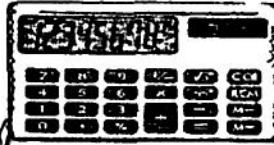


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA 
university of south africa

ECS2602

(477035)

May/June 2016
Mei/June 2016

**MACROECONOMICS
MAKRO-EKONOMIE**

Duration 2 Hours
Tydsduur 2 Uur

100 Marks
100 Punte

EXAMINERS / EKSAMINATORE

FIRST / EERSTE

MRS/MEV MD UYS

SECOND / TWEEDE

MRS/MEV S KENNEDY-PALMER

Use of a non-programmable pocket calculator is permissible.
Gebruik van 'n nie-programmeerbare sakrekenaar is toelaatbaar.

Closed book examination
Toeboekeksamen

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This paper consists of 35 pages, instructions for the completion of a mark reading sheet and a special front page

Hierdie vraestel bestaan uit 35 bladsye, instruksies vir die voltooiing van 'n merkleesblad en 'n spesiale voorblad

STUDENT NUMBER / STUDENTENOMMER

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NB!

The unique number for ECS2602 is 477035

Die unieke nommer vir ECS2602 is 477035

**[TURN OVER]
[BLAAI OM]**

The following abbreviations may appear in this examination paper

Die volgende afkortings mag in hierdie eksamen vraestel voorkom

ENGLISH

c	–	marginal propensity to consume
C	–	consumption spending
D _B	–	demand for bonds
E	–	<i>nominal exchange rate</i>
E ^e	–	expected nominal exchange rate
ε	–	real exchange rate
G	–	government spending
I	–	investment spending
i*	–	foreign interest rate
M ^d	–	demand for money
M ^s	–	supply of money
M/P	–	real money supply
NX	–	trade balance
P	–	price level
P _B	–	price of bonds
S _B	–	supply of bonds
W	–	nominal wage
W/P	–	real wage
X	–	exports
Y	–	output and income level
Y*	–	foreign output and income level
Y _N	–	natural level of output
Z	–	total demand
ZZ	–	demand for domestic goods

AFRIKAANS

c	–	grensverbruiksgeneigdheid
C	–	verbruiksbesteding
D _B	–	vraag na effekte
E	–	<i>nominale wisselkoers</i>
E ^e	–	verwagte nominale wisselkoers
ε	–	reële wisselkoers
G	–	owerheidsbesteding
I	–	investeringsbesteding
i*	–	buitelandse rentekoers
M ^d	–	vraag na geld
M ^s	–	aanbod van geld (geldvoorraad)
M/P	–	reële geldvoorraad
NX	–	handelsbalans
P	–	pryspeil
P _B	–	prys van effekte
S _B	–	aanbod van effekte
W	–	nominale loon
W/P	–	reële loon
X	–	uitvoer
Y	–	produksie- en inkomepeil
Y*	–	buitelandse produksie- en inkomepeil
Y _N	–	natuurlike produksiepeil
Z	–	totale vraag
ZZ	–	vraag na binnelandse goedere

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Read all instructions CAREFULLY before answering the questions.
This paper consists of two (2) sections: A and B.

Lees al die instruksies NOUKEURIG voor u die vrae beantwoord.
Hierdie vraestel bestaan uit twee (2) afdelings: A en B.

SECTION A: COMPULSORY (50 marks)
AFDELING A: VERPLIGTEND (50 punte)

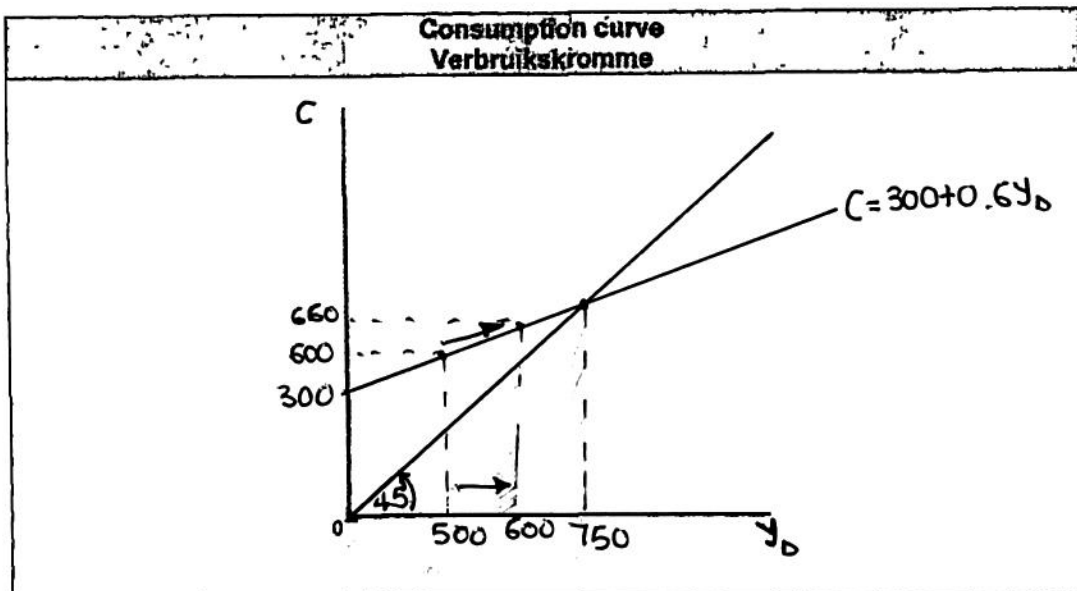
INSTRUCTION ANSWER ALL THE QUESTIONS
INSTRUKSIE BEANTWOORD AL DIE VRAE

QUESTION 1/VRAAG 1 (12 marks/12 punte)

Question 1.1/Vraag1.1 (3 marks/3 punte)

Draw a consumption curve using the following consumption function $C = 300 + 0.6Y_D$.
Indicate on the diagram the initial position where disposable income equals 500 and the effect of an increase in disposable income from 500 to 600 on consumption spending (3)

Trek 'n verbruikskromme deur gebruik te maak van die volgende verbruiksfunksie
 $C = 300 + 0.6Y_D$. Dui op die diagram die aanvanklike posisie aan waar besteebare inkomme gelyk is aan 500 en dui aan wat sal gebeur met verbruiksbesteding as die besteebare inkomme van 500 tot 600 toeneem (3)



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Question 1.2/Vraag 1.2 (9 marks/9 punte)

- a Use the diagram of the goods market model below to calculate the multiplier (Diagrams A and B are identical) Show the formula (1)
- a Gebruik die onderstaande diagram van die goederemarkmodel om die vermenigvuldiger te bereken (Diagramme A en B is identies) Toon die formule (1)

$$\begin{aligned} \alpha &= \frac{1}{1 - MPC} \\ &= \frac{1}{1 - 0.6} \\ &= 2.5 \end{aligned}$$

