UNIVERSITY OF JOHANNESBURG

DEPARTMENT OF ECONOMICS AND ECONOMETRICS
BUNTING ROAD CAMPUS
FINAL ASSESSMENT
7 NOVEMBER 2014

ATTENDANCE REGISTER

Surname	
Initials	
Student number	
Cell Number	
Venue	

GENERAL INSTRUCTIONS

1. **Do not remove the staple – hand this paper in as a whole.**
2. **Remove <u>only</u> the top page (this page), and hand it in together with this paper at the end of the session.**
3. **Make sure that your paper has 13 numbered pages.**

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DEPARTMENT OF ECONOMICS AND ECONOMETRICS
BUNTING ROAD CAMPUS
FINAL ASSESSMENT
7 NOVEMBER 2014

Course: Management Economics 3

Time : 120
Marks : 100

Assessor: Mr. EE Kodisang
Moderator: Mr T Rametsi

1. Answer all questions in ink.
2. Noiseless calculators may be used.
3. This paper consists of 13 pages.

Surname																			

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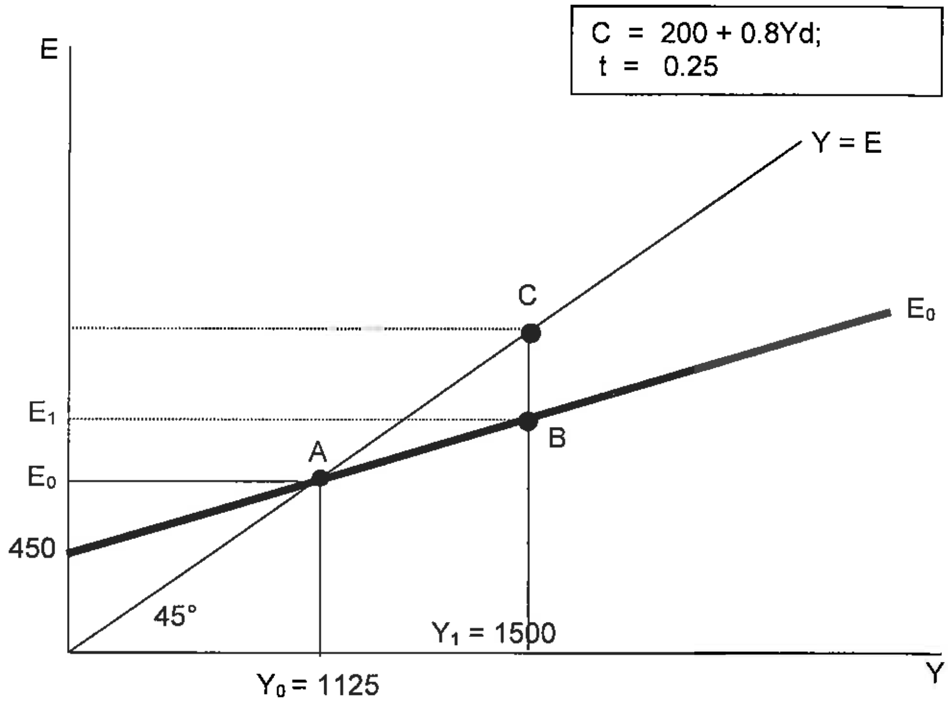
	Marks	Total	Audit
1.	20		
2.	12		
3.	10		
4.	10		
5.	20		
6.	16		
7.	12		
Total	**100**		

QUESTION 1 [20]

Make use of the following diagram and information to answer the questions which follow:



1.1 Explain the relevance of the 45° line. (1)

1.2 Determine the value of autonomous expenditure. (1)

1.3 Determine the value of the multiplier. (Also provide an expression for the multiplier) (4)

1.4 How will an increase in the tax rate be demonstrated on the diagram? (Only explain. Do **not** illustrate). (2)

1.5 List and explain how the three monetary policy instruments work. (12)

	Monetary Policy Instruments	Explanation
1.5.1		
1.5.2		
1.5.3		

QUESTION 2 **[12]**

2.1 In order to **ease** the current **recession** in Britain, the Bank of England pumped £70 billion into the economy on 5th March, 2009. Using the IS – LM diagram, explain how increasing money supply would affect the economy. (6)

Diagram:

Explanation:

2.2 During the February 2009 budget speech, the Minister of Finance, Trevor Manuel, increased government spending. Show the impact of this fiscal policy decision using the IS- LM diagram and clearly explain. (6)

Diagram:

Explanation:

QUESTION 3 [10]

3.1 Briefly explain the basic instruments of fiscal policy. (6)

	Monetary Policy Instruments	Explanation
3.1.1		
3.1.2		

3.2 List four factors that may influence real investment expenditure (Investment is a function of ...) (4)

No	Factors
3.2.1	
3.2.2	
3.2.3	
3.2.4	

QUESTION 4 **[10]**

4.1 Briefly explain inflation targeting. (3)

From January 2009, the Reserve Bank changed from using one price index to measure inflation rate to another.

4.2 Name the the previous price index. (1)

4.3 Name the the **NEW** price index. (1)

4.4 Why the new price index? Give ONE reason. (2)

4.4 Explain two changes that have been introduced in the new price index. (3)

QUESTION 5 [20]

5.1 Answer the following general knowledge questions regarding issues in South Africa in 2014. (10)

Question no.	Questions	Your answer.
5.1.1	What is the current value of the prime lending rate? (2)	
5.1.2	Derive the expenditure multiplier. (2)	
5.1.3	What is the current value of the Rand-dollar exchange rates? (2)	
5.1.4	What is the current value of the Rand-Euro exchange rates? (2)	
5.1.5	The relationship between real consumption and real income, i.e. the consumption function can be expressed in mathematical terms as: (2)	

5.2 List three factors that may influence the demand for money and indicate Whether they have a positive or negative relationship with demand for money. (6)

	Factors that influence demand for money	Relationship (+/-)
5.2.1		
5.2.2		
5.2.3		

5.3 Clearly explain the concept of 'crowding out'. (4)

QUESTION 6 **[16]**

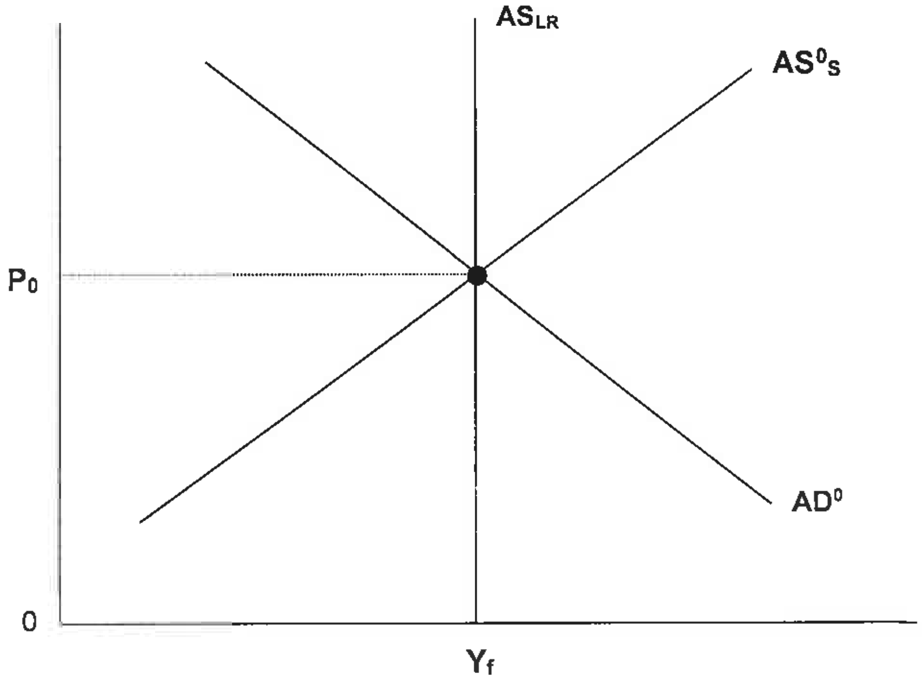
6.1 With the use of the Keynesian expenditure model derive the (with an explanation) aggregate demand (AD) curve. (6)

Explanation:

6.2 In 2008, the price of crude oil increased dramatically and reached a peak of $147. With the aid of the AD-AS model, explain in detail the effect of a sharp increase in the price of oil on real GDP and the price level. (5)

Explanation:

6.3 Make use of the diagram provided below to show and explain the impact of the reduction of personal income tax rates as announced by the Minister of Finance. (5)



Explanation:

QUESTION 7 **[12]**

You are given the following information: Autonomous consumption is 100 and the MPC is equal to 0.75. There is no government.

7.1 Answer the following questions and round off to two decimal places. (12)

7.1.1	What is the multiplier	
7.1.2	If income increases by R100, by how much will consumption increase?	
7.1.3	What is the slope of the consumption function?	
7.1.4	Give the formula for the consumption function	
7.1.5	What is the value of C if Y = R600?	
7.1.6	Provide the equation for the savings function.	

..... END OF PAPER.....