FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
CAMPUS(ES)	APB
MODULE NAME	Economics 1 (Advanced Diploma Bridging)
MODULE CODE	ADBE01B
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Written Supplementary Assessment January 2020

ASSESSMENT DATE	7 January 2020		
ASSESSOR(S)	Mr J.G.R. Musakanya		
MODERATOR(S)	Dr T.T. Zwane		
DURATION	2 hours (120 min)	**TOTAL MARKS**	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	19

INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment. Combined question paper and answer book.
- Read the questions carefully and answer only what is asked.
- Answer all the questions.
- Only approved calculators allowed.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

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Section A [60 Marks]

Answer the multiple choice questions on the attached answer sheet on **page 11. <u>The questions are worth 2 marks each</u>**. Mark the correct option clearly with a big cross. Do not remove the staple or any of the pages.

1. The best measure of economic growth adjusted for the population of a nation is the increase in:

A. Aggregate demand over time.
B. Real GDP per worker over time.
C. Real GDP per capita over time.
D. Real GDP per rand of capital stock over time.
E. None of the above.

2. Economic well-being is understated by growth rates because they:

A. Account for pollution expenditures.
B. Don’t account for improvement in products.
C. Account for illegal activity.
D. Don’t account for the slowdown in productivity.
E. None of the above.

3. Economic well-being is overstated by growth rates because they don't account for:

A. Increases in services.
B. Increase in leisure time.
C. Improvements in product quality.
D. Adverse effects on the environment.
E. None of the above.

4. If the Parliament passes legislation to raise taxes to control demand-pull inflation, then this would be an example of a(n):

A. Political business cycle.
B. Expansionary fiscal policy.
C. Contractionary fiscal policy.
D. Nondiscretionary fiscal policy.
E. None of the above.

5. An expansionary fiscal policy can be illustrated by a(n):

A. Change in the price level.
B. Increase in aggregate supply.
C. Increase in aggregate demand.
D. Decrease in aggregate demand.
E. None of the above.

6. A tax reduction of a specific amount will be more expansionary the:

A. Smaller is the economy's MPC.
B. Larger is the economy's MPC.
C. Smaller is the economy's multiplier.
D. Less the economy's built-in stability.
E. None of the above.

7. The crowding-out effect of expansionary fiscal policy suggests that:

A. Tax increases are paid primarily out of saving and therefore are not an effective fiscal device.
B. Increases in government spending financed through borrowing will increase the interest rate and thereby reduce investment.
C. It is very difficult to have excessive aggregate spending in the S.A. economy.
D. Consumer and investment spending always vary inversely.
E. None of the above.

8. Assume the government purposely incurs a budget deficit that is financed by borrowing. As a result, interest rates rise and the amount of private investment spending declines. This illustrates:

A. The equation-of-exchange effect.
B. The paradox of thrift.
C. The crowding-out effect.
D. The wealth effect.
E. None of the above.

9. The basic type of intervention by central banks under the managed floating exchange rate system is to:

A. Readjust the peg for exchange rates.
B. Buy and sell currencies to influence supply and demand.
C. Renegotiate the rate at which foreign currencies can be converted into gold.
D. Make pronouncements but then do nothing and let the market set the exchange rate.
E. None of the above.

10. The amount of consumption in an economy depends:

A. Directly on the level of disposable income.
B. Inversely on the level of disposable income.
C. Inversely on the level of saving.
D. Directly on the rate of interest.
E. Directly on the tax rate.

11. A direct relationship between consumption and disposable income is shown by the:

A. Saving schedule.
B. Income schedule.
C. Investment schedule.
D. Investment demand curve.
E. Consumption function.

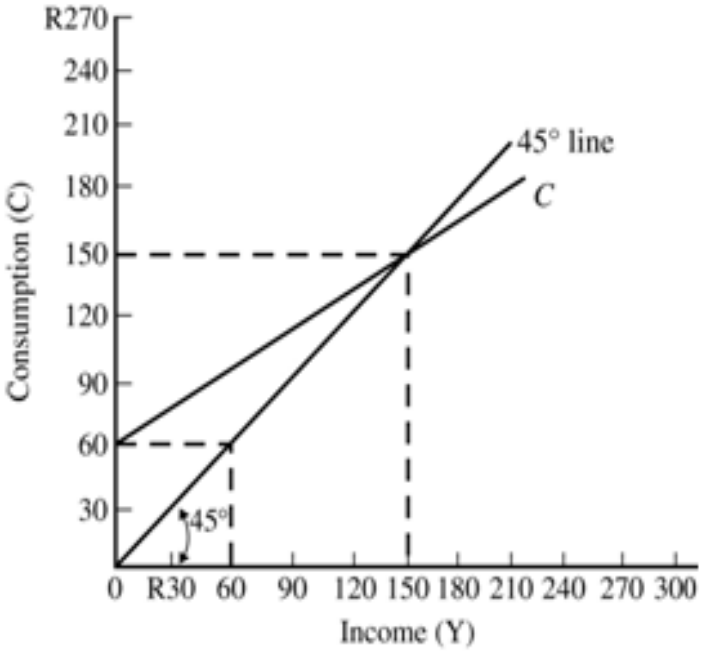
12. If a household's MPC is 0.7, it is:

A. Operating at the break-even point.
B. Necessarily dissaving.
C. Spending 70 cents for every R1 increase in its income.
D. Spending R7 for every R1 increase in its income.
E. Spending 70 percent of its income on consumer goods.

13. In a graph with investment on the vertical axis and real GDP on the horizontal axis, if the amount of planned investment remains the same at each level of GDP, then the investment schedule is:

A. A Vertical line.
B. A Horizontal line.
C. A 45 degree line.
D. A Downward-sloping line.
E. An upward-sloping line.

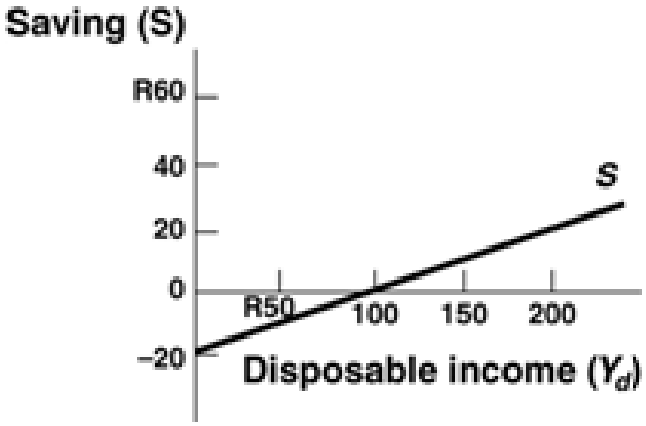
14.



Refer to the above diagram. The equation for the consumption schedule is:

A. C = .6Y.
B. *Y* = 60 + .6*C*.
C. *C* = 60 + .6*Yd*.
D. *C* = 60 + .4*Yd*.
E. C = .4Y.

15. State the savings function for the diagram below:



A. *Yd* = -20 + .8*S*.
B. *Yd* = 20 + .2*S*.
C. *S* = -20 + .2*Yd*.
D. S = 20 + .8Yd
E. S = 20 + .4Yd.

16. Given the following information calculate MPC:

Disposable income	Consumption
R10,000	R12,000
18,000	18,000
26,000	24,000
34,000	30,000
42,000	36,000
50,000	42,000

A. 0.60.
B. 0.75.
C. 0.80.
D. 0.20.
E. All of the above.

17. Which one of the following is not an important element of the investment decision?

A. The cost of capital goods.
B. The level of total income in the economy (*Y*).
C. The interest rate.
D. The expected revenue from the investment project.
E. The expected return on the investment project.

18. You are given the following information about a model closed economy (without a foreign sector). The autonomous part of consumption is R100 billion. The marginal propensity to consume is equal to 0,8. Investment is R460 billion. Government purchases of goods and services are R400 billion. The tax rate is equal to 0,25. The equilibrium level of consumption is _____, and the equilibrium level of income is _____.

A. R100 billion; R960 billion.
B. R100 billion; R1 600 billion.
C. R1 060 billion; R1 600 billion.
D. R1 540 billion; R2 400 billion.
E. R3 940 billion; R4 800 billion.

19. Taxes:

A. Are an injection into the flow of income and spending.
B. Raise the level of autonomous spending.
C. Leave the multiplier unchanged.
D. Are withdrawals or leakages from the flow of income and spending.
E. Lower the level of autonomous spending.

20. If the tax rate is increased:

A. Autonomous spending increases.
B. Disposable income increases
C. The multiplier decreases.
D. The equilibrium level of income increases.
E. Government spending increases.

21. In a Total Expenditure model of a closed economy, if total autonomous spending is R1 000 billion, the tax rate is 0,2 (or 20%) and the marginal propensity to consume is 0,625, then the equilibrium level of income is:

A. R3 333 billion.
B. R1 250 billion.
C. R2 000 billion.
D. R1 600 billion.
E. Impossible to calculate.

22. Which one of the following will increase the size of the multiplier?

A. An increase in government spending.
B. A decrease in government spending.
C. An increase in the tax rate.
D. A decrease in the tax rate.
E. None of the above.

23. Consider the information below. Use this information to answer questions 23 and 24

Consider a Total Expenditure model where:	
full employment output	= R80 million
exports	= R5 million
the marginal propensity to import out of income	= 0,25
autonomous imports	= R5 million
the tax rate	= 0,25
investment	= R20 million
autonomous consumption	= R15 million
the marginal propensity to consume	= 0,6.

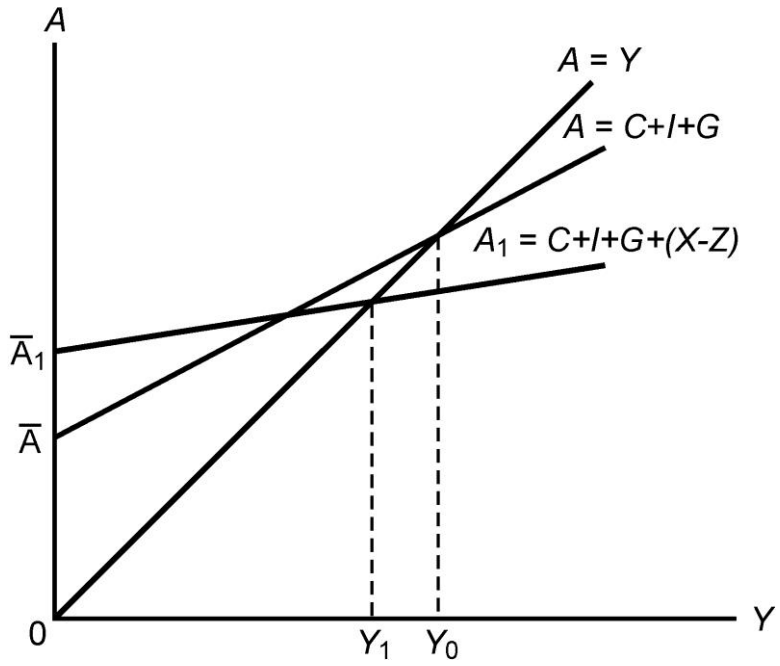
The value of the multiplier is:

A. 1,25.
B. 1,333.
C. 1,538.
D. 1,818.
E. 2,5.

24. To bring about full employment, government spending should be:

A. R0 million.
B. R17 million.
C. R29 million.
D. R65 million.
E. Made equal to tax revenue.

25. Consider the following diagram, which depicts the Keynesian model of an open economy with government, and answer Questions 25 and 26.



Y_0 represents:

A. The equilibrium level of income if the economy were closed.
B. The full employment level of income.
C. The equilibrium level of income if exports equal imports.
D. A level of income less than aggregate expenditure.
E. The level of income where exports equal imports.

26. The diagram depicts a situation where at equilibrium (Y_1):

A. Domestic demand exceeds output.
B. Exports exceed imports.
C. Domestic demand is less than output.
D. Aggregate expenditure is less than output.
E. Aggregate expenditure exceeds output.

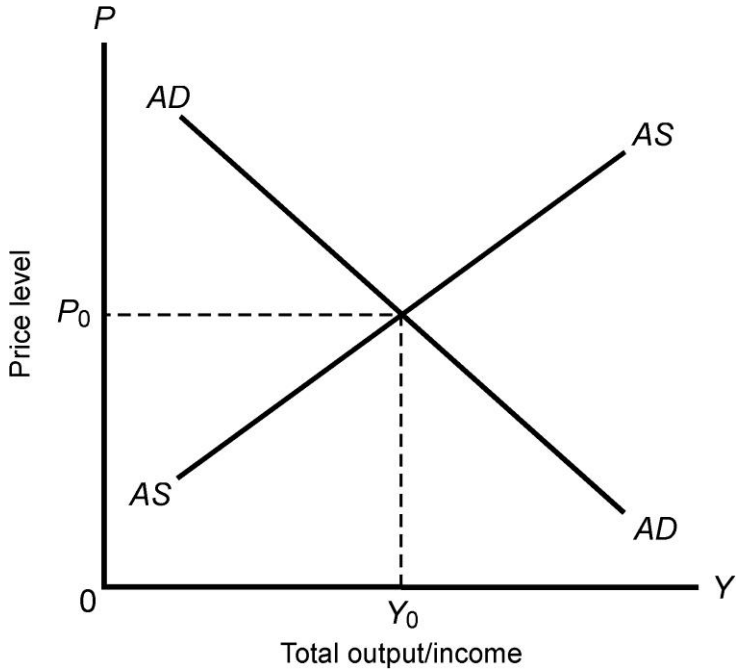
27. The government of an open economy determines that the current equilibrium level of income in the economy is lower than the full-employment level of income and wishes to close this gap. The Minister of Economic Affairs hears that you have just studied the Keynesian model of the macro-economy and approaches you for advice. Which one of the following suggestions would be inappropriate in this context?

A. Create a more favourable environment for investment spending.
B. Spend more on infrastructural projects (for example, the construction of new roads).
C. Encourage households to save a larger proportion of their annual income.
D. Reduce the rate of taxation.
E. Try to reduce imports by encouraging households and firms to purchase locally-manufactured consumer and capital goods.

28. The government referred to in the previous question above (question 27) approaches you for advice about how to increase the size of the Keynesian multiplier. Which one of the following would be appropriate in this regard?

A. Increase the level of government spending.
B. Reduce the level of government spending.
C. Raise the tax rate.
D. Encourage households to spend a larger portion of each additional unit of income they receive.
E. Encourage households to save a larger portion of each additional unit of income they receive.

29. Consider the following diagram, which depicts the Keynesian model of an open economy with government, and answer Questions 29 and 30.



The immediate effect of a decrease in government expenditure will be to:

A. Move the AD curve to the left.
B. Move the AD curve to the right.
C. Move the AS curve to the left.
D. Move the AS curve to the right.
E. Leave the curves unchanged.

30. If South Africa were to discover a plentiful supply of cheap oil, this would:

A. Move the AD curve to the left.
B. Move the AD curve to the right.
C. Move the AS curve to the left.
D. Move the AS curve to the right.
E. Have no effect on the curves.

Section A **Multiple Choice Questions - Answer Sheet**

	A	B	C	D	E
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 **16**					
Question **17**					
Question **18**					
Question **19**					
Question **20**					
Question **21**					
Question **22**					
Question **23**					
Question **24**					

	A	B	C	D	E
Question **25**					
Question **26**					
Question **27**					
Question **28**					
Question **29**					
Question **30**					

Section B **[40 Marks]**

Topic: The role of government **(10 Marks)**

1. State and briefly explain the following externalities

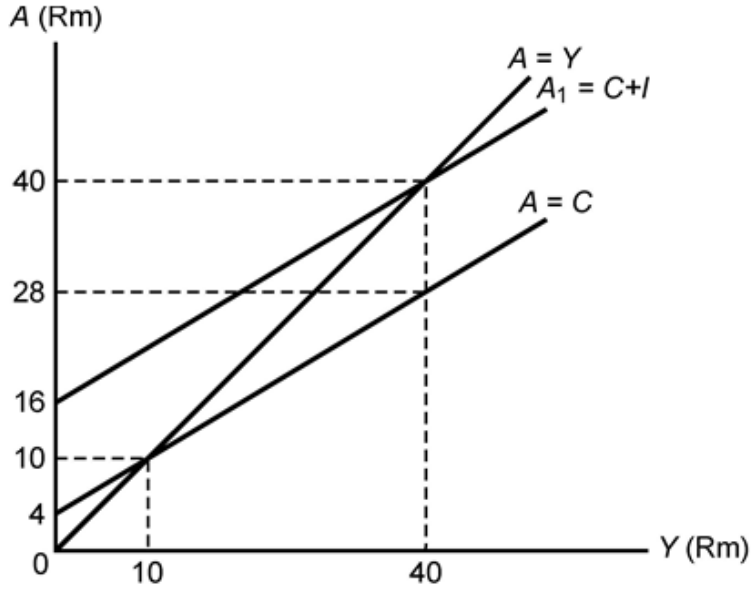
Concept	**Kind of externality**
Old power stations are totally dependent on coal to generate electricity.	
Medical research at a South African university resultant in a new product that can heal cancer rapidly.	
Good music that you enjoy for motivational purposes played by your roommate loudly during your study session?	
Good education system in a rural under-developed area	
Mining company that employs many community members but has no health facilities within their operating radius.	

Topic: Total Expenditure Model **(30 marks)**
SHOW ALL WORKINGS

1. State the Multiplier formula and briefly explain the multiplier concept: (4 Marks)

2. Consider the following diagram. Use this information in the diagram to answer Questions 2.1 to 2.3:

(6 Marks)



2.1 State Autonomous Consumption (2)

2.2 Investment equals (2)

2.3 The equilibrium level of saving equals (2)

3. What is the significance of the 45 degree line? (2 Marks)

4. Use the data given to depict the relationship between Investment and expected rate of return. (8 Marks)

Expected rate of Return	Cumulative Amount of Investment
16%	R0
14	5
12	10
10	15
8	20
6	25
4	30
2	35
0	40

Investment Demand Curve

5. Using the given information answer the following questions (4 Marks)

National Income (Y)	Consumption (C)
R0	R80
100	140
200	200
300	260
400	320

(in R millions)

5.1. State MPC and MPS (2)

5.2 State the consumption function (1)

5.3 State the savings function (1)

6. What will be the size of the multiplier if MPS is 0.4? (2 Marks)

7. Given C = 80 + 0.8Y, I = 20, G = 40 and then if *t* = 0.2. Calculate the Equilibrium Income. (2 Marks)

8. Illustrate the data in question 7 above using an Aggregate Expenditure diagram and show the impact of an increase in Investment Spending by 40.

SHOW ALL WORKINGS and LABEL YOUR DIAGRAM FOR FULL/PART MARKS

(2 Marks)