- b Use the following two goods market models to illustrate the difference between the impact of an increase of 200 in government spending (Diagram A) and the impact of a simultaneous increase of 200 in government spending and an increase of 200 in taxes (Diagram B) on the level of output and income

Label all axes and curves and clearly indicate the following on both diagrams

- Autonomous spending values
 - The values of the equilibrium level of output and income
 - The size and direction of the change in government spending, taxes and the level of output and income
- (8)

- b Gebruik die onderstaande twee goederemarkmodelle om die verskil tussen die impak van 'n toename van 200 in owerheidsbesteding (Diagram A) en die impak van 'n gelyktydige toename van 200 in owerheidsbesteding en 'n styging van 200 in belasting (Diagram B) op die produksie- en inkompeil te illustreer

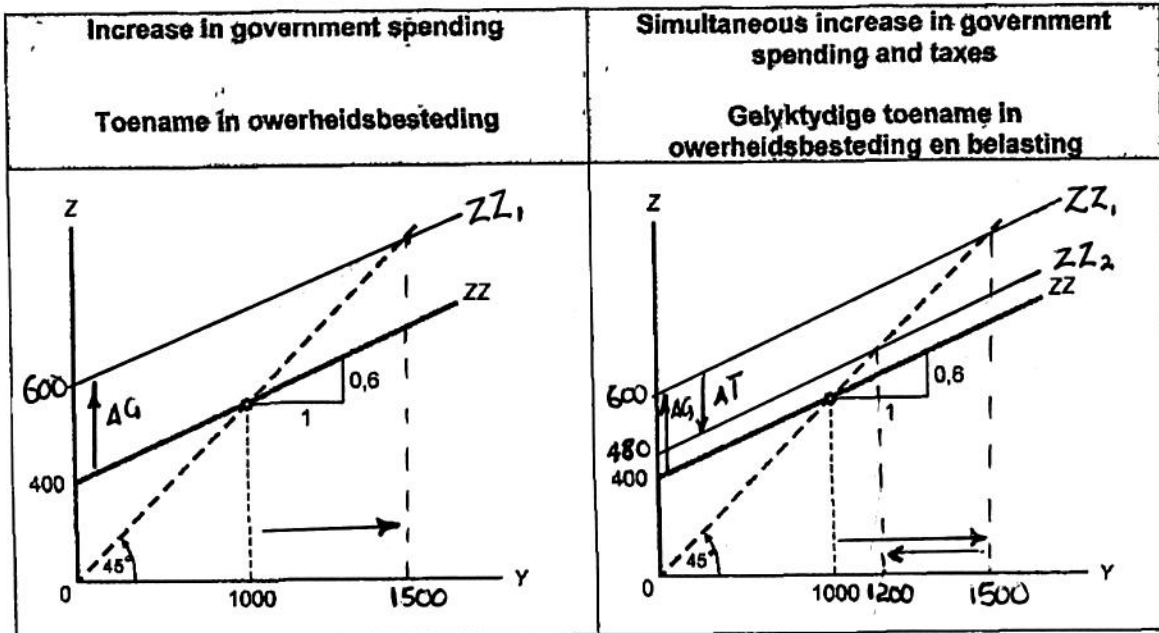
Benoem alle asse en krommes en toon duidelik die volgende op beide diagramme aan

- Outonome bestedingswaardes
 - Die waardes van die ewewigsproduksie- en inkompeil
 - Die grootte en rigtingverandering van die verandering in owerheidsbesteding, belasting en die produksie- en inkompeil
- (8)

**[TURN OVER]
[SLAAI OM]**

Diagram A

Diagram B



Note Calculations (rough work) will not be marked All 8 marks come from your graphical illustration on and labelling of the two diagrams

Nota Berekening (rofwerk) word nie gemerk nie Al 8 punte kom van u grafiese illustrasie op en benoeming van die twee diagramme

Rough work/Rofwerk

$$\bullet G \uparrow (200) \rightarrow Z \uparrow (200) \rightarrow Y \uparrow (200 \times 2.5)$$

$$= 500$$

$$\text{new } Z = 600 \quad \text{new } Y = 1500$$

$$\bullet T \uparrow (200) \rightarrow Z \downarrow (200 \times 0.6) \rightarrow Y \downarrow (200 \times 2.5 \times 0.6)$$

$$= -120$$

$$= -300$$

$$\text{new } Z = 480$$

$$\text{new } Y = 1200$$

$$\bullet \text{Net Effect } Y \uparrow \text{ by } 200, \text{ new } Y = 1200$$

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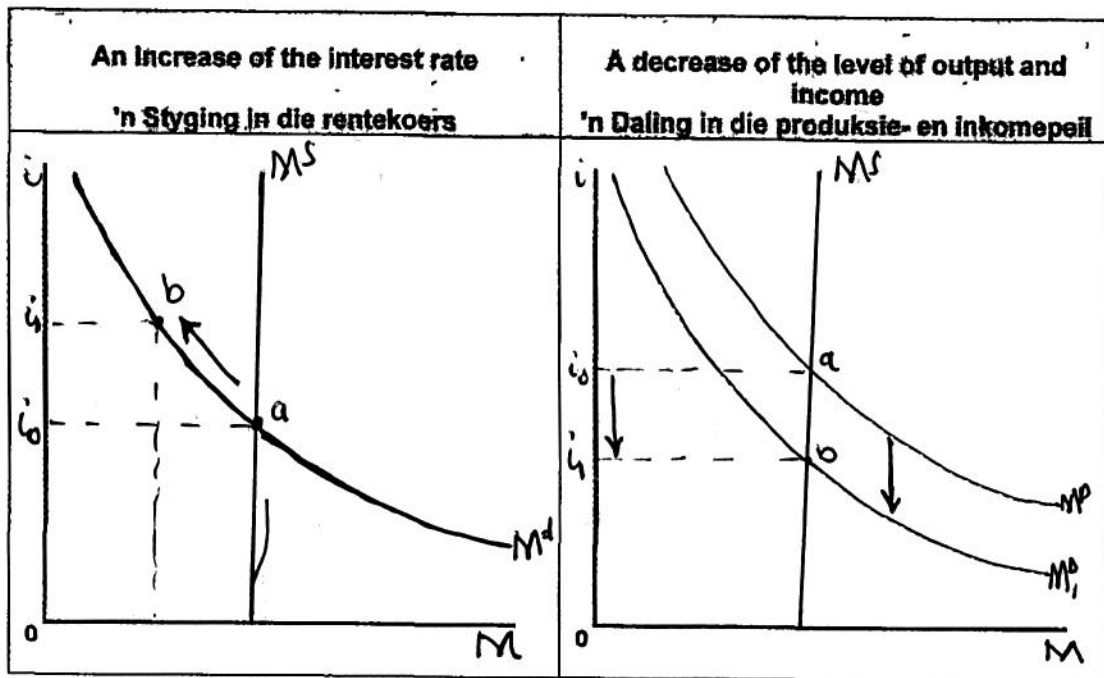
QUESTION 2/VRAAG 2 (4 marks/4 punte)

