

## ATTENDANCE FORM


<b>Surname</b>	
<b>Initials</b>	
<b>Student number</b>	
<b>Venue</b>	
<b>Cell phone number</b>	

### **GENERAL INSTRUCTIONS**

1. Do not remove the staple – hand this paper in as a whole.
2. Remove only the top page (this page), and hand it in together with this paper at the end.
3. Check that your paper has 16 numbered pages.

<p>EKN1B01/ECO01B1 FINAL ASSESSMENT NOVEMBER 2015</p>
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Full Name: \_\_\_\_\_  
Student Number: \_\_\_\_\_

 UNIVERSITY JOHANNESBURG	<b>ECONOMICS 1B (DEGREE)</b> <b>FINAL ASSESSMENT</b> <b>DEPARTMENT OF ECONOMICS AND ECONOMETRICS</b>
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**Date:** November 2015  
**Marks:** 100  
**Time:** 2 hours  
**Examiners:** Ms E. Gouws, Ms N. Rashied, Ms L. Ting, Ms A. Ohonba, Dr P. Baur, Dr T. Dalton-Greyling, Ms L. Nleya, Ms B. Thobejane & Mr M. Biyase.  
**Moderator(s):** Prof L. Greyling  
 Mr A. Wentzel

<b>Surname</b>																				
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<b>Student number</b>											
<b>Cell phone number</b>											

Question	Marks	Total
A1		30
A2		20
B1		24
B2		5
B3		10
C		11

<b>GRAND TOTAL</b>	_____ / 100	
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**Section A: Short Questions**

**(50 Marks)**

**Question A1: Multiple Choice Questions**

**(30 Marks)**

Answer the multiple choice questions on the attached answer sheet on **page 8**. Mark the correct option clearly with a big cross. Do not remove the staple or any of the pages. Each correct answer is worth 2 marks each.

1. Which of the following statements are examples of goods markets?

- i. The JSE Securities Exchange
- ii. The Johannesburg Fresh Produce Market
- iii. The Rand Easter Show
- iv. The Bond Exchange of South Africa
- v. A job interview

- a. i & iv
- b. ii & iii
- c. iii & iv
- d. ii, iii & v
- e. None of the above

2. Which of the following statements are examples of factor markets?

- i. The JSE Securities Exchange
- ii. The Johannesburg Fresh Produce Market
- iii. The Rand Easter Show
- iv. The Bond Exchange of South Africa
- v. A job interview

- a. i & iv
- b. ii & iii
- c. iii & iv
- d. Only v
- e. None of the above

3. If the principal concern of economics is the question of how best to use society's resources, then economics would be irrelevant if:
- a. We had unlimited wants.
  - b. Economies were organised around command rather than market principles.
  - c. Economies were organised around market rather than command principles.
  - d. Resources were available in unlimited quantities.
  - e. Incomes were distributed more equally.
4. Adam Smith's concept of the invisible hand suggests that:
- a. The selfish actions of rational individuals will generate an efficient allocation of scarce resources.
  - b. The public-spirited actions of individuals will generate an efficient allocation of scarce resources.
  - c. The systematic but largely invisible intervention of government in the operation of markets will generate an efficient allocation of scarce resources.
  - d. Market failure cannot arise, and there is therefore no economic role for the state.
  - e. No overall efficient allocation of scarce resources is likely without coordinated economic planning.
5. In a command system, economic planners would be concerned with all but one of the following areas. The exception is:
- a. An appropriate allocation of resources between the production of consumer goods and capital goods.
  - b. The elimination of bottlenecks in the supply of key commodities.
  - c. The establishment of an effective chain of command to pass production targets to producer units.
  - d. Implementation of incentives to achieve output targets.
  - e. Freedom of movement of capital to respond to profit signals throughout the economy.

The table below shows a section of the national accounts for a small country in 2012.  
Answer Questions (6) and (7) using the information provided in the table.

Consumption expenditure	10 500
Government expenditure	3 000
Depreciation	500
Exports	1 200
Imports	1 000
Gross capital formation (investment)	2 200

6. The value of Gross Domestic Expenditure is:

- a. 15 900
- b. 15 200
- c. 15 400
- d. 18 400
- e. 15 700

7. The value of Net Domestic Product is:

- A. 15 900
- B. 15 700
- C. 15 200
- D. 15 400
- E. 18 400

8. The current account of the balance of payments records:

- a. All sales and purchases of goods and services as well as income flows to and from the rest of the world.
- b. The value of exports, but not imports.
- c. The change in the country's gold reserves.
- d. All purely financial flows in and out of the country.
- e. All of the above.

9. If the financial account is in surplus, then:
- a. The value of imports exceeds the value of exports.
  - b. The value of exports exceeds the value of imports.
  - c. There will be a surplus on the overall balance of payments.
  - d. Capital outflows exceed capital inflows.
  - e. There has been a net inflow of foreign capital into the country.
10. People leave the labour force when they:
- a. Find employment.
  - b. Become unemployed.
  - c. Retire.
  - d. Work in the informal sector.
  - e. All of the above
11. If a country's rate of unemployment increases then we can conclude that:
- a. The country is experiencing jobless growth.
  - b. No new jobs are being created.
  - c. GDP growth must be falling.
  - d. The proportion of people of working age who want employment and who cannot find employment is increasing.
  - e. All of the above are true.
12. South Africa has a comparative (relative) advantage over France in the production of maize if it:
- a. Produces maize with fewer material inputs than France.
  - b. Can match France's output of maize and have resources left over.
  - c. Can produce maize with the same resources as France but faster.
  - d. Has an absolute advantage over France.
  - e. Produces maize at a lower opportunity cost than France.

13. As a result of more South Africans visiting America, we can expect, *ceteris paribus*:
- a. An appreciation of the rand relative to the dollar.
  - b. A depreciation of the rand relative to the dollar.
  - c. An appreciation of the dollar relative to the rand.
  - d. Both a & b.
  - e. Both b & c.
14. A monetary system where exchange rates are freely determined in response to the demand and supply for foreign currencies may best be described as:
- a. Fixed exchange rate system.
  - b. Managed float.
  - c. Floating exchange rate system.
  - d. Pegged exchange rate.
  - e. Purchasing power parity system.
15. In the AD-AS model the long-run assumptions are:
- a. Prices are given, wages and interest rates are variable
  - b. Prices are variable, wages and interest rates are fixed
  - c. Prices, wages and interest rates are fixed and the only variation is in the AD and AS curves
  - d. Prices, wages, interest rates and the money stock can vary
  - e. All of the above

**Question A1 - Answer Sheet**  
(Remember to write your student number on the bottom of this sheet)

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Question 1					
Question 2					
Question 3					
Question 4					
Question 5					
Question 6					
Question 7					
Question 8					
Question 9					
Question 10					
Question 11					
Question 12					
Question 13					
Question 14					
Question 15					



Question A2: TRUE/FALSE

(20 Marks)

Indicate in column B whether the statement made in column A is True or False. IF the statement is False, provide a reason for your answer in column C.

	Column A Statements	Column B True/False	Column C Reason: 2 marks each
1.	An increase in government spending leaves the multiplier unchanged		
2.	The market interest rate and the price of bonds have a positive relationship.		
3.	Private firms can profit from providing public goods and services such as streetlights.		
4.	Common property resources are overused because government intervenes.		
5.	Government spending can be financed by: public borrowing, income from government-owned property, or increasing taxes.		
6.	Both market failure and government failure can occur in an economy.		
7.	The Consumer and Producer Price Index are not compared to base years.		
8.	Macroeconomics is the study of the aggregate economy.		
9.	Unemployment can be solved by increasing the capital intensity of production.		
10.	Comparative advantage is a reason for why international trade occurred.		

**SECTION B: Long Questions**

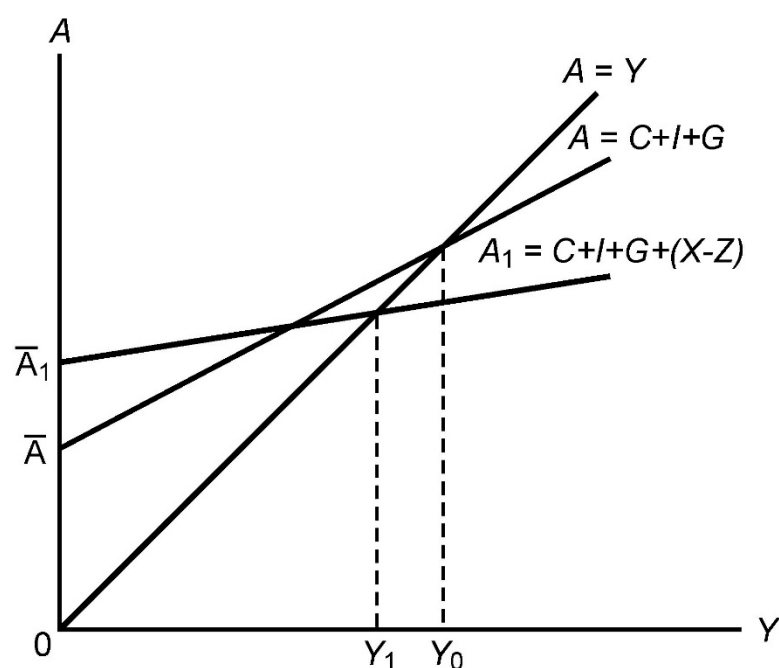
**(50 Marks)**

**Question B1: Keynesian Model**

**(24 Marks)**

Use the graph and table below to answer the questions that follow. Assume the following:

Autonomous C = 100	G = 50	t = 0.15
I = 80	X – Z = 50	m = 0.05



1. What does  $Y_0$  show?

(2)

2. Assume that  $Y_1$  is the new equilibrium point. Compare this point to the line  $\bar{A}$  to  $A = C + I + G$ . Explain what the gap between  $Y_1$  and the line means.

(2)

3. Assume that equilibrium income  $Y_1$  is 400.
- Determine the marginal propensity to consume by using the Keynesian equation. (Hint: solve for 'c'). Round off to the second decimal point. (6)

- Determine the amount of tax from personal income at  $Y_1 = 400$ . (3)

- Determine the amount of induced imports at  $Y_1 = 400$ . (3)

- d. Suppose there is a leakage in the 4-sector model through the channel of savings. That is to say that the marginal propensity to save (MPS) increases by 50%.

- i. Determine the new MPS (Hint: use your answer from 3a above). (2)

- ii. Compare the initial and new marginal propensity to consume. (2)

- iii. Determine the amount of induced consumption before and after the increase in savings rates at  $Y_1 = 400$ . Round off to the second decimal point. (2)

- iv. What do we call this loss in spending in the Keynesian system? (2)



**Question B3:**

**(10 Marks)**

Listed below are factors that affect either Aggregate Supply (AS) or Aggregate Demand (AD). Use an “X” to indicate if the listed factor affects AS or AD either make an “X” in the *Effect on AD* column or *Effect on AS* column. Also indicate the direction of the relationship or the impact ( + or - ) between the listed factor and Aggregate Supply or Aggregate Demand under the *Relationship +/-* column.

Factor	Effect on AD	Effect on AS	Relationship +/-
Income			
Labour (wages)			
Population			
Wealth			
Resource prices			

Question C:

(11 Marks)

Read the extract below and answer the questions that follow.

## Unemployment rate down, but big picture worrisome

Jul 29 2015 15:54

Carin Smith

Although the latest Quarterly Labour Force Survey by Stats SA shows the unemployment rate in South Africa decreased from 26.4% in the first quarter of 2015 to 25% in the second quarter, the bigger picture is more worrisome.

The number of unemployed persons declined for two consecutive quarters in the third and fourth quarter of 2014. Following an increase of 626 000 in the number of unemployed persons in the first quarter of 2015, unemployment decreased by 305 000 to 5.2 million in the second quarter of 2015. The results for the second quarter show that of the 36 million working-age population, 15.7 million were employed, 5.2 million unemployed and 15.1 million not economically active.

FNB economists Jason Muscat and Alex Smith attribute the gain in employment between the first and second quarter as largely due to 177 000 informal sector jobs being created. They also pointed out that there was a 1.5% q/q increase in the number of discouraged workers, which somewhat flatters the lower unemployment rate.

David Maynier, DA shadow minister of finance, said in reaction to the latest figures that there is a full-blown jobs crisis in South Africa. "About 321 000 people, who wanted a job, could not find a job, defined merely as 'work for at least one hour', in the first six months of 2015," he said. He also said that it is "staggering that 5.2 million people cannot find a job, especially if one considers that, for every person who loses their job, about four people depend on them. What is worse is that the unemployment rate may increase given that companies in the mining, metals and construction sectors, are planning massive job cuts in 2015.

Adapted from: <http://www.fin24.com/Economy/Unemployment-rate-down-but-big-picture-worrisome-20150729>

1. Determine the percentage drop in unemployment based on the information in paragraph 1 in the extract. (3)

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2. Based on the figures listed in paragraph 2:
- Calculate the total percentage of economically inactive persons in South Africa for quarter two of 2015. (4)

3. What does this percentage mean? (2)

3. What other problems possible can South Africans face because of unemployment based on the statement “for every person who loses their job, about four people depend on them”? (2)

**\*\*\* END OF PAPER \*\*\***