



DEPARTMENT OF ECONOMICS AND
ECONOMETRICS
AUCKLAND PARK KINGSWAY CAMPUS

Course: Economics 2C
Code: EKN2C01/ECO2CA2

Date: June 2016
Marks: 100
Time: 2 Hours

Assessors: Dr P Baur
Moderator: Dr K Viljoen

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1. Answer all questions.
 2. This paper consists of 8 questions over 13 pages.
 3. Please make sure your surname and student number has been clearly written onto the bottom of each page.
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Surname																			
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Initials			
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Student number										
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	Marks	Total
A1		10
A2		12
A3		10
A4		10
A5		13
A6		12
A7		9

	Marks	Total
A8		24
<i>Total</i>		<i>/100</i>

QUESTION 1

[10]

Malthus, in his essay on the 'Principals of Population', was a strong opponent of the Utopian theory as proposed by Goodwin. (Discuss Goodwin's theory of a Utopian world and explain with the use of a suitable diagram why Malthus could not accept such a state.).

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QUESTION 2**[12]**

With the use of the table below, describe the differences between Classical, Keynesians and Modern Monetarists in terms of the following: (Formulate your answer in the form of a table given below and provide a graphical presentation where possible.)

- a) Impact on the economy;
- b) Demand for money;
- c) Monetary transmission mechanism; and
- d) Velocity of money.

No graphs in this section are needed. The student needs to place the necessary information into the table given.

	Classical	Keynesians	Modern Monetarists
Impact on the economy			
Demand for Money			
Monetary transmission mechanism			
Velocity of money			

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QUESTION 3**[10]**

Indicate whether the following statements are correct/ incorrect
Mark your answer clearly with an X in the appropriate box.

Statement	Correct	Incorrect
1) Smith warned society of the possibility of a 'General Gluts'.		
2) Marxists sought a strong, self-sufficient economy, without a strong central government.		
3) Say's Law states: "Demand drives its own Supply"		
4) Keynes's Book <i>Wealth of Nations</i> launched a specific attack on the doctrine of mercantilism.		
5) The book "Essay on the Principles of Population as It Affects the Future Improvement of Society" paved the way for the Utopian Socialists		
6) While Ricardo considered the roles of the worker and the capitalist in the market system to be legitimate, he saw the landlord as a villain.		
7) Marx's writings interpret history in terms of a class struggle for survival, which determines everything else in human affairs.		
8) Robert Owen, known as the first to use the words socialist and communist. He created a concept of socialism that is quite similar to Karl Marx's concept of class warfare		
9) According to Keynes, the true measure of a nation's prosperity is not gold and silver nor physical assets, but its national income, which is the total of all individual incomes in a country.		
10) Schumpeter saw the economy as a circular flow. In this model, the economy acts like a toy train manoeuvring around a hearthside track, remains static and predictable, never altering or expanding.		

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QUESTION 4**[10]**

Each statement below describes a single economic concept. Write the correct concept next to each statement in the table below.

Statement	Correct Concept
1) Theory that examines the behaviour of economic agents in markets where some participants have more privileged positions than others. The insiders, are those incumbent workers who enjoy more favourable employment opportunities than the outsiders.	
2) The primary consideration of the _____ is the demand for money as an asset, as a means for holding wealth	
3) The name of an equation in which M is the amount of money in circulation, V is the velocity of circulation of that money, which is equal to P which is the average price level, and T, which is the number of transactions taking place	
4) The level of unemployment that still exists in the economy when the labour market is in equilibrium.	
5) The natural capability of giving life according to the Chicago School.	
6) It is an economic situation in which inflation and economic stagnation occur simultaneously and remain unchecked for a period of time.	
7) A selfless concern for the welfare of others. It is a traditional virtue in many cultures. This focuses on a motivation to help others or a want to do good without reward..	
8) The school of economic thought which rejected Keynesianism in favor of monetarism until the 1980s, when it turned to rational expectations.	
9) The _____ movement began in the late 1960s and early 1970s and criticized Keynesian theories. It builds its analysis on an entirely neoclassical framework.	
10) A type of wages paid to employees, which exceed the market-clearing wage in order to increase their productivity.	

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QUESTION 5

[13]

In the Space provided below, briefly define what is meant by the Keynesian School of thought, then in the additional space provided in the table below, list and briefly explain the **five** Major Tenants of the Keynesian School.

Definition of the Keynesian School of Thought: (3 mark)

5 Major Tenants of the Keynesian School (2 marks each)

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QUESTION 6

[12]

Discuss Schumpeter's theory 'Theory of Economic Development' by discussing innovation and the circular flow. Within your discussion, consider the role of entrepreneurs, landlords and workers. Complete your discussion by explaining the future of capitalism.

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Student Number:

QUESTION 7

[9]

Use the following headings to discuss 'Beckers' views on the family as presented in the 'Treatise on the Family'. **(3 marks each)**

1. Fertility
2. Altruism
3. Divorce

Fertility

Altruism

Divorce

QUESTION 8

[24]

Question 8.1

In the space provided below, fully discuss “New Keynesian Economics”. (5)

Question 8.2

In the space provided below, fully explain what is meant by the “Post-Keynesian Economics” (5)

Question 8.3

In the space provided below, fully discuss 'Downward Price and Wage Inflexibility' under the following topics: (12)

1. Menu costs,
2. Formal and implicit contracts,
3. Efficiency wages,
4. Insider outsider hypothesis

Menu costs:

Formal and implicit contracts:

Efficiency wages:

Insider and outsider hypothesis:

Question 8.4

Briefly discuss Friedman's view of "Rational Expectations". (2)

The rational expectations hypothesis basically amounts to the assumption that: