ATTENDANCE FORM

Surname	
Initials	
Student 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 10 numbered pages.

STUDENT NUMBER:--

	MANAGEMENT ECONOMICS 3
UNIVERSITY OF JOHANNESBURG	DEPARTMENT OF ECONOMICS
	SUPPLEMENTARY ASSESSMENT

Management Economics 3 BEB41-1   **Date: December 2014**

Assessors: Mr. EE Kodisang

                                                                                       Time: 120 min
                                                                                       Total Marks: 100

Moderator: Mr. T Rametsi

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1.   The paper consists of only one section, 10 pages.
2.   Noiseless calculators may be used.
3.   Answer all the questions in the spaces provided on the examination script.

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Question	Marks	Total
1	20	
2	10	
3	10	
4	30	
5	30	
TOTAL	**100**	

QUESTION 1 [20]

1.1 In his 2012 State of the Nation address last month Jacob Zuma announced that the government would be spending R300 billion on infrastructure projects over the next five years. If economists estimate that the marginal propensity to consume for SA is 0.75.

What would the value of the government spending multiplier be? _____

(8)

Determine the tax multiplier: _____ (be careful of sign)

What amount of government spending will accomplish the GDP goal of R600 billion? _____Rand

If instead, government chooses to reduce taxes to accomplish the GDP goal, how much tax reduction is enough to accomplish the GDP goal? _____ Rand

1.2 In response to an overheated economy, government officials in Paraguay are pursuing contractionary fiscal policy. Economists estimate the marginal propensity to consume to be 0.80. **(8)**

Determine the government spending multiplier: _____

Determine the tax multiplier: _____ (be careful of sign)

If the government lowers Government spending by 100 billion guarani, by how much will Paraguay's GDP be reduced? _____ guarani
If the government wanted to accomplish this same reduction in GDP through a tax increase, how much would taxes have to be increased? _____ guarani

1.3 The Mexican government is proposing a welfare reform package, increasing the government's budget by 12 billion pesos. Economists estimate the marginal propensity to consume is 2/3. Using fractions instead of decimals:

What is the estimated impact on the Mexican economy of the proposal? _____ Pesos.

What size of tax cut plan would create an equivalent stimulatory effect on the Mexican economy? _____ Pesos **(4)**

QUESTION 2

[10]

Read the extracts from different sources underneath and answer the questions that follow:

"Delivering his Budget speech in Cape Town on Wednesday. Manuel said the secondary tax on companies would be replaced with a dividend tax on shares and the rate reduced from 12.5% to 10% from 1 October", Sunday times 2007

2.1 Explain whether Manual applied expansionary or contractionary fiscal policy. Write *expansionary* or *contractionary*, and explain the reasons for your choice.

(5)

Two highly regarded economists — Nobel Prize winner Joseph Stiglitz of Columbia University, and Peter Orszag, director of the federal Office of Management and Budget — wrote during the last recession that "spending cuts could actually be more harmful for a state's economy during a recession". Johnson 2010

2.2 Explain whether these two economists would prefer expansionary or contractionary fiscal policy during a recession. Write *expansionary* or *contractionary*, and explain the reasons why spending cuts could be harmful an economy during a recession. **(5)**

QUESTION 3 [10]

Table 1 below shows the Gini coefficient, which is used to measure inequality.

Table 1: Gini coefficient by population group, 1991-2001

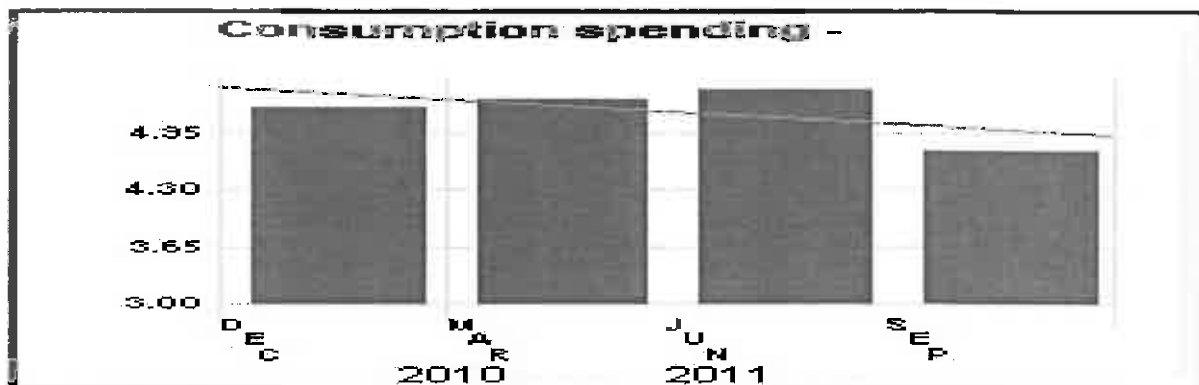|	1991	1996	2001
African	0.62	0.66	0.72
White	0.46	0.50	0.60
Coloured	0.52	0.56	0.64
Asian	0.49	0.52	0.60
Total	**0.68**	**0.69**	**0.77**

