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 13 numbered pages.**

Management economics 3
SUPPLEMENTARY ASSESSMENT

University of Johannesburg

DEPARTMENT OF ECONOMICS

SUPPLEMENTARY ASSESSMENT

Management Economics 3   **Date**: January 2018

Examiners: F Kirsten
Internal Moderator: Prof H van Zyl
External Moderator: TAM Makola

Time: 180 minutes   Total Marks: **100**

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

	Marks	**Total**	**Audit**	
1		**12**		
2		**12**		
3		**12**		
4		**17**		
5		**10**		
6		**10**		
7		**15**		
8		**12**		
TOTAL		**/100**		**%**

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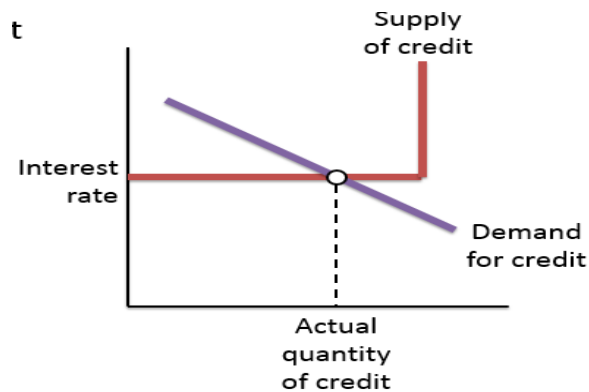## Question 1   (12)

1.1 Name the 3 functions of money (3)

_____

_____

_____

1.2 Show on the following diagram what will happen if the reserve bank decreases the repo rate (2)

1.3 Briefly explain the difference between goal and instrument independence by the reserve bank (2)

_____

_____

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_____

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1.4 Briefly explain what is meant by "open market operations by the central bank" and give an example of an expansionary monetary policy (3)

_____

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1.5 Assume that the reserve requirement is 5% and the maximum M3 money supply that can be created in the system is R200bn. Determine the following. (2)

Question	Answer
The money multiplier	

Question 2   (12)

The following questions are based on the information provided for a four-sector model. Answer all the questions. Show all calculations and round-off to two decimal points during calculations.

$C = 300 + 0.9Yd$

$tax = 25\%$

$I = 300$

$G = 600$

$NX = -200$

Autonomous consumption spending (1)	
Total autonomous spending (1)	
Marginal propensity to consume (MPC) (1)	
Expenditure Multiplier (1)	
Equilibrium income level (1)	
The contribution of Investment in this economy (1)	

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The contribution of the Government sector in the economy. (3) Hint: Remember to take all Government actions into account	
Due to the success of the NDP an increase in autonomous consumption expenditure of 100 is experienced. Calculate the impact on equilibrium income. (1)	
Calculate the impact of a depreciation of the Rand, changing exports with 300 and imports with 50, on the equilibrium level of income. (2)	

Question 3   (12)

3.1 Give four different types of government. (4)

A	
B	
C	
D	

I

3.2 Explain the difference between current and capital expenditure by the government (2)

_____

_____

_____

3.3 Explain the concept of the Laffer curve and how it can reduce the tax revenue of the government (3)

_____

_____

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3.4 Name the 3 functions of the government in the economy (3)

_____

_____

_____

Question 4   **(17)**

4.1 Economic commentators are of the opinion that a dramatic increase in net exports and in foreign direct investment (FDI) is pre-requisite for the South African economy to move into a boom phase. How would you describe the stylized facts of a boom phase in terms of incomes, unemployment, inflation, current account of the balance of payments and the economic growth rate? (4)

_____

 Incomes of households:

_____

_____

 Unemployment:

_____

_____

 Inflation :

_____

_____

 Current account:

_____

_____

 Economic growth rate:

_____

_____

_____

4.2 Briefly explain the policy responses of the monetary and fiscal policy if the economy is moving in a boom phase (4)
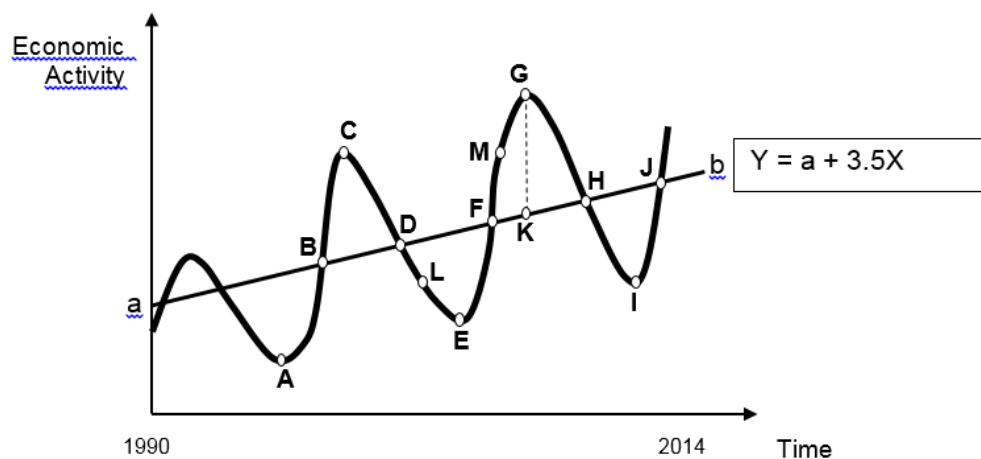
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4.3 What would the nature of the following economic indicators be during a slump phase? (4)

Real investment in machinery & equipment	
JSE All Shares Index	
Capacity utilization	
Household debt relative to income	

4.4 Use the following diagram to answer the questions below (5)

With reference to the diagram above, answer the following questions:

	Question	Answer
1	An economic upswing is represented by the portion of the graph between which points? Indicate all points.	
2	An economic recovery is represented by the portion of the graph between which points? Indicate all points.	
3	A trough is represented by which point? Indicate all points.	