Use a demand for money curve to illustrate the effect of

- a An increase of the interest rate in Diagram A on the quantity of money demanded
- b A decrease of the level of output and income in Diagram B on the demand for money

Gebruik 'n geldvraagkromme om die effek van die volgende te illustreer

- a 'n Styging in die rentekoers op die hoeveelheid geld gevra in Diagram A
- b 'n Daling in die produksie- en inkomepeil op die vraag na geld in Diagram B

Diagram A**Diagram B**

[TURN OVER]
[BLAAI OM]

QUESTION 3/VRAAG 3 (7 marks/7 punte)

- a During periods of low economic growth, the output and income levels decline in the economy. It is also possible to move into a recession, in other words a decrease in real GDP for two or more consecutive periods (where a period is three months)

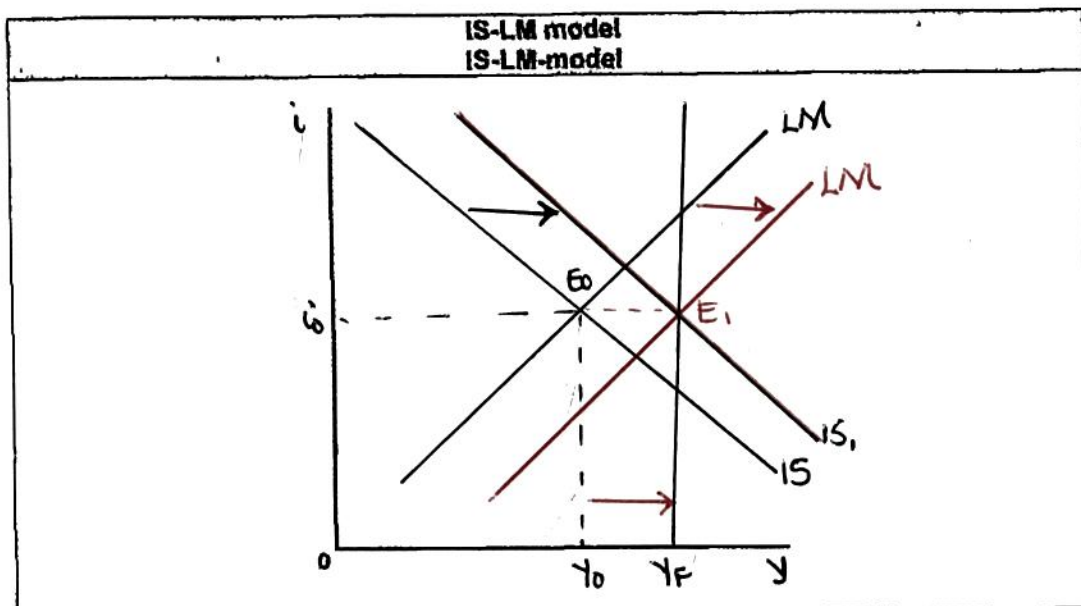
Use the following IS-LM model to illustrate graphically and explain by using **chain of events** how a combination of fiscal and monetary policies can be used to counteract the negative impact on the economy of low growth to increase the output and income level and to reach the full-employment level. Clearly indicate the full-employment level on the diagram

(5)

- a Gedurende periodes van lae ekonomiese groei daal die produksie- en inkompeel in die ekonomie. Dit is ook moontlik om in 'n resessie in te beweeg, met ander woorde, 'n negatiewe groei in reële BBP vir twee of meer agtereenvolgende periodes (waar 'n periode drie maande is)

Gebruik die volgende IS-LM-model om grafies te illustreer en te verduidelik deur gebruik te maak van **gebeurteniskettings** hoe 'n kombinasie van fiskale en monetêre beleide gebruik kan word om die negatiewe impak van lae ekonomiese groei op die ekonomie teen te werk ten einde die produksie- en inkompeel te verhoog en volle indiensneming te bereik. Toon duidelik die volle indiensnemingspeil op die diagram aan

(5)



Chain of events / Gebeurteniskettings

Expansionary Fiscal Policy.

Goods Mkt

$G \uparrow \rightarrow Z \uparrow \rightarrow Y \uparrow$

[TURN OVER]
[BLAAI OM]

Financial Market

$$Y \uparrow \rightarrow M \uparrow \rightarrow i \uparrow$$

Expansionary Monetary Policy

Financial Market

$$M^s \uparrow \rightarrow M^d \uparrow \rightarrow i \downarrow$$

Goods Market

$$i \downarrow \rightarrow I \uparrow \rightarrow Z \uparrow \rightarrow Y \uparrow$$

- b Explain by using a chain of events what the impact of the combination of monetary and fiscal policies needed to reach the full employment level of output and income will be on the equilibrium interest rate (2)
- b Verduidelik, deur gebruik te maak van gebeurteniskettings, die impak op die ewewigsrentekoers van 'n kombinasie van fiskale en monetêre beleide wat nodig is om die volle indiensnemingspeil van inkome en produksie te bereik (2)

Impact on the equilibrium interest rate / Impak op die ewewigsrentekoers

Monetary policy

$$M^s \uparrow \rightarrow M^d \uparrow \rightarrow i \downarrow$$

Fiscal Policy

$$Y \uparrow \rightarrow M^d \uparrow \rightarrow i \downarrow$$

∴ uncertain

QUESTION 4/VRAAG 4 (15 marks/15 punte)

Question 4.1/Vraag 4.1 (9 marks/9 punte)

- a List the components of the "domestic demand for goods" Give an example which would lead to an **increase** in the domestic demand for goods (1½)
- a Lys die komponente van die "binnelandse vraag na goedere" Gee 'n voorbeeld wat sal lei tot 'n **styging** in die binnelandse vraag na goedere (1½)

Components / Komponente

- Consumption
- Investment Spending
- Government Spending
- Imports

Example / Voorbeeld

- Increase in any of the factors listed above

- b List the components of the "demand for domestic goods" Give an example which would lead to an **increase** in the demand for domestic goods (1½)
- b Lys die komponente van die "vraag na binnelandse goedere" Gee 'n voorbeeld wat sal lei tot 'n **styging** in die vraag na binnelandse goedere (1½)

Components / Komponente

- Consumption
- Investment Spending
- Government Spending
- Exports

Example / Voorbeeld

- Increase in any of the factors listed above.

- c Use the following two diagrams (given the initial equilibrium level Y_1) to show graphically (illustrate) the impact of the following two events on the level of output and income and on the trade balance

- (i) an increase in the "domestic demand for goods" in Diagram A,
- (ii) an increase in the "demand for domestic goods" in Diagram B

Compare the impact on the level of output and income and on the trade balance (6)

[TURN OVER]
[BLAAI OM]

- c Gebruik die volgende twee diagramme (gegewe die aanvanklike ewewigspil Y_1) om grafies aan te toon (te illustreer) wat die impak van die volgende twee gebeure op die produksie- en inkompeil en die handelsbalans is

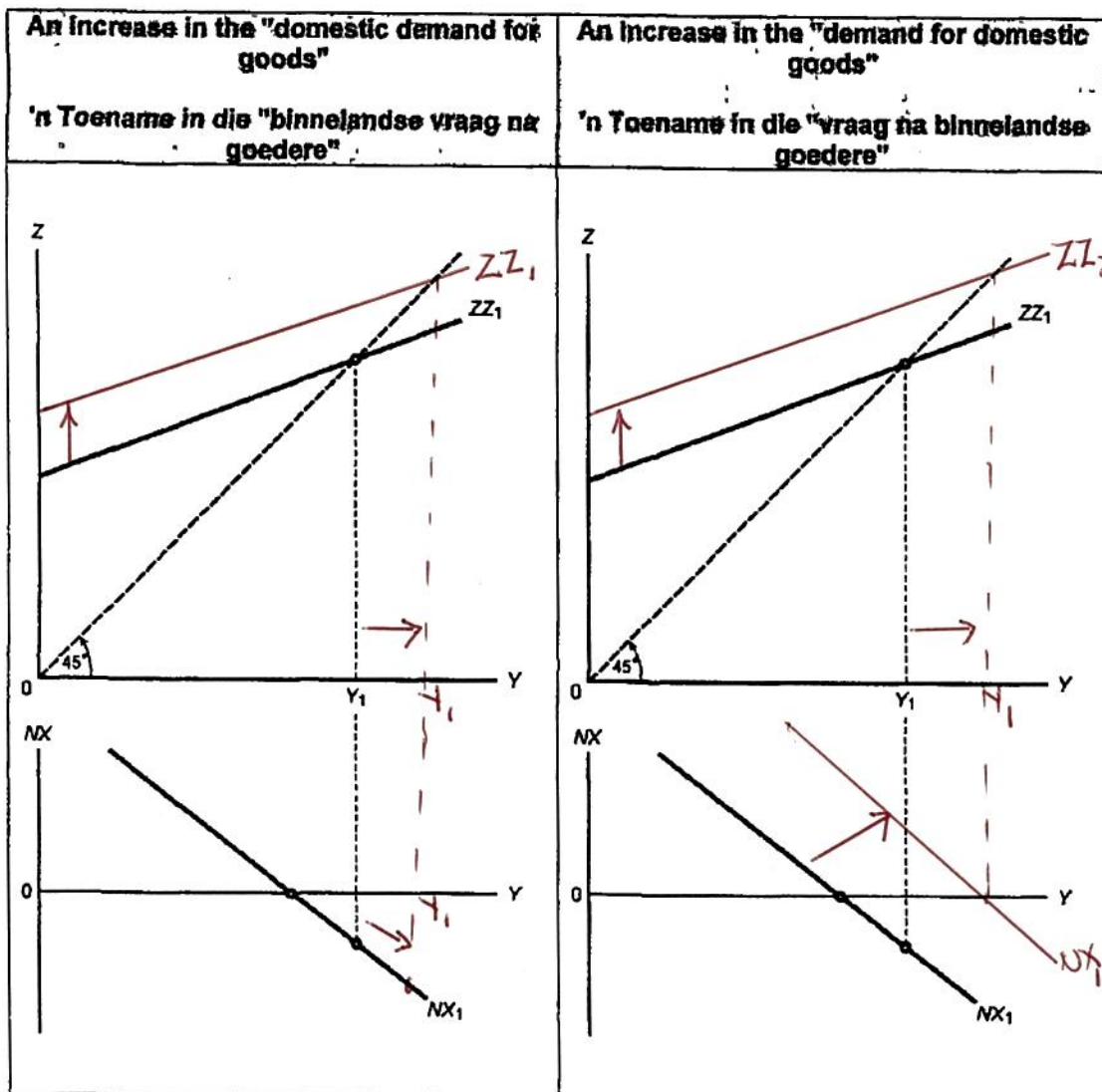
- (i) 'n toename in die "binnelandse vraag na goedere" in Diagram A,
 (ii) 'n toename in die "vraag na binnelandse goedere" in Diagram B

Vergelyk die impak op die produksie- en inkompeil en op die handelsbalans

(6)

Diagram A

Diagram B



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Comparison of the results on the **output and income level** / Vergelyking van die resultate op die **produksie- en inkompeel**

• In both instances the level of output and income increase.

CHAIN OF EVENTS.

• $DD \uparrow \rightarrow Z \uparrow \rightarrow Y \uparrow$ and $X \uparrow \rightarrow NX \uparrow \rightarrow Z \uparrow \rightarrow Y \uparrow$.

Comparison of the results on the **trade balance** / Vergelyking van die resultate op die **handelsbalans**

• An increase in domestic demand for goods results in trade balance deterioration which an increase in demand for domestic goods results in improvement of the trade balance.

[TURN OVER]
[BLAAI OM]

Question 4 2/Vraag 4.2 (6 marks/6 punte)

Use the following IS-LM model for an open economy to explain the possible impact of a decrease in government spending on the goods market, the financial market, the exchange rate and the trade balance

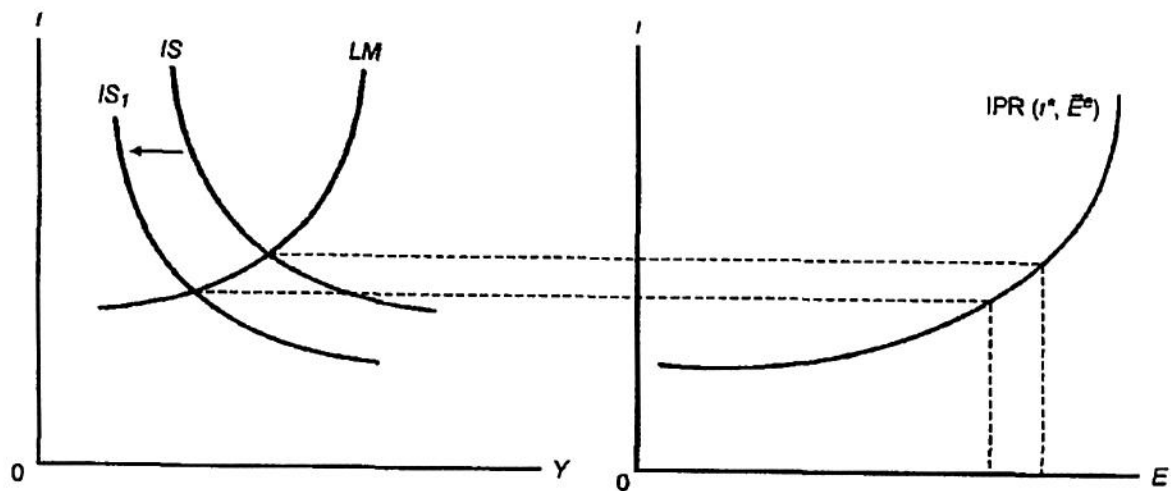
You can use a chain of events or words to explain the impact