Source: Craig Schwabe 2004

(a) Describe the trend in the South Africa's Gini coefficient between 1991 and 2001 Highlight which population group experienced the biggest change and show your calculations to prove your answer. **(5)**

(b) Explain one government policy instrument that can be used to redistribute income. **(5)**

QUESTION 4   **[30]**

Source: DTI 2011

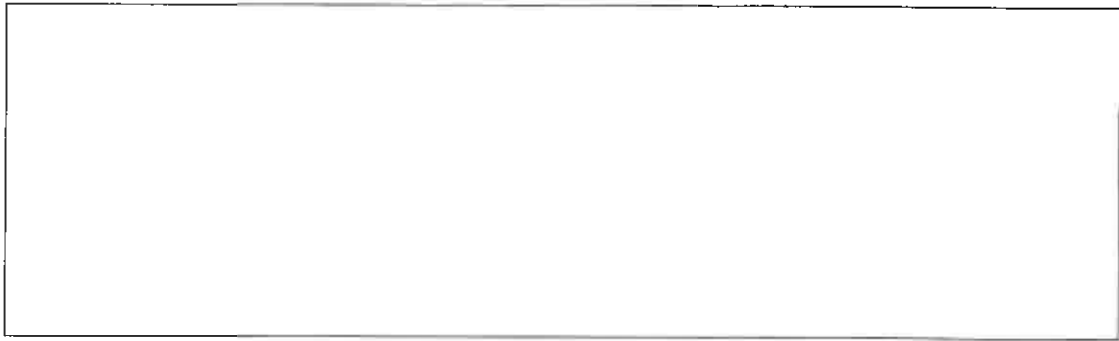(a)   Describe the trend in the consumption spending for South Africa between
      2010 and 2011.   **(3)**
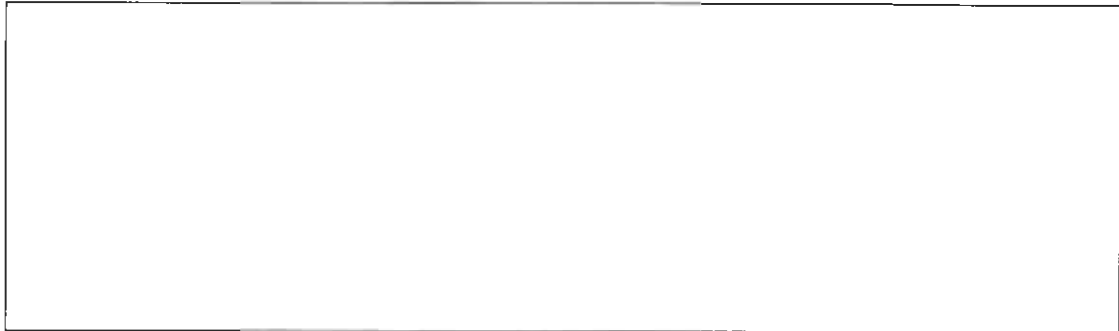
(b)   Outline factors that are likely to influence this trend.   **(5)**

