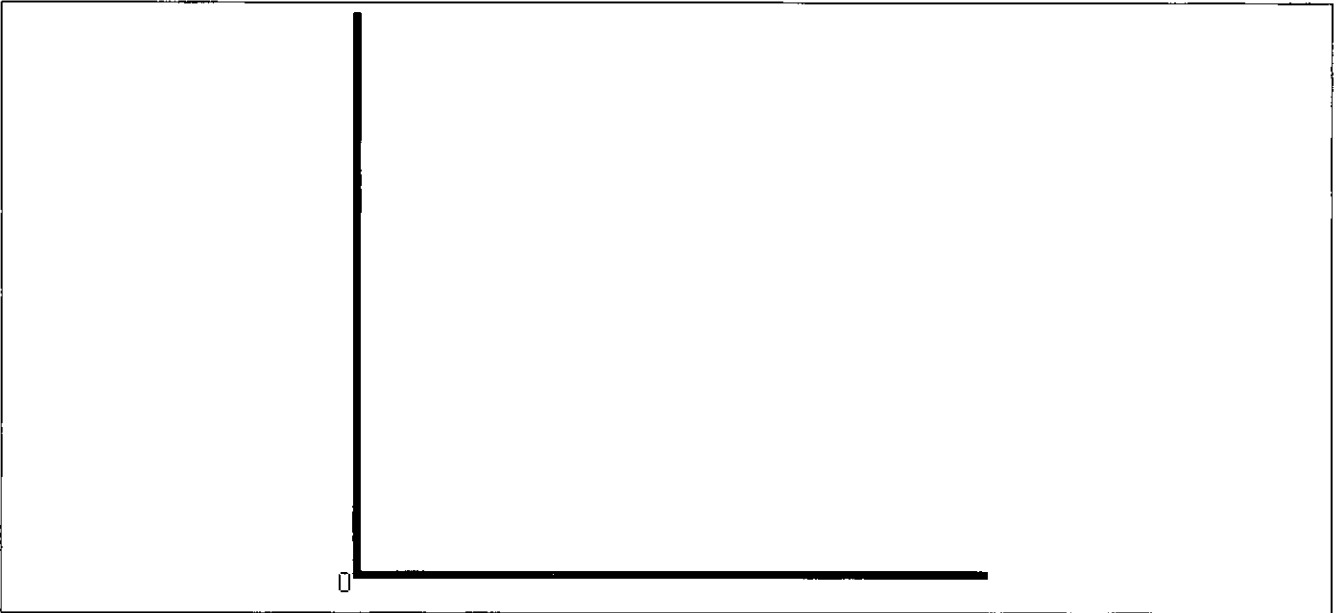
- (i) Name four basic properties an "item" must have in order to serve satisfactorily as money (4)

- (ii) List four arguments for the use of trade barriers (4)

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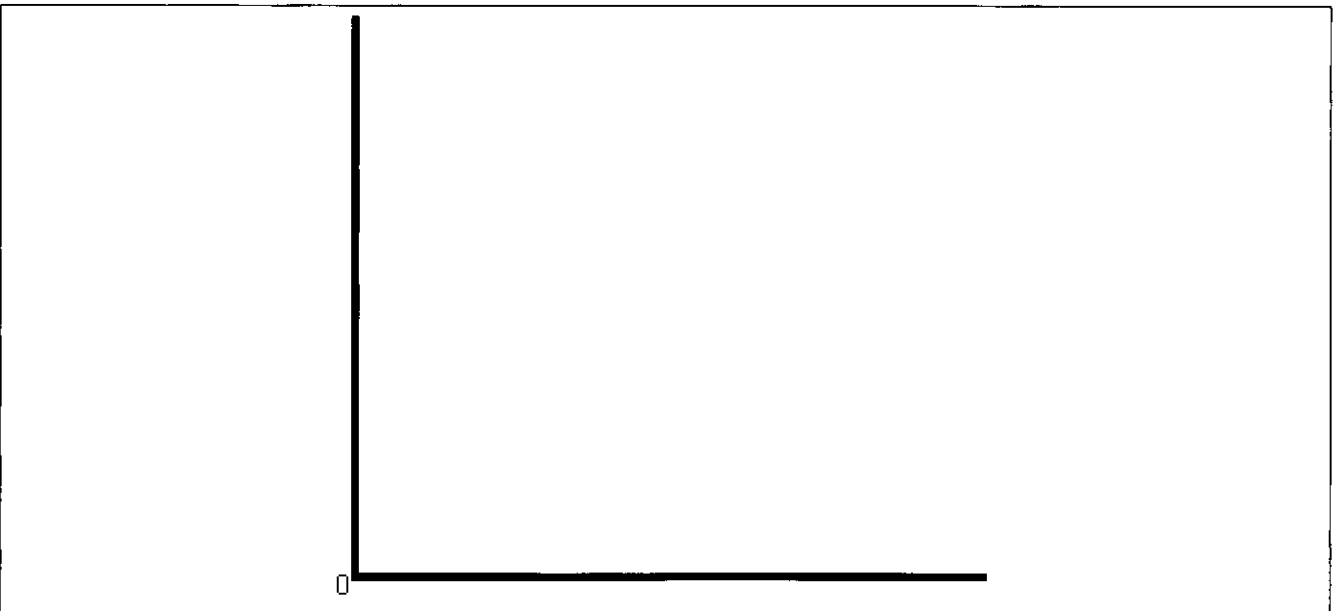
QUESTION 2**[12]**

- (i) Use the Phillips curve to illustrate on the following diagram the trade-off between inflation and unemployment

(2)

- (ii) Given the AD-AS model

- Illustrate on the following diagram how both unemployment and inflation can be decreased at the same time. Remember to label your diagram

(3)

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- Give one possible reason or policy measure that could result in the simultaneous reduction of both unemployment and inflation (1)

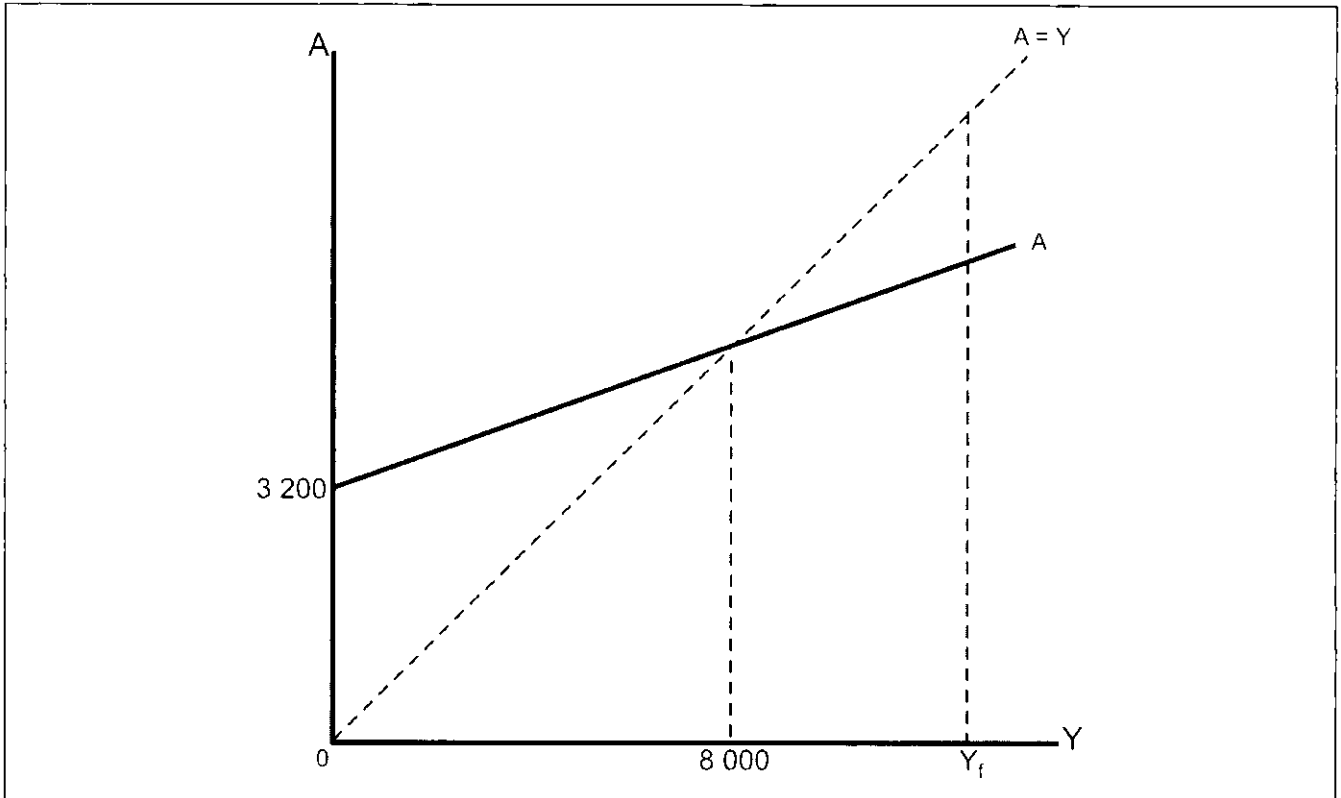
- (iii) Given the AD-AS model, use the following diagrams to illustrate the monetary transmission mechanism. Assume an increase in the interest rate. Remember to label your diagrams. (6)

The diagram area contains two identical blank coordinate systems, each consisting of a vertical y-axis and a horizontal x-axis. The origin of each coordinate system is marked with a small square containing the letter 'O'. The axes are intended for the student to draw and label the AD-AS model curves to illustrate the monetary transmission mechanism following an increase in the interest rate.

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QUESTION 3**[10]**

(i) Given the following diagram of a Keynesian model of a closed economy without a government



- Calculate the multiplier (Show all your calculations) (2)

- Give the equation of the total expenditure line A (2)

[TURN OVER]

- Assume an increase of 400 in autonomous spending will ensure that the full employment level of income (Y_f) will be reached. Calculate the value of the full employment level of income. (Show all your calculations.) (2)

(ii) Given the following information

autonomous consumption spending	=	R300 m
investment spending	=	R200 m
government spending	=	R350 m
exports	=	R250 m
autonomous imports	=	R100 m
multiplier	=	2

Calculate (Show all your calculations.)

- the equilibrium level of income (2)

- total spending if the economy is at equilibrium (2)

[TURN OVER]

(iv) Briefly discuss two factors which impact on the effectiveness of monetary policy in the AD-AS model (2)

(v) Explain how the government benefits from inflation via the tax system (3)

(vi) Distinguish between cyclical and seasonal unemployment (2)

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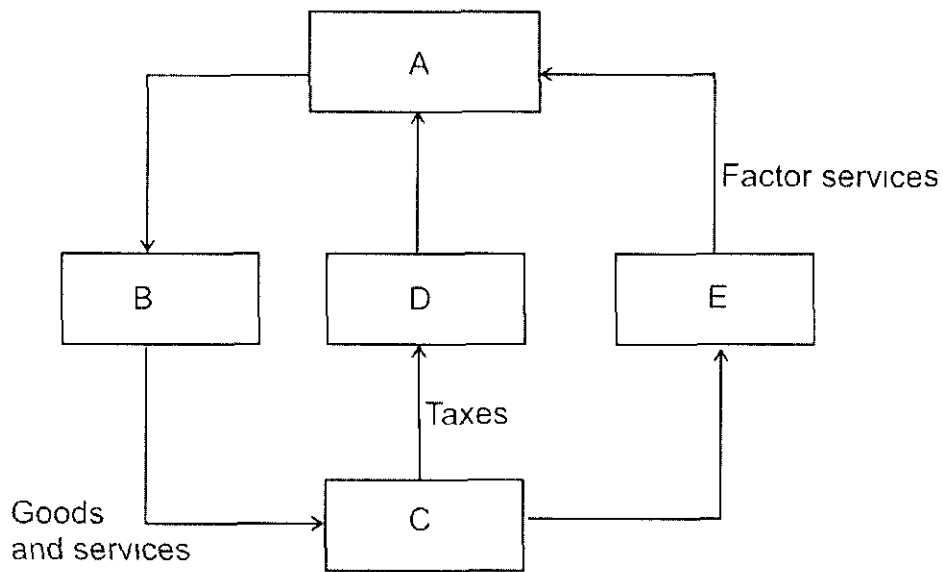
SECTION B [50 MARKS]

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 Macroeconomics is least likely to be concerned with

- [1] price levels
- [2] relative prices
- [3] the rate of inflation
- [4] price indices

2 The following diagram shows the interaction between different sectors in the economy



What is represented by A, B, C, D and E?

	A	B	C	D	E
[1]	Households	Firms	Goods market	Factor market	Foreign sector
[2]	Firms	Goods market	Households	Government	Factor market
[3]	Goods market	Firms	Foreign sector	Government	Factor market
[4]	Factor market	Goods market	Government	Financial market	Goods market

3 Capital formation means

- [1] the addition to the quantity of money
- [2] investment
- [3] depreciation
- [4] the addition to stocks, bonds and money

- 4 Classify the following financial instruments into the three broad monetary aggregates M1, M2 and M3

10 year government bond
91 day treasury bill
R100 in notes and coins
R500 in a current account deposit
1 year retail savings bond
3 month negotiable certificate of deposit (NCD)

	M1	M2	M3
[1]	91 day treasury bill, 10 year government bond	R100 in notes and coins, R500 current account deposit	3 month NCD 1 year retail savings bond
[2]	R100 in notes and coins, R500 current account deposit, 91 day treasury bill	3 month NCD 1 year retail savings bond	10 year government bond
[3]	3 month NCD, 91 day treasury bill	R500 current account deposit	10 year government Bond
[4]	R100 notes and coins, R500 current account deposits	91 day treasury bill, 3 months NCD	10 year government bond, 1 year retail savings bond

- 5 The South African Reserve Bank primarily conducts monetary policy in response to
- [1] the demands of the government
 - [2] the demand for notes and coins in the economy
 - [3] inflationary pressures
 - [4] exchange rate fluctuations and unemployment
- 6 Which of the following market instruments are used by the South African Reserve Bank for monetary policy purposes?
- [1] cash reserve ratio, open market operations and the repo rate
 - [2] money multiplier, transactions balances and speculative balances
 - [3] hire purchase agreements, credit ceilings and moral suasion
 - [4] credit creation, bank supervision and moral suasion
- 7 The real interest rate is equal to
- [1] the nominal interest rate plus the risk ratio
 - [2] the inflation rate divided by the nominal interest rate
 - [3] the nominal interest rate minus the inflation rate
 - [4] the risk ratio of the loan times the nominal inflation rate

[TURN OVER]

- 8 As the interest rate _____, the opportunity cost of holding money _____ and individuals choose to hold _____ money
- [1] increases, increases, more
 - [2] decreases, decreases, more
 - [3] increases, decreases, less
 - [4] decreases, increases, more
- 9 The largest source of total tax receipts of the government is
- [1] personal income taxes
 - [2] company taxes
 - [3] value added taxes
 - [4] excise taxes
- 10 Samson earns R10 000 per month and pays R2 500 in the form of income tax. His supervisor at work, John, earns R20 000 per month and pays R5 000 in income tax. What kind of a tax system is applied to these two workers?
- [1] progressive tax system
 - [2] regressive tax system
 - [3] proportional tax system
 - [4] indirect tax system
- 11 In order to raise revenue so as to finance the Gauteng e-tolling system, the South African government decided to increase the level of income tax. This increase in income tax resulted in the supply of labour falling with some workers opting not to go to work at all. Which characteristic of a good tax system is violated by the government here?
- [1] administrative simplicity
 - [2] benefit principle
 - [3] tax neutrality
 - [4] equity principle
- 12 If the government imposes an excise tax of R10 per unit on each bottle of Castle Lager beer produced by SAB Miller, who is the point of statutory incidence?
- [1] SAB Miller
 - [2] consumers of Castle Lager beer
 - [3] the government
 - [4] workers at SAB Miller
- 13 If a specific or unit tax of R5 is imposed on a commodity like cigarettes with inelastic demand, how is the burden of this tax distributed?
- [1] The tax will be distributed equally amongst all consumers and producers of cigarettes
 - [2] A larger tax burden will be borne by the producers
 - [3] A relatively larger tax burden will be borne by consumers of this good
 - [4] This tax will not impose any burden to either consumers or producers

[TURN OVER]

- 14 Comparative advantage is most easily expressed in terms of
- [1] units of labour used in the production process
 - [2] the units of all resources used in the production process
 - [3] output
 - [4] opportunity cost
- 15 Zimbabwe can produce a tonne of maize and two (2) tractors using one (1) unit of labor over a period of one year. The neighboring country Zambia can produce three (3) tonnes of maize and three (3) tractors per unit of labor over the same period. Which country has a comparative advantage and in which commodity?
- [1] Zimbabwe in maize production
 - [2] Zambia in tractors production
 - [3] Zimbabwe in the production of tractors
 - [4] Zambia in the production of both maize and tractors
- 16 A depreciation of a currency should lead to
- [1] increased imports and an leftward shift of the aggregate demand curve
 - [2] an upward movement along the aggregate demand curve
 - [3] a rightward shift of the aggregate demand curve
 - [4] less domestic employment and a rightward shift of the aggregate demand curve
- 17 The value of the rand will tend to fall in relation to the dollar if
- [1] American demand for South African wines increases
 - [2] South African prices increase
 - [3] the USA national income increases
 - [4] the American government restrict the number of South Africans traveling to the USA
- 18 The terms of trade means the ratio of
- [1] exports to imports
 - [2] imports to exports
 - [3] domestic exchange rates to foreign exchange rates
 - [4] export prices to import prices
- 19 The gross domestic product (GDP)
- [1] includes double counting
 - [2] measures the value of what is produced in an economy
 - [3] measures the value of labour payments generated in an economy
 - [4] is generally less than government expenditure
- 20 Double counting
- [1] occurs as a result of the double entry bookkeeping systems
 - [2] occurs when the value of output is calculated more than once
 - [3] is a weakness of the value added method of calculating GDP
 - [4] leads to an underestimation of the GDP

- 21 The Lorenz curve plots
- [1] the percentage of income against the percentage of people
 - [2] the percentage of income against the percentage of spending
 - [3] the percentage of income against the number of years of education
 - [4] the percentage of spending against the percentage of people
- 22 In the Keynesian model GDP is determined by the
- [1] level of taxes
 - [2] level of aggregate demand
 - [3] price level
 - [4] level of aggregate supply
- 23 At an income of R100 000, Tom spent R90 000 on consumer goods. When Tom's income rose to R200 000, he spent R160 000 on consumer goods. Tom's marginal propensity to consume is
- [1] 0.9
 - [2] 0.8
 - [3] 0.7
 - [4] 1
- 24 Given the following information $\bar{C} = 60$, $c = 0.75$, $Y = 3000$, and $T = 800$. The value of private consumption expenditure is
- [1] 1590
 - [2] 1510
 - [3] 1710
 - [4] 2245
- 25 An increase in the marginal propensity to save will _____ the multiplier and _____ autonomous spending
- [1] reduce, reduce
 - [2] reduce, have no impact on
 - [3] increase, reduce
 - [4] have no impact, increase
- 26 If the marginal propensity to consume is $\frac{2}{3}$, the tax rate $\frac{1}{10}$ and the marginal propensity to import $\frac{1}{10}$, the value of the multiplier is
- [1] 2
 - [2] $2\frac{1}{2}$
 - [3] 3
 - [4] $3\frac{1}{3}$
- 27 According to the Keynesian model, an increase in income will cause _____ in savings and _____ in consumption
- [1] an increase, an increase
 - [2] an increase, a decrease
 - [3] no affect, an increase
 - [4] an increase, no affect

- 28 If $C = 325 + 0,75$ and $\bar{I} = 1\,500$, equilibrium real GDP is
- [1] 1 369
 - [2] 2 433
 - [3] 6 325
 - [4] 7 300
- 29 As income rises following an increase in autonomous net exports, tax revenue will _____ and induced imports will _____
- [1] fall, fall
 - [2] fall, rise
 - [3] rise, fall
 - [4] rise, rise
- 30 A fall in the price level will cause
- [1] an upward shift of the aggregate demand curve
 - [2] a downward shift of the aggregate demand curve
 - [3] an upward movement along the aggregate demand curve
 - [4] a downward movement along the aggregate demand curve
- 31 An increase in autonomous consumption will cause a _____ the aggregate expenditure curve in the Keynesian model and a _____ the aggregate demand curve in the AD-AS model
- [1] shift of, shift of
 - [2] shift of, movement along
 - [3] movement along, shift of
 - [4] movement along, movement along
- 32 In the AD-AS model increases in national income will tend to
- [1] increase exports
 - [2] increase imports
 - [3] increase both exports and imports
 - [4] increase gross exports, but not net exports
- 33 If the inflation rate decreases, it is likely that
- [1] the economy is experiencing deflation
 - [2] the price level is increasing at a decreasing rate
 - [3] the economy is nearing the peak of the business cycle
 - [4] unemployment is nearing zero
- 34 If the real interest rate is negative
- [1] the real value of a loan will increase
 - [2] the inflation rate is higher than the nominal interest rate
 - [3] the inflation rate is lower than the real interest rate
 - [4] the inflation rate is lower than the nominal interest rate

- 35 Bracket creep would be eliminated when tax rates are based on
- [1] per capita income
 - [2] nominal income
 - [3] real disposable income
 - [4] real income
- 36 An economy characterised by rising prices during a period of high unemployment, is experiencing
- [1] a recession
 - [2] a depression
 - [3] inflation
 - [4] stagflation
- 37 If the expected inflation rate is 5% and negotiators agree that real wages should rise by 7%, the two sides will agree to an increase in the money wage of
- [1] 2%
 - [2] 5%
 - [3] 7%
 - [4] 12%
- 38 Suppose nominal GDP was R500 billion in 1990 and R750 billion in 2000 and the price index was 200 in 1990 and 300 in 2000. This means that in the ten years
- [1] real GDP remained constant
 - [2] real GDP increased by 50%
 - [3] nominal GDP increased by 33,3%
 - [4] real GDP increased by 25%
- 39 Technological advances make it possible to
- [1] produce more goods without using any resources
 - [2] obtain the same output by using fewer resources
 - [3] obtain the same output by using more resources
 - [4] lower labour productivity
- 40 In a modern mixed economy
- [1] business cycles are a thing of the past
 - [2] underconsumption is a recurring threat
 - [3] automation threatens full employment
 - [4] demand management much improves economic performance

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

1	21
2	22
3	23
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14	34
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16	36
17	37
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19	39
20	40

PART 1 (GENERAL/ALGEMEEN) DEEL 1

STUDY UNIT e.g. PSY100-X
STUDIE-EENHEID by PSY100-X

1							
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PAPER NUMBER
VRAESTELNOMMER

2				
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STUDENT NUMBER
STUDENTENOMMER

6							
7							

INITIALS AND SURNAME
VOORLETTERS EN VAN

3

DATE OF EXAMINATION
DATUM VAN EKSAMEN

4

UNIQUE PAPER NO
UNIEKE VRAESTEL NR

8							
9							

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
 - CHECK THAT YOUR STUDENT NUMBER HAS BEEN FILLED IN CORRECTLY
 - CHECK THAT THE UNIQUE NUMBER HAS BEEN FILLED IN CORRECTLY
 - CHECK THAT ONLY ONE ANSWER PER QUESTION HAS BEEN MARKED
 - DO NOT FOLD

- BELANGRIK**
- GEBRUIK SLEGS N HB POTLOOD OM HIERDIE BLAD TE VOLTOOI
 - MERK AS VOLG ➡
 - KONTROLEER DAT U VOORLETTERS EN VAN REG INGEVUL IS
 - VUL U STUDENTENOMMER VAN LINKS NA REGS IN
 - KONTROLEER DAT U DIE KORREKTE STUDENTENOMMER VERSTREK HET
 - KONTROLEER DAT DIE UNIEKE NOMMER REG INGEVUL IS
 - MAAK SEKER DAT NET EEN ALTERNATIEF PER VRAAG GEMERK IS
 - MOENIE VOU NIE

PART 2 (ANSWERS/ANTWOORDE) DEEL 2

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4	c1) c2) c3) c4) c5)	39	c1) c2) c3) c4) c5)	74	c1) c2) c3) c4) c5)	109	c1) c2) c3) c4) c5)
5	c1) c2) c3) c4) c5)	40	c1) c2) c3) c4) c5)	75	c1) c2) c3) c4) c5)	110	c1) c2) c3) c4) c5)
6	c1) c2) c3) c4) c5)	41	c1) c2) c3) c4) c5)	76	c1) c2) c3) c4) c5)	111	c1) c2) c3) c4) c5)
7	c1) c2) c3) c4) c5)	42	c1) c2) c3) c4) c5)	77	c1) c2) c3) c4) c5)	112	c1) c2) c3) c4) c5)
8	c1) c2) c3) c4) c5)	43	c1) c2) c3) c4) c5)	78	c1) c2) c3) c4) c5)	113	c1) c2) c3) c4) c5)
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11	c1) c2) c3) c4) c5)	46	c1) c2) c3) c4) c5)	81	c1) c2) c3) c4) c5)	116	c1) c2) c3) c4) c5)
12	c1) c2) c3) c4) c5)	47	c1) c2) c3) c4) c5)	82	c1) c2) c3) c4) c5)	117	c1) c2) c3) c4) c5)
13	c1) c2) c3) c4) c5)	48	c1) c2) c3) c4) c5)	83	c1) c2) c3) c4) c5)	118	c1) c2) c3) c4) c5)
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15	c1) c2) c3) c4) c5)	50	c1) c2) c3) c4) c5)	85	c1) c2) c3) c4) c5)	120	c1) c2) c3) c4) c5)
16	c1) c2) c3) c4) c5)	51	c1) c2) c3) c4) c5)	86	c1) c2) c3) c4) c5)	121	c1) c2) c3) c4) c5)
17	c1) c2) c3) c4) c5)	52	c1) c2) c3) c4) c5)	87	c1) c2) c3) c4) c5)	122	c1) c2) c3) c4) c5)
18	c1) c2) c3) c4) c5)	53	c1) c2) c3) c4) c5)	88	c1) c2) c3) c4) c5)	123	c1) c2) c3) c4) c5)
19	c1) c2) c3) c4) c5)	54	c1) c2) c3) c4) c5)	89	c1) c2) c3) c4) c5)	124	c1) c2) c3) c4) c5)
20	c1) c2) c3) c4) c5)	55	c1) c2) c3) c4) c5)	90	c1) c2) c3) c4) c5)	125	c1) c2) c3) c4) c5)
21	c1) c2) c3) c4) c5)	56	c1) c2) c3) c4) c5)	91	c1) c2) c3) c4) c5)	126	c1) c2) c3) c4) c5)
22	c1) c2) c3) c4) c5)	57	c1) c2) c3) c4) c5)	92	c1) c2) c3) c4) c5)	127	c1) c2) c3) c4) c5)
23	c1) c2) c3) c4) c5)	58	c1) c2) c3) c4) c5)	93	c1) c2) c3) c4) c5)	128	c1) c2) c3) c4) c5)
24	c1) c2) c3) c4) c5)	59	c1) c2) c3) c4) c5)	94	c1) c2) c3) c4) c5)	129	c1) c2) c3) c4) c5)
25	c1) c2) c3) c4) c5)	60	c1) c2) c3) c4) c5)	95	c1) c2) c3) c4) c5)	130	c1) c2) c3) c4) c5)
26	c1) c2) c3) c4) c5)	61	c1) c2) c3) c4) c5)	96	c1) c2) c3) c4) c5)	131	c1) c2) c3) c4) c5)
27	c1) c2) c3) c4) c5)	62	c1) c2) c3) c4) c5)	97	c1) c2) c3) c4) c5)	132	c1) c2) c3) c4) c5)
28	c1) c2) c3) c4) c5)	63	c1) c2) c3) c4) c5)	98	c1) c2) c3) c4) c5)	133	c1) c2) c3) c4) c5)
29	c1) c2) c3) c4) c5)	64	c1) c2) c3) c4) c5)	99	c1) c2) c3) c4) c5)	134	c1) c2) c3) c4) c5)
30	c1) c2) c3) c4) c5)	65	c1) c2) c3) c4) c5)	100	c1) c2) c3) c4) c5)	135	c1) c2) c3) c4) c5)
31	c1) c2) c3) c4) c5)	66	c1) c2) c3) c4) c5)	101	c1) c2) c3) c4) c5)	136	c1) c2) c3) c4) c5)
32	c1) c2) c3) c4) c5)	67	c1) c2) c3) c4) c5)	102	c1) c2) c3) c4) c5)	137	c1) c2) c3) c4) c5)
33	c1) c2) c3) c4) c5)	68	c1) c2) c3) c4) c5)	103	c1) c2) c3) c4) c5)	138	c1) c2) c3) c4) c5)
34	c1) c2) c3) c4) c5)	69	c1) c2) c3) c4) c5)	104	c1) c2) c3) c4) c5)	139	c1) c2) c3) c4) c5)
35	c1) c2) c3) c4) c5)	70	c1) c2) c3) c4) c5)	105	c1) c2) c3) c4) c5)	140	c1) c2) c3) c4) c5)

Specimen only