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4	The term used to describe distance between the trend line (ab) and point G is:	
5	The average annual growth in economic activity between 1990 and 2014 according to the diagram was …?	

Question 5 **(10)**

2017-South Africa's central bank cut borrowing costs for the first time in five years as inflation eases and after the country slipped into a recession. The Monetary Policy Committee reduced its key rate by 25 basis points to 6.75%, governor Lesetja Kganyago told reporters on Thursday in the capital, Pretoria, citing concern about the nation's growth outlook. Only three of 23 economists in a Bloomberg survey predicted a reduction." MONEYWEB. Answer question 2.1 and 2.2 with this extract. Using the Keynesian transmission mechanism explain and illustrate the impact of a decrease in the repo rate by the Reserve Bank (10)
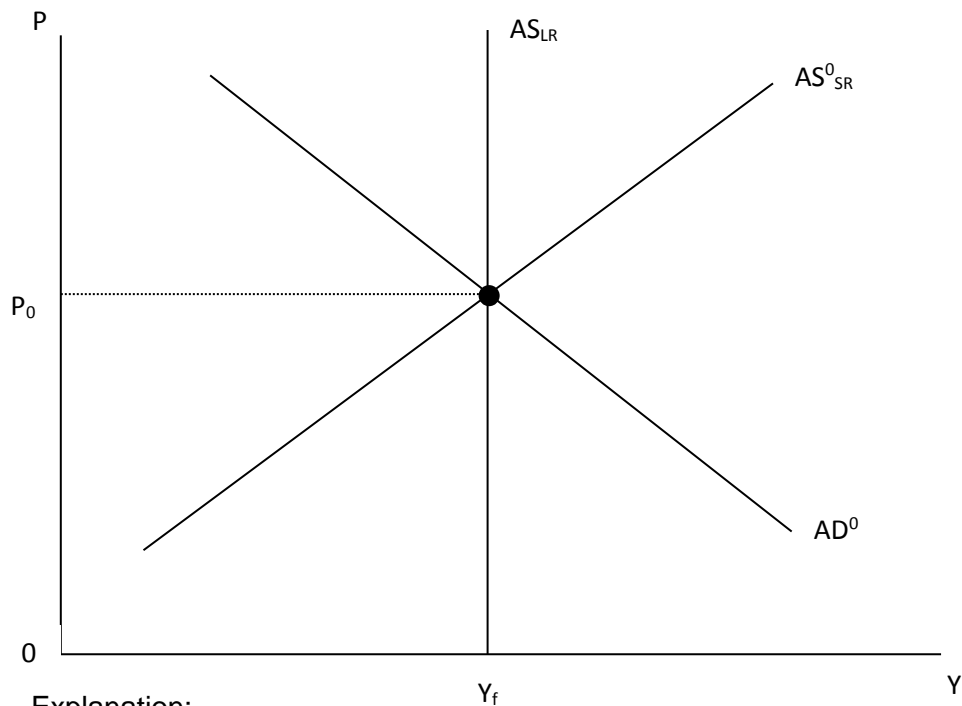
Primary effect:

_____
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_____
_____

 Secondary effect:

_____
_____
_____

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Question 6   **(10)**

6.1 Explain the impact of an increase in Aggregate demand on the AD-AS model (6)

Explanation:

Short run

_____
_____
_____
_____

Longrun

_____
_____
_____
_____

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6.2 The recent IMF report shows that South Africa's GDP growth rate is between 1 and 2%. This is substantially lower than the 4-6% required by the National Development plan to be achieved every year until 2030. Given your knowledge about Macroeconomic objectives, indicate how each of the following objectives could be used to reach the target set by the National development plan and if not indicate why? (4)

Lower unemployment	
Price stability	
BOP stability	
Economic development	

Question 7   **(15)**

7.1 Answer the following question: (10)

GDP component	Value 2008 (R000 millions)
Primary sector	264
Exports	807
Final consumption expenditure by households	1369
Compensation of employees	958
Gross capital formation	520
Secondary sector	496
Final consumption expenditure by general government	465
Imports	878
Gross operating surplus	1065
Tertiary sector	1293

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Additional information	
Cpi_{2008}	1.7958
Cpi_{2007}	1.6201
Real GDP market prices$_{2007}$	1233
Size of population$_{2008}$	48 million

Calculate the following:

1	GDP @income method	
2	GDP@production method	
3	GDP@expenditure method	
4	Real GDP @market prices in 2008	
5	Economic rate 2008	
6	Inflation rate 2008	
7	Nominal GDP @market prices per capita in 2008	

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7.2 High inflation has become a major issue in developing countries policy making decisions, identify and explain the types of inflation and then indicate which type of inflation South Africa is struggling with the most. (5)

_____

_____

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_____

_____

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Question 8 _____**(12)**

In the latest state of the nation address President Zuma announced that unemployment is the most serious economic problem facing South Africa and that the administration realizes that the equilibrium output is too low to address the problem. They suggest using expansionary fiscal policy to boost output growth. **Use the Keynesian model to describe and illustrate the effect of applying expansionary fiscal policy.**(12)

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Primary effect:

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Secondary effect:

_____
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_____
_____
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_____

<u>END</u>

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INITIALS:_____