(c)   Explain how this trend might affect the following South Africa's key
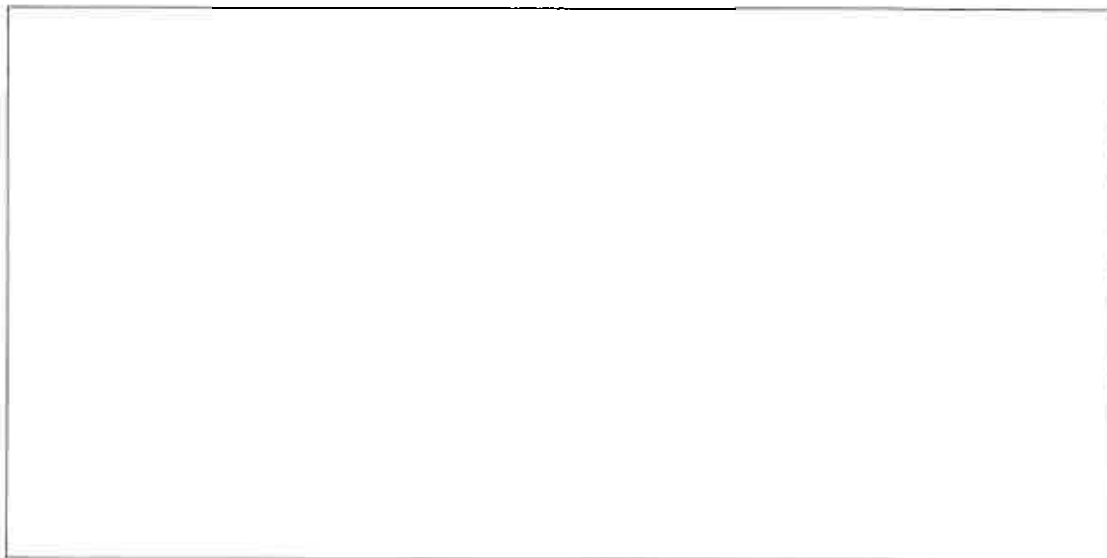   macroeconomic goals: **(8)**

Economic growth

Price stability

(d) Briefly explain the relationship of between the economic objective of economic growth and BOP equilibrium : **(6)**
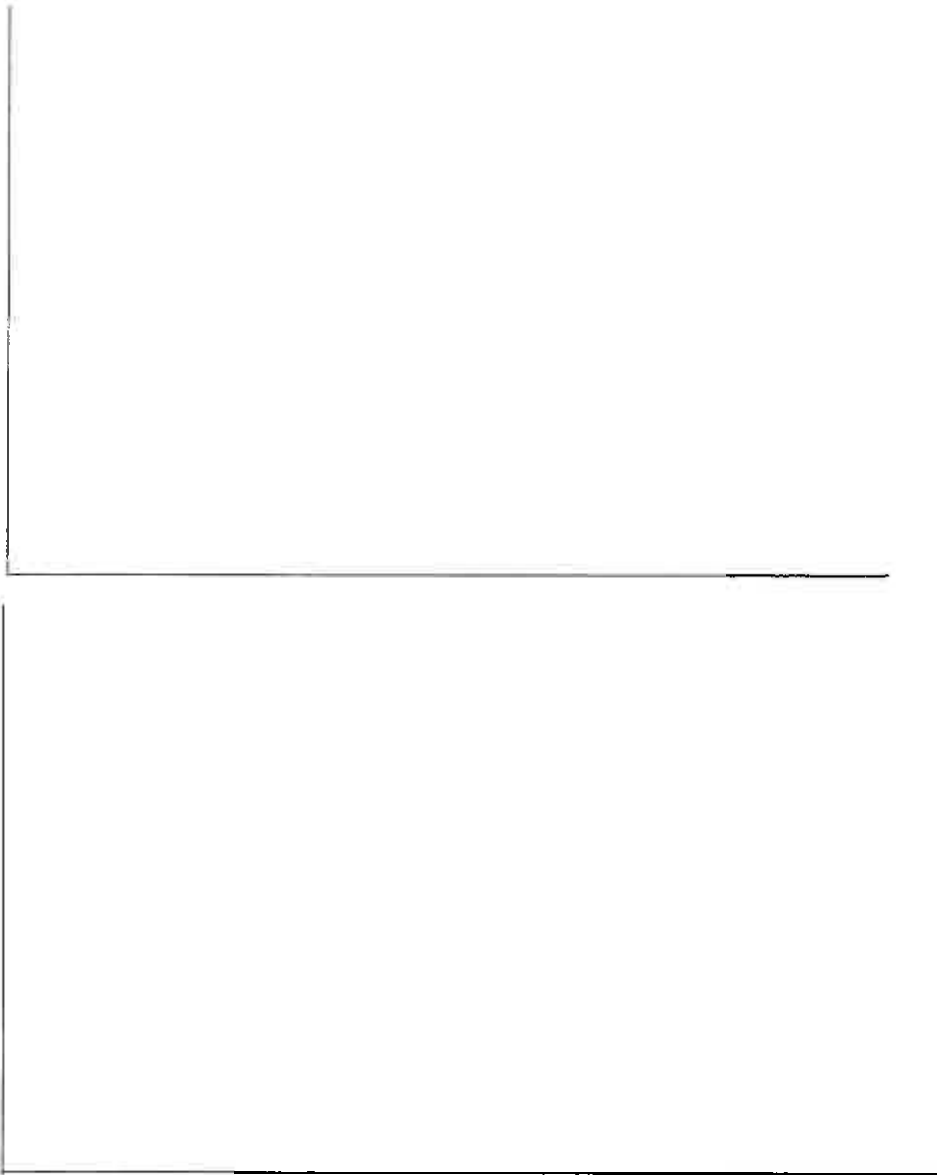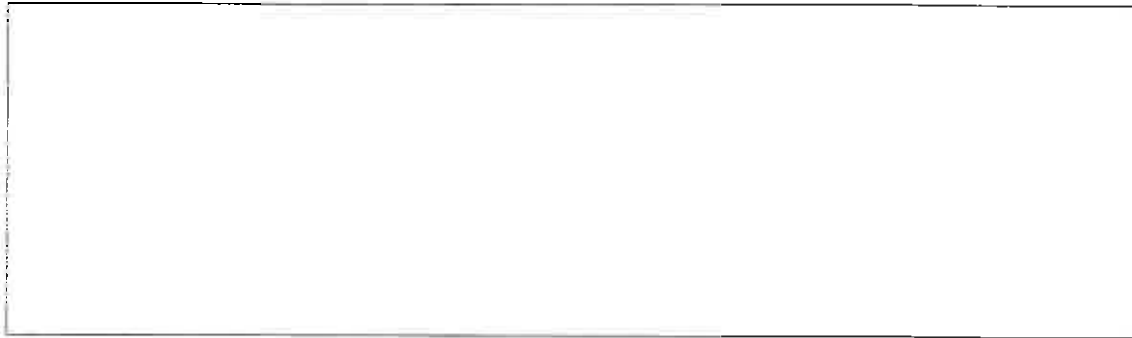
(e) Clearly explain the concept of 'crowding out'. **(8)**

QUESTION 5 [30]

6.1 With the use of the Keynesian expenditure model derive the (with

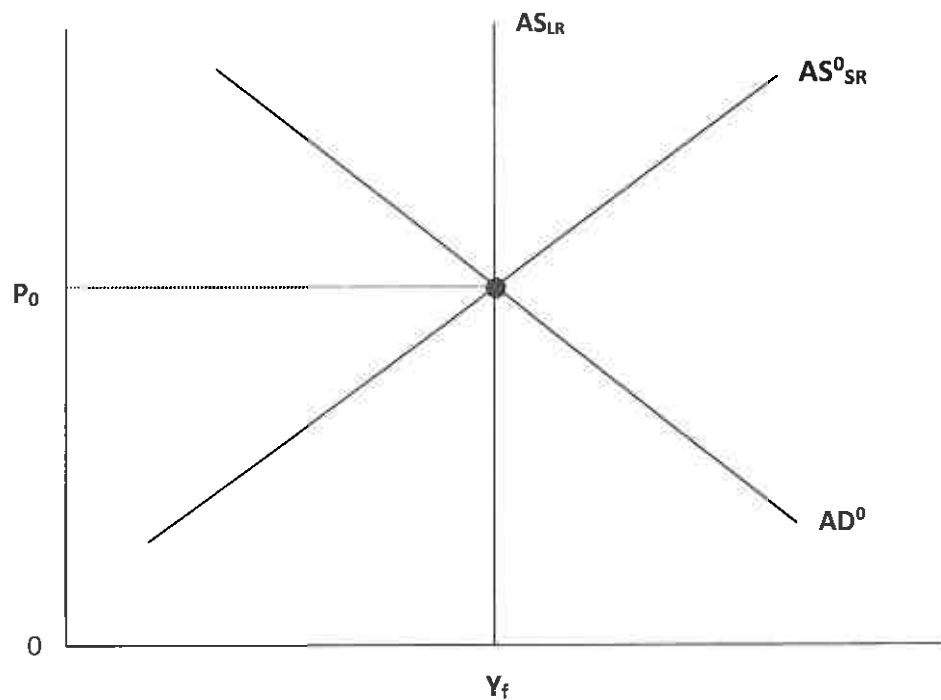explanation) aggregate demand (AD) curve. **(10)**

Explanation:

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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. **(10)**

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Explanation:

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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. **(10)**

Explanation: