

**ATTENDANCE FORM**

<b>Surname</b>	
<b>Initials</b>	
<b>Student number</b>	
<b>Venue</b>	

**GENERAL INSTRUCTIONS**

1. Do not remove the staple – hand this paper in as a whole.
2. Remove only 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 15 numbered pages.

**Management economics 3  
SUPPLEMENTARY  
ASSESSMENT**



<b>COLLEGE</b>	College of Business & Economics
<b>SCHOOL</b>	Economics
<b>CAMPUS</b>	APK
<b>MODULE NAME</b>	Management Economics 3
<b>MODULE CODE</b>	BEB41-1
<b>SEMESTER</b>	Second
<b>ASSESSMENT OPPORTUNITY</b>	Supplementary Assessment
<b>MONTH &amp; YEAR</b>	January 2020

<b>ASSESSMENT DATE</b>	January 2020	<b>SESSION</b>	1
<b>ASSESSOR(S)</b>	Mr D Steyn Mr F Kirsten		
<b>MODERATOR(S)</b>	Prof G van Zyl		
<b>DURATION</b>	3 hours	<b>TOTAL MARKS</b>	100

**INFORMATION/INSTRUCTIONS**

This is a fill-in paper.
The paper has 15 numbered pages.
There are four questions with sub-sections.
A noiseless calculator is allowed.

<b>Surname</b>	
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**MARK ALLOCATION**

<b>Question 1</b>	<b>Question 2</b>	<b>Question 3</b>	<b>Question 4</b>	<b>Question 5</b>	<b>Question 6</b>
<b>[17]</b>	<b>[18]</b>	<b>[15]</b>	<b>[18]</b>	<b>[22]</b>	<b>[10]</b>

<b>TOTAL</b>	<b>Mark awarded</b>
<b>[100]</b>	

**Question 1****(17)**

1.1 Use the information in the tables to calculate and answer the questions. (7)

<b>Variables</b>	<b>Value 20X5 (Rm)</b>
Primary sector	<b>444 444</b>
Exports	<b>1 501 555</b>
Final consumption expenditure by households	<b>2 000 123</b>
Compensation of employees	<b>1 585 482</b>
Gross capital formation	<b>123 456</b>
Secondary sector	<b>555 666</b>
Final consumption expenditure by general government	<b>789 987</b>
Imports	<b>1 123 456</b>
Gross operating surplus	<b>1 923 489</b>
Tertiary sector	<b>2382087</b>
Net primary income from the rest of the world	<b>-66 000</b>
<b>Additional information</b>	
Cpi <sub>20X5</sub>	<b>1.021</b>
Cpi <sub>20X4</sub>	<b>0.91</b>
Real GDP market prices <sub>20X4</sub>	<b>2 404 322</b>
Size of population <sub>20X5</sub>	<b>51 million</b>

	<b>Variable</b>	<b>Answer</b>
1	Real GDP at market prices in 20X5. <b>(Rm)</b>	
2	Economic growth rate 20X5 (according to expenditure method). <b>(%)</b>	

3	Inflation rate 20X5. (%)	
4	Nominal GDP (expenditure method) per capita 20X5. (R)	
5	Balance on the current account of the balance of payments for 20X5. (Rm)	
6	Gross national income at market prices for 20X5. (Rm)	
7	Nominal GDP 20X4. (Rm)	

1.2.1 Explain the difference between real and nominal output (2)

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1.2.2 Explain the difference between deflation and disinflation? (3)

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1.3 Explain the concept of the debt trap and how it can be overcome? (3)

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1.4 Which of the following descriptions indicate progressive taxation, regressive taxation or proportional taxation? (2)

Description	Kind of taxation
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All individuals pay a flat-rate tax amount of R12 123.	
The higher your monthly income the higher the tax bracket.	

**Question 2** **(18)**

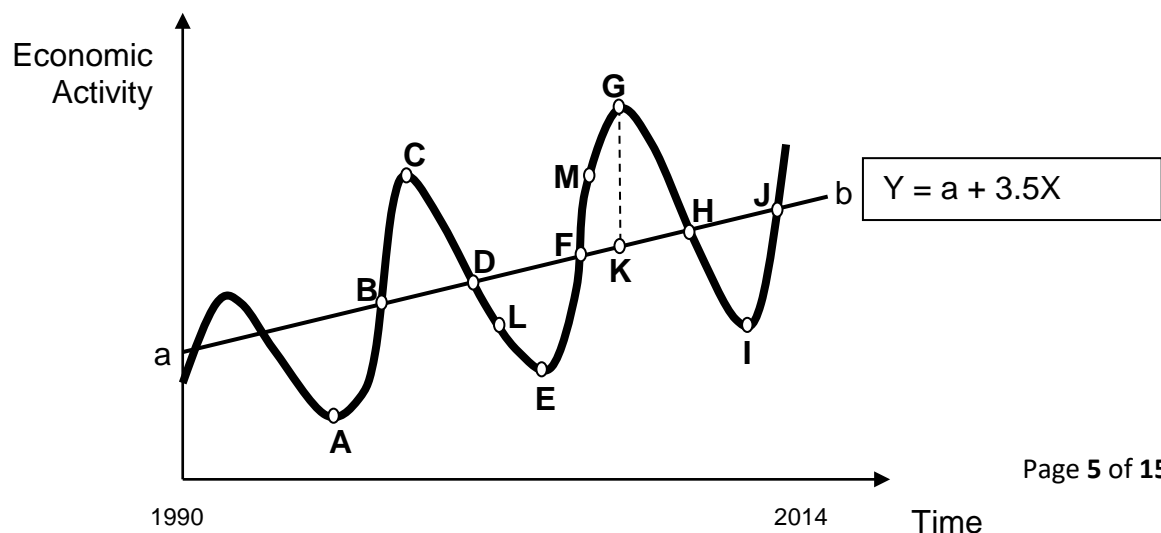
2.1 The following descriptions deal with the nature of economic indicators when the South African economy finds itself in a recovery phase. **(6)**

Number	Descriptions
1	New motor vehicle sales increases.
2	Exports decrease.
3	Retail sales increase.
4	JSE All Share index shows significant gains
5	Interest rates decrease.
6	Tax Revenue collection decreases

- Indicate with which of the descriptions do you agree or disagree (use X to indicate your option).

Number	Agree	Disagree
1		
2		
3		
4		
5		
6		

2.2 Use the diagram below to answer the following question **(4)**



	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.	
4	The term used to describe distance between the trend line (ab) and point G is:	

**2.3** What will happen to the following indicators between points M and G in the diagram of the business cycle above? Mark the correct answer with an **X**. (3)

		Increase	Decrease	Unchanged
1	New vehicle sales			
2	Capacity utilisation			
3	Growth in retail sales			

**2.4** Assume an economic “boom” phase. Explain what will happen to the following aggregates: (5)

Economic aggregate	Explanation (increase/decrease)
Production capacity of firms.	
Fixed investment.	
Employment.	
Incomes.	
Business profits.	

**Question 3****(15)**

**3.1** Illustrate with a fully annotated figure what will happen to the creation of credit money when the SARB decrease in the repo rate. (Do all your explanations on the figure). **(5)**

**3.2** Assume that the face value of a government bond is R60 000 and the coupon is R3 000. The current trading price of the same bond in the market is R40 000. **(3)**

Task	Answer
What is the nominal yield of this bond? (%)	
What is the current market yield of this bond? (%)	
What is the coupon yield of this bond? (%)	

**3.3** When Bond Prices increase, what happens to a bond's interest rate? **(1)**

**Answer:**

**3.4** Assume the different money aggregates **(4)**

Symbol	Money aggregates
<b>A</b>	M0
<b>B</b>	M1
<b>C</b>	M2
<b>D</b>	M3

The following are descriptions of money aggregates.

Number	Description
<b>1</b>	Coins and banknotes + cheque account deposits + medium-term deposits.
<b>2</b>	Coins and banknotes + cheque account deposits + medium-term deposits + long-term deposits.
<b>3</b>	Coins and banknotes + cheque account deposits.
<b>4</b>	Coins and banknotes

- **Link the applicable symbol (for the money aggregate) to the descriptions above.**

Number	Symbol
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	

**3.5** Assume that the reserve requirement is 4%. **(2)**

Task	Answer
Calculate the value of the money multiplier.	



How much money can be created from this reserve requirement assuming an initial deposit of R100	
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**Question 4** **(20)**

**4.1** Match the concepts in the following table to the descriptions below. **(7)**

Symbol	Concepts
<b>A</b>	Externalities
<b>B</b>	Collective good
<b>C</b>	Exclusion principle
<b>D</b>	Public good
<b>E</b>	Subsidies
<b>F</b>	Indirect taxes
<b>G</b>	Developmental state
<b>H</b>	Private good
<b>I</b>	Direct taxes
<b>J</b>	Fiscal expansion

Number	Descriptions
<b>1</b>	It is economically inefficient to locate a toll gate on a road that is virtually never used.
<b>2</b>	Designed to boost consumption and output of products with positive externalities.
<b>3</b>	Products and services that cannot be provided by the private sector.
<b>4</b>	Raise the price of de-merit goods and products with negative externalities.
<b>5</b>	As society benefits from the discovery of a new medical treatment.
<b>6</b>	Essential for government to engage in development planning.
<b>7</b>	Good if provided to one is provided to all.

- **Indicate the applicable symbol that links the correct concepts to the descriptions above.**

Number	Applicable symbol
1	
2	
3	
4	
5	
6	
7	

4.2 Assume the following descriptions that deal with government debt (3)

Number	Descriptions
1	Social Security payments are seen as Transfers
2	The fact that persons in like circumstances should be taxed similarly refers to horizontal equity.
3	The Increase in VAT affects both the sales volume of luxury goods and necessity goods

- **Indicate with which of the descriptions do you agree or disagree (use X to indicate your option).**

Number	Agree	Disagree
1		
2		
3		

**4.3** Draw and explain the Laffer curve. Label all points. In your explanation, mention the effects that increasing taxation might have on labour productivity/work incentives. **(8)**



**Question 5** **(22)**

**5.1** Autonomous consumption expenditure is 400; MPC is 0.7; autonomous investment is 50; planned government spending is 50; the average tax rate is 25% and planned net exports are -200 and full-employment national income is 1000. **(4)**

Task	Answer
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Multiplier. <b>(round off to four decimal points if applicable)</b>	
Equilibrium income level. <b>(round off to four decimal points if applicable)</b>	

**5.2** Calculate induced consumption expenditure and total savings. **(4)**

Task	Answer
Induced consumption expenditure. <b>(round off to four decimal points if applicable)</b>	
Savings (Before Effect of Tax) <b>(round off to four decimal points if applicable)</b>	

**5.3** Calculate the current income gap and the additional required government spending to close the income gap. **(2)**

Task	Answer
Income gap. <b>(round off to four decimal points if applicable)</b>	
Required government spending. <b>(round off to four decimal points if applicable)</b>	

**5.4** Assume that the tax rate is increased to 30%.  
What is the slope of the total expenditure line? **(2)**

Task	Answer
Slope of expenditure line. <b>(round off to four decimal points)</b>	

**5.5** Indicate the impact of the following events on private consumption expenditure (C) (4)

Number	Event
1	Ramaphosa achieves his R100 billion investment initiative
2	E-Tolls become strongly enforced
3	Tax rates are increased for individuals earning more than R300 000 per year
4	Gross National Income increases

The next table indicates the possible impact on private consumption expenditure (C) if the above events should occur.

Symbol	Impact on consumption expenditure (C)
A	Increase.
B	Decrease.
C	Unchanged

- Indicate the applicable symbol that links the correct impact on consumption expenditure (C) to the events described in the first table.

Number	Applicable symbol
1	
2	
3	
4	

**5.6** Indicate the impact of the following events on capital formation (I). (4)

Number	Event
1	Trade-war spill-overs between China and USA impacting developing markets
2	Capital flight occurs in South Africa
3	Government lowers company tax concessions
4	The SARB