ECONOMICS EBH003/ADI003

DEPARTMENT OF ECONOMICS AND ECONOMETRICS

FINAL ASSESSMENT NOV 2015

Economics EBH003/ADI003 **Date: November 2015**

Assessor: Mr M Biyase **Time: 2hrs**
Total Marks: 100

Moderator Dr P Baur

1. The paper consists of only one section, 11 pages.
2. Noiseless calculators may be used.
3. Answer all the questions in the spaces provided on the examination script.

Surname																			
Initials																			

Student number											

Question	Marks	Total		Question	Marks	Total
Q 1	15					
Q 2	10					
Q 3	15					
Q 4	15					
Q 5	20					
Q 6	10					
Q 7	15					
TOTAL			/100			

QUESTION 1 [15]

You are an economist working for the national treasury in Johannesburg. You receive this letter from an important member of parliament (MP).

Dear Economist
Parliament is about to consider the government's proposal to cut taxes by 5 percent. Before deciding whether to endorse the policy, I would like your analysis. I see little hope of reducing government spending, so tax cut would mean an increase in the budget deficit. Explain and illustrate using the Keynesian models as to how would the tax cut and budget deficit affect the economy and the economic wellbeing of the country?

Sincerely
Member of SA parliament

QUESTION 2 [10]

The MP replies:

Dear Economist:

I would like to first thank you for your prompt response. It made a great deal of sense to me. However, after receiving your letter my committee heard testimony from a prominent economist known as "Ricardian" who take a totally different view. He said that a tax cut by itself would not stimulate the economy and that budget deficits would not have all the effects that you listed. What the hell is going on here?

Sincerely
Member of SA parliament

QUESTION 3 [15]

Use the data below to answer the following questions

(1) Real domestic output (GDP=DI) billions	(2) Aggregate expenditures private closed economy, billions	(3) Exports, billions	(4) Imports, billions	(5) Net exports, private economy	(6) Aggregate expenditures, open billions
R 200	R 240	R 20	R 40	R____	R____
250	280	20	40	____	____
300	320	20	40	____	____
350	360	20	40	____	____
400	400	20	40	____	____
450	440	20	40	____	____
500	480	20	40	____	____
550	520	20	40	____	____

Student number……………………………… Surname………………………………………….

a. Use columns 1 and 2 to determine the equilibrium GDP for this hypothetical economy. **(1)**

b. Now open this economy for international trade by including the export and import figures of columns 3 and 4. Calculate net exports and determine the equilibrium GDP for the open economy. **(8)**

c. Given the original R20 billion level of exports, what would be the equilibrium GDP if imports were R10 billion greater at each level of GDP? **(2)**

d. What is the size of the multiplier based on the closed economy? **(2)**

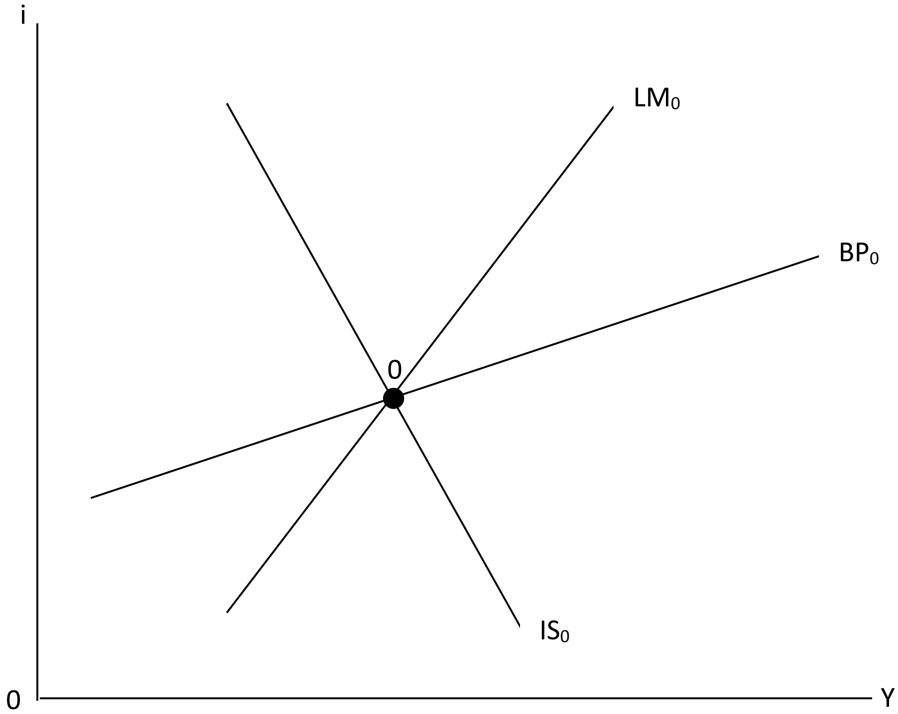
e, calculate the value of induced consumption based on the closed economy **(2)**

Student number………………………………………Surname……………………………………………….

QUESTION 4 [15]

Zambia's annual rate of inflation as measured by the all items Consumer Index (CPI) has risen by 0.2 percent from the December 2013's 7.1 percent to 7.3 percent recorded January this year.

You have been asked to use **IS-LM-BP model** to explain and illustrate as to what would be the appropriate policy response by the Reseve Bank of Zambia under these sercumstances and its impact



The primary effect is: (2)

____

____

____

The secondary effect is: (2)

____

Net Effect (1)

The intitial BoP effect is: (2)

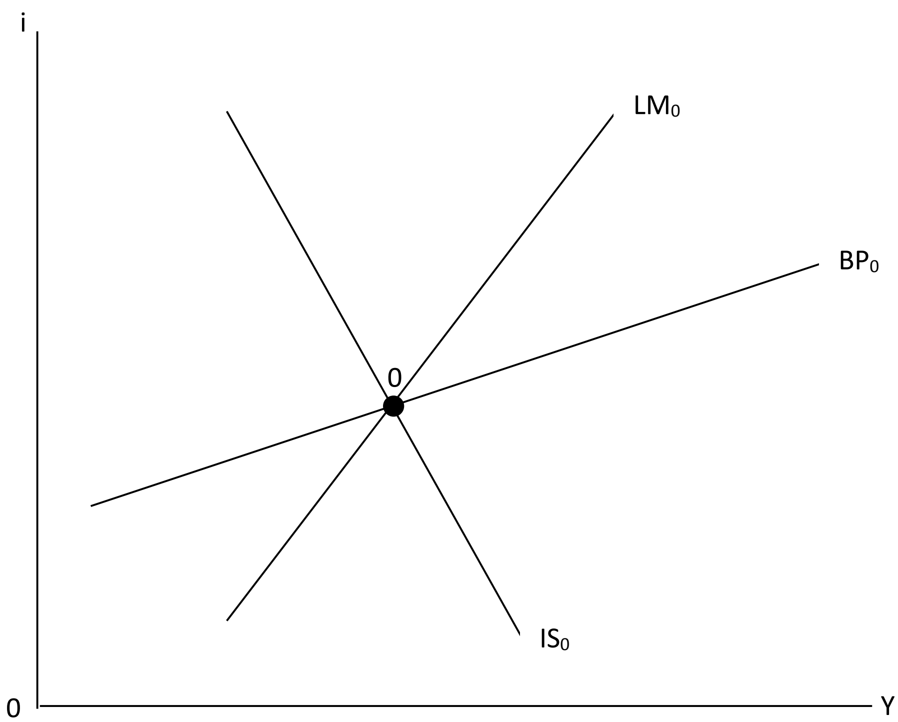
The concluding BoP effect is: (2)

QUESTION 5 [20]

In the business Day (2013) the former minister of finance was reported as saying "OVERALL government expenditure will rise 8.9% to R1.15-trillion for the 2013-14 financial year".

5.1 Explain whether the minister applied expansionary or restrictive fiscal policy. Write *expansionary* or *restrictive*, and explain the reasons for your choice. (5)

5.2 Make use of the **IS-LM-BP model** to illustrate and explain carefully the impact of the policy which you think was used by the minister in 6.1 above. (15)



The primary effect is: (2)

The secondary effect is: (2)

Net Effect (1)

The intitial BoP effect is: (2)

The concluding BoP effect is: (2)

QUESTION 6 [10]

6.1 Use the attached data to calculate the inflation rate and growth rate (based on GDP at market prices) for the period 2007 to 2009(year on year growth) (6)

6.2 Based on the years 2007 to 200, how does the rate of inflation correspond with the economic growth? (4)

QUESTION 7 [15]

Suppose there was a terrorist attack using nuclear weapons on the Saudi oil fields which causes the price of oil to increase to $300 per barrel. Use the AD/AS model to show the effects of the increase in oil prices in their country. Make sure you explain how the economy moves from the initial to the new long-run equilibrium.

Use the space below to draw the graph