(6)

Gebruik die onderstaande IS-LM-model vir 'n oop ekonomie om die moontlike impak van 'n afname in owerheidsbesteding op die goederemark, die finansiële mark, die wisselkoers en die handelsbalans te verduidelik

U kan van gebeurteniskettings of woorde gebruik maak om die impak te verduidelik

(6)



Explanation/Verduideliking

Impact on Goods Market

$G \downarrow \rightarrow Z \downarrow \rightarrow Y \downarrow$

Financial Market

$Y \downarrow \rightarrow MD \downarrow \rightarrow i \downarrow$

Exchange rate and the trade balance

$i \downarrow \rightarrow \text{capital outflow} \rightarrow E \downarrow \rightarrow X \uparrow \rightarrow NX \uparrow$

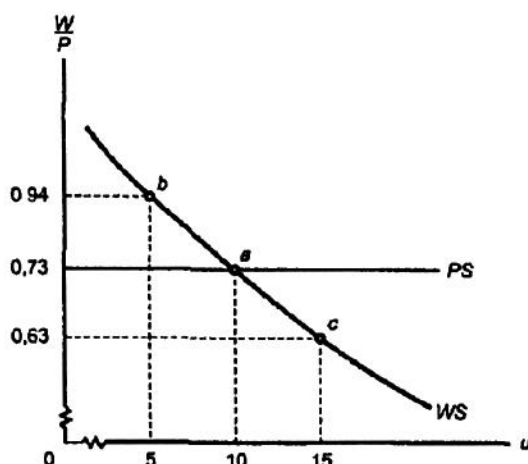
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[illegible]

QUESTION 5/VRAAG 5 (12 marks/12 punte)**Question 5.1/Vraag 5.1 (5 marks/5 punte)**

Use the following diagram to answer questions a, b and c

Gebruik die volgende diagram om vrae a, b en c te beantwoord



a What is the value of the natural rate of unemployment? (1)

a Wat is die waarde van natuurlike werkloosheidskoers? (1)

10

b Define the natural rate of unemployment (2)

b Definieer die natuurlike werkloosheidskoers (2)

• an unemployment rate where the implied price setting real wage is equal to implied wage setting real wage.

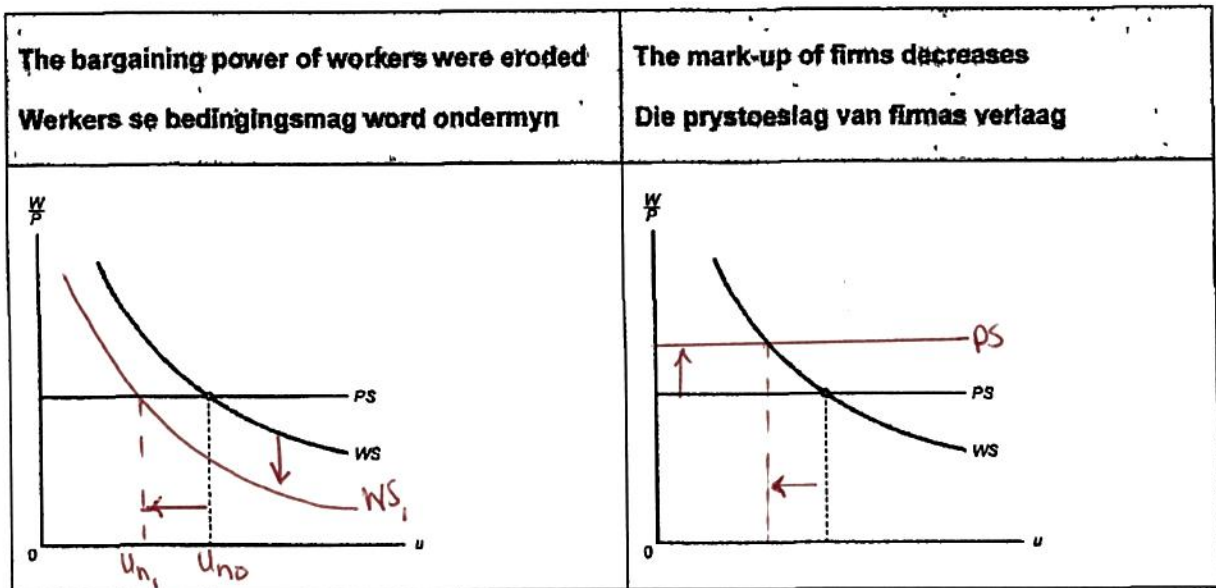
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- c I Show graphically on diagram A below what would happen to the natural rate of unemployment if the bargaining power of workers is eroded by labour legislation (1)
- c I Toon grafies op diagram A hieronder wat met die natuurlike werkloosheidskoers sou gebeur indien werkers se bedingingsmag deur arbeidswetgewing ondermyn word (1)
- c II Show graphically on diagram B below what would happen to the natural rate of unemployment if firms were forced by anti-monopolistic legislation to decrease their mark-up (1)
- c II Toon grafies op diagram B hieronder wat met die natuurlike werkloosheidskoers sou gebeur as firmas deur anti-monopolistiese wetgewing gedwing sou word om hul prystoeslag te verlaag (1)

Diagram A

Diagram B



Question 5 2/Vraag 5.2 (7 marks/7 punte)

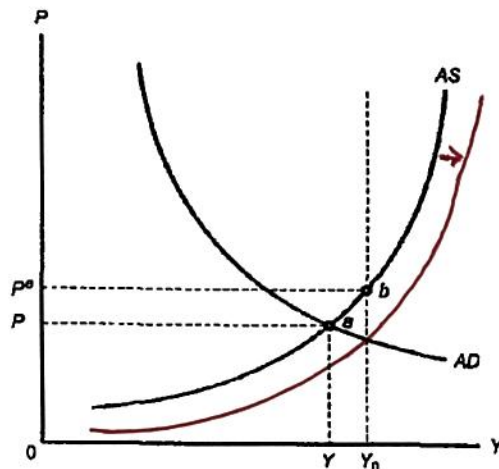
- a List one factor that will shift the AD curve rightwards in the AS-AD model. Clearly indicate the change in the direction of the factor. (1)
- a Lys een faktor wat die AD-kromme regswaarts sal verskuif in die AS-AD model. Toon duidelik die rigting van die verandering van die faktor aan. (1)
- Increase in Government Spending.
- Increase in Money Supply;
- Decrease in taxation.

[TURN OVER]
[BLAAI OM]

- b List one factor that will shift the AS curve upwards in the AS-AD model. Clearly indicate the change in the direction of the factor. (1)
- b Lys een faktor wat die AS-kromme opwaarts sal verskuif in die AS-AD model. Toon duidelik die rigting van die verandering van die faktor aan. (1)

• Increase in expected price level

- c Study the following diagram. At point a (the short run) the actual price level is lower than the expected price level. Explain the adjustment process from the short run (point a) to the medium run (label the medium run point c on the diagram). Clearly indicate on the diagram the shift of and/or movement along the curve(s) to reach the medium run. (5)
- c Bestudeer die onderstaande diagram. By punt a (die korttermyn) is die werklike pryspeil laer as die verwagte pryspeil. Verduidelik die aanpassingsproses van die korttermyn (punt a) na die medium termyn (benoem die medium termyn punt c op die diagram). Toon duidelik op die diagram die verskuiving van en/of beweging langs die kromme(s) aan ten einde die medium termyn te bereik. (5)



Explanation of the adjustment to the medium run / Verduideliking van die aanpassing na die medium termyn

USING CHAIN OF EVENTS:

Medium to Long Run

Labour Market

$P^e \downarrow \rightarrow W \downarrow \rightarrow P \downarrow$

Goods and Financial market

$P \downarrow \rightarrow \frac{M}{P} \uparrow \rightarrow i \downarrow \rightarrow I \uparrow \rightarrow X \uparrow \rightarrow Y \uparrow$

[TURN OVER]
[BLAAI OM]

USING WORDS.

- If prices are lower than the expected price levels, people revise their expectations downwards.
- Nominal wage demands decrease.
- In turn, firms decrease price levels.
- A decrease in prices results in higher real supply of money which leads to lower interest rates.
- This induces higher investment spending, which leads to higher demand for goods.
- in turn, the level of output and income increases.

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SECTION B: COMPULSORY (50 marks)

**THE ENGLISH VERSION OF THE MULTIPLE CHOICE QUESTIONS START ON PAGE 20
THE AFRIKAANS VERSION OF THE MULTIPLE CHOICE QUESTIONS START ON PAGE 28**

INSTRUCTIONS

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

- (i) Suppose a question reads as follows

An increase in the level of output

- 1 decreases the level of income in the economy
- 2 has no impact on the level of income in the economy
- 3 increases the level of income in the economy
- 4 causes firms to employ less factors of production

The correct answer is 3 You must therefore mark 3 on your mark reading sheet

- (ii) Only one of the alternatives per question – listed as 1, 2, etc – is correct You must therefore not mark more than one alternative per question
- (iii) For a correct answer you receive **2½ marks**. No marks are deducted for incorrect answers
- (iv) Section B consists of 20 questions and thus counts 50 marks out of the total of 100

Your mark reading sheet may get lost. You MUST therefore also write your answers to this section on page 27 of your examination answer book, for example 1(4); 2(3); 3(1); etc.

**[TURN OVER]
[BLAAI OM]**

AFDELING B: VERPLIGTEND (50 punte)**DIE AFRIKAANSE MEERKEUSEVRAE BEGIN OP BLADSY 28****INSTRUKSIES**

In hierdie afdeling moet AL die vrae op die merkleesblad wat voorsien is, beantwoord word. **Volg die instruksies vir die voltooiing van 'n merkleesblad sorgvuldig.**

- (i) Veronderstel 'n vraag lees soos volg

'n Styging in die produksiepeil

- 1 verminder die inkomepeil in die ekonomie
- 2 het geen invloed op die inkomepeil in die ekonomie
- 3 verhoog die inkomepeil in die ekonomie
- 4 veroorsaak dat firmas minder produksiefaktore in diens neem

Die korrekte antwoord is 3. U moet dus 3 op u merkleesblad merk.

- (ii) Slegs een van die alternatiewe per vraag, gelys as 1, 2, ens. is korrek. U moet dus nie meer as een alternatief per vraag merk nie.
- (iii) Vir 'n korrekte antwoord ontvang u **2½ punte**. Geen punte word vir verkeerde antwoorde afgetrek nie.
- (iv) Afdeling B bestaan uit 20 vrae en tel dus 50 punte uit die totaal van 100.

U merkleesblad mag wegraak. U MOET dus ook u antwoorde op hierdie afdeling op bladsy 35 in u eksamenantwoordboek neerskryf, byvoorbeeld 1(4); 2(3); 3(1); ens.

SECTION B: COMPULSORY (50 marks)

The unique number for ECS2602 is 477035

1 Which of the following statements are correct?

- a ☒ The main instrument of fiscal policy is the budget, while the main policy variables are government spending and taxation
- b ☒ The result of the implementation of expansionary fiscal policy is that the budget deficit increases
- c ☒ An expansionary monetary policy entails an increase in the money supply to bring about a decrease in the interest rate in order to increase the demand for goods in the economy
- d ☒ A contractionary monetary policy entails a decrease in the money supply and in the IS-LM model the LM curve will shift upwards

- 1 ☒ a, b, c and d
- 2 Only a, b and c
- 3 Only b, c and d
- 4 Only a, c and d
- 5 Only a, b and d

2 In the goods market model a decrease in consumer and investor confidence is represented by

- 1 ☒ a downward shift of the demand for goods curve and via the multiplier effect the equilibrium level of output and income declines
- 2 an upward shift of the demand for goods curve and via the multiplier effect the equilibrium level of output and income increases
- 3 a steeper demand for goods curve and the equilibrium level of output and income increases
- 4 a flatter demand for goods curve and the equilibrium level of output and income decreases

3 Given that $c_0 = R100$, $\bar{I} = R250$, $G = R300$, $c = \frac{3}{4}$, $T = R100$ and $Y_F = R3\ 000$ the equilibrium level of income is and in order to reach the full-employment level of income, government spending (G) must increase by or taxes (T) must decrease by

- 1 ~~R2 200~~, G must increase by R200, or T must decrease by R266 67
- 2 R2 300, G must increase by R200, or T must decrease by R266 67
- 3 ~~R2 200~~, G must increase by R175, or T must decrease by R233 33
- 4 ☒ R2 300, G must increase by R175, or T must decrease by R233 33

$\alpha = \frac{1}{1 - \frac{3}{4}} = 4$
 $\bar{Z} = 100 + 250 + 300 - 75 = 575$
 $Y^e = 2300$
 $AG = \frac{3000 - 2300}{4} = 175$
 $AT = \frac{3000 - 2300}{4 \times -0.75} = -233.33$

[TURN OVER]
[BLAAI OM]

- 4 If the central bank wishes to increase the interest rate in the economy the central bank should implement
- 1 expansionary monetary policy which involves the selling of bonds by the central bank on the open market to decrease the supply of money The interest rate will increase
 - 2 contractionary monetary policy which involves the buying of bonds by the central bank on the open market to increase the supply of money The interest rate will increase
 - 3 contractionary monetary policy which involves the selling of bonds by the central bank on the open market to decrease the supply of money The interest rate will increase
 - 4 expansionary monetary policy which involves the buying of bonds by the central bank on the open market to increase the supply of money The interest rate will increase

- 5 Which of the following statement(s) is/are correct?

If the financial market is in a liquidity trap

- a financial money market participants will buy bonds if the money supply is increased
- b monetary policy is ineffective in bringing about a decrease in the interest rate
- c it is more effective for authorities to use fiscal policy when the economy is in a liquidity trap

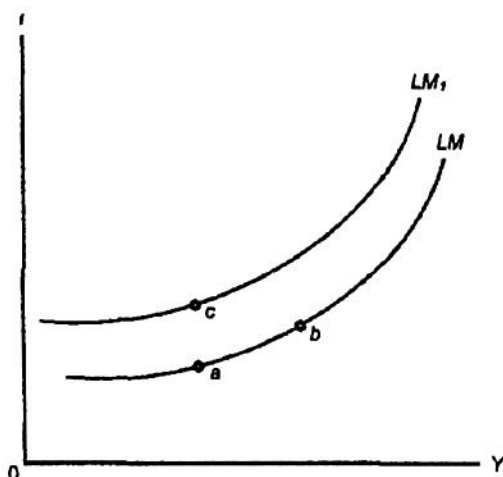
- 1 a, b and c
- 2 Only a and b
- 3 Only b and c
- 4 Only a and c
- 5 Only b

- 6 Which one of the following statements is **incorrect** with regards to an IS curve?

- 1 To derive the IS curve, the first equilibrium point is determined for a specific interest rate which relates to a corresponding total demand for goods curve which relates to a specific output and income level ✓
- 2 To plot the second point of the IS curve the interest rate can be decreased to determine the effect on the output and income level ✓
- 3 When the IS curve is derived we assume that government spending, taxation and consumer confidence remain unchanged ✓
- 4 The IS curve has a negative slope because an increase in the interest rate will cause a decrease in consumer spending

Investment not consumption!

Study the following LM curve and answer question 7 that follows



7 Which of the following statement(s) is/are correct?

- a At point a the demand for money is higher than at point b ~~✓~~
- b At point c the money supply is higher than at point a ~~✓~~
- ☒ c At point a, point b and point c the financial market is in equilibrium
- 1 a, b and c
- 2 Only a
- 3 Only b
- ☒ 4 Only c
- 5 Only a and c

8 Comparing the impact on the IS-LM model for a closed economy of an expansionary monetary policy with an expansionary fiscal policy on investment spending the result is that

- 1 In both cases investment spending definitely increases
- ☒ 2 In the case of fiscal policy investment spending is indeterminate and in the case of monetary policy investment spending is higher
- 3 In both cases investment spending is indeterminate
- 4 In both cases investment spending definitely decreases
- 5 In the case of fiscal policy investment spending is higher and in the case of monetary policy investment spending is lower

definitely higher

[TURN OVER]
[BLAAI OM]

9 If investors, based on the following information,

Domestic interest rate in SA on South African bonds 12%
Domestic interest rate in the USA on USA bonds 6%

*6% in favour of
RSA.*

prefer to buy USA bonds it indicates that they expect the R/\$ exchange rate to

- 1 be unchanged
- 2 appreciate by less than 6%
- 3 depreciate by less than 6%
- ☒ 4 depreciate by more than 6%
- 5 appreciate by more than 6%

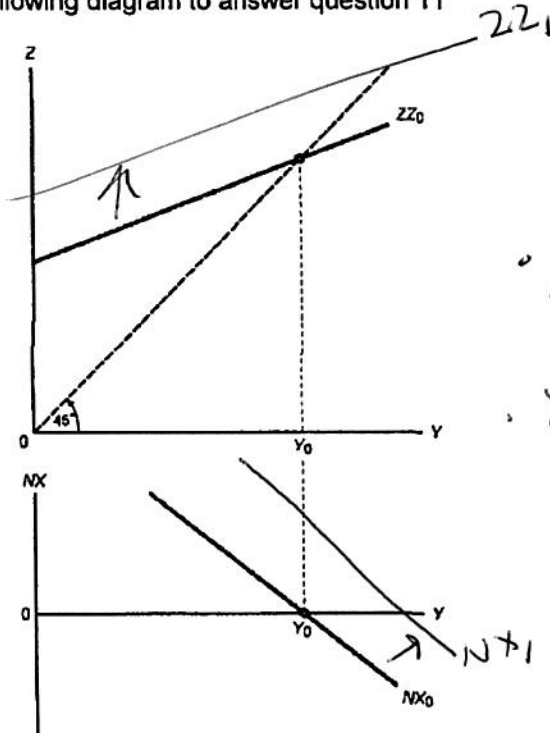
10 Which of the following statements are correct?

Imports are a function of the

- a level of domestic output and income ✓
- b level of foreign output and income
- c expected price level
- d real exchange rate ✓

- 1 a, c and d
- 2 b, c and d
- ☒ 3 Only a and d
- 4 Only b and d
- 5 Only a and c

Use the following diagram to answer question 11



• $E \downarrow \rightarrow X \uparrow \rightarrow NX \uparrow$
(improvement)

• $X \uparrow \rightarrow Z \uparrow \rightarrow Y \uparrow$

- 11 Given the goods market equilibrium at Y_0 in the diagram above, what happens to the level of output and the trade balance in the event of a real depreciation of the exchange rate?
- a The level of output decreases and the trade balance would deteriorate due to the Marshall-Lerner condition $\uparrow$
 - b The level of output increases and the trade balance would improve due to the Marshall-Lerner condition $\checkmark$
 - c The level of output increases and the trade balance would deteriorate due to the Marshall-Lerner condition $\downarrow$
 - d The level of output decreases and the trade balance would improve due to the Marshall-Lerner condition $\downarrow$
- 1 Only a
- ② Only b
- 3 Only c
- 4 Only d
- 5 Not option 1, 2, 3 or 4

[TURN OVER]
[BLAAI OM]

12 An increase in the domestic interest rate causes the domestic currency to

- 1 depreciate since a higher interest rate discourages foreign capital inflows
- 2 appreciate since a higher interest rate encourages foreign capital inflows
- 3 depreciate since a higher interest rate encourages foreign capital inflows
- 4 appreciate since a higher interest rate discourages foreign capital inflows

$i \uparrow \rightarrow \text{capital inflow} \rightarrow E \uparrow \rightarrow X \downarrow \rightarrow NX \downarrow$
 opposite of

13 In the IS-LM model for an open economy, an expansionary monetary policy has the following impact

- 1 A decrease in the interest rate which causes a capital outflow, a depreciation of the exchange rate, an increase in exports and an improvement of the trade balance
- 2 An increase in the interest rate which causes a capital outflow, an appreciation of the exchange rate, a decrease in exports and a deterioration of the trade balance
- 3 An increase in the interest rate which causes a capital inflow, a depreciation of the exchange rate, an increase in exports and an improvement of the trade balance
- 4 A decrease in the interest rate which causes a capital inflow, an appreciation of the exchange rate, a decrease in exports and a deterioration of the trade balance

$i \downarrow \rightarrow K \text{ outflow} \rightarrow E \downarrow \rightarrow X \uparrow \rightarrow NX \uparrow$ $i \uparrow \rightarrow K \text{ inflow} \rightarrow E \uparrow \rightarrow X \downarrow \rightarrow NX \downarrow$

14 Comparing the impact of a contractionary monetary policy with an expansionary fiscal policy in the IS-LM model for an open economy on the exchange rate and trade deficit the results are that

- 1 in both cases the exchange rate appreciates and the trade deficit decreases
- 2 in both cases the exchange rate appreciates while the trade deficit for fiscal policy increases and for monetary policy it decreases
- 3 for fiscal policy the exchange rate depreciates and the trade deficit increases while for monetary policy the exchange rate appreciates and the trade deficit decreases
- 4 for fiscal policy the exchange rate appreciates and the trade deficit decreases while for monetary policy the exchange rate depreciates and the trade deficit increases
- 5 in both cases the exchange rate appreciates and the trade deficit increases

15 Which of the following factors will cause an increase in the nominal wage demands of labour?

- a A higher expected price level ✓
- b A lower level of unemployment ✓
- c A decrease in the demand for labour ✗
- d The implementation of better unemployment benefits ✓

$$W = P^e F(U, Z)$$

+ - +

- 1 a, b, c and d
- 2 Only a, b and c
- 3 Only b, c and d
- 4 Only a, b and d
- 5 Only a and b

16 If the mark-up by firms increases, the

- a price per unit will increase, given the nominal wage
- b price per unit will decrease, given the nominal wage
- c PS curve will shift upwards
- d PS curve will shift downwards

$$P = \underset{+}{W} (1 + \underset{+}{m})$$

- 1 a and c
- 2 b and c
- 3 a and d
- 4 b and d
- 5 Only d

17 Which of the following factor(s) will shift the wage-setting curve upwards?

- a A decrease in the unemployment rate
- b An increase in unemployment benefits
- c An increase in the mark-up of firms
- d Labour legislation that provides workers with more protection
- e An increase in the nominal wage

$$W = \underset{+}{P}^e \underset{-}{F}(u, \underset{+}{Z})$$

- 1 Only c
- 2 Only b and d
- 3 b, c, d and e
- 4 a, b, d and e
- 5 a, b and c

18 The AS curve has a positive slope because

- 1 an increase in output is accompanied by an increase in nominal wages
- 2 an increase in output is accompanied by an increase in real wages
- 3 an increase in output increases the expected price level
- 4 an increase in output is accompanied by a decrease in nominal wages
- 5 an increase in output is accompanied by an increase in the demand for goods

REASON

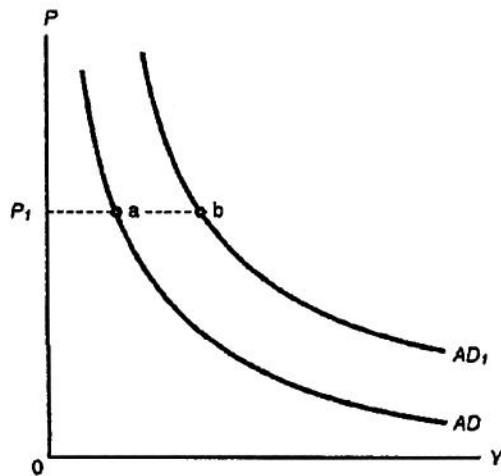
$$\gamma \uparrow \rightarrow N \uparrow \rightarrow w \downarrow \rightarrow W \uparrow \rightarrow P \uparrow$$

19 If the actual price level is lower than the expected price level it causes

- 1 labour to bargain for a higher nominal wage and consequently the price level increases and the AS curve shifts upwards
- 2 labour to bargain for a lower nominal wage and consequently the price level decreases and the AS curve shifts downwards
- 3 labour to bargain for a higher nominal wage and consequently total spending increases and the AD curve shifts to the right
- 4 labour to bargain for a lower nominal wage and consequently the price level increases and the AS curve shifts lower

[TURN OVER]
[BLAAI OM]

Question 20 is based on the following diagram



- 20 If the rightward shift of the AD curve is due to an increase in the nominal money supply, the situation at point b compared to point a is such that the
- 1 level of government spending is higher
 - 2 level of taxation is lower
 - 3 real money supply is lower
 - 4 interest rate is higher
 - ☒ 5 level of investment spending is higher

Your mark-reading sheet can get lost and you must therefore also write down your answers for Section B in the space provided below.		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	

[TURN OVER]
[BLAAI OM]

AFDELING B VERPLIGTEND (50 punte)**Die unieke nommer vir ECS2602 is 477035**

- 1 Watter van die volgende stellings is korrek?
- a Die hoofinstrument van fiskale beleid is die begroting en die belangrikste beleidsveranderlikes is owerheidsbesteding en belasting
 - b Die gevolg van die implementering van ekspansionistiese fiskale beleid is dat die begrotingstekort toeneem
 - c 'n Ekspansionistiese monetêre beleid behels die verhoging in die geldvoorraad om sodoende die rentekoers te verlaag ten einde die totale vraag na goedere in die ekonomie te verhoog
 - d 'n Beperkende monetêre beleid behels die afname in die geldvoorraad en in die IS-LM model sal die LM-kromme opwaarts verskuif
- 1 a, b, c en d
 - 2 Slegs a, b en c
 - 3 Slegs b, c en d
 - 4 Slegs a, c en d
 - 5 Slegs a, b en d
- 2 In die goederemarkmodel word 'n afname in verbruikers- en investeerdersvertroue verteenwoordig deur
- 1 'n afwaartse verskuiving van die goedervraagkromme en via die vermenigvuldigerseffek daal die ewewigsproduksie- en inkompeil
 - 2 'n opwaartse verskuiving van die goedervraagkromme en via die vermenigvuldigerseffek styg die ewewigsproduksie- en inkompeil
 - 3 'n steiler goedervraagkromme en die ewewigsproduksie- en inkompeil styg
 - 4 'n platter goedervraagkromme en die ewewigsproduksie- en inkompeil daal
- 3 Gegewe dat $c_0 = R100$, $\bar{I} = R250$, $G = R300$, $c = \frac{3}{4}$, $T = R100$ en $Y_F = R3\ 000$, is die ewewigsinkomepeil en ten einde die volle indiensneming inkompeil te bereik, moet owerheidsbesteding (G) met styg of belasting (T) moet daal met
- 1 R2 200, G moet styg met R200, of belasting moet daal met R266 67
 - 2 R2 300, G moet styg met R200, of belasting moet daal met R266 67
 - 3 R2 200, G moet styg met R175, of belasting moet daal met R233 33
 - 4 R2 300, G moet styg met R175, of belasting moet daal met R233 33

**[TURN OVER]
[BLAAI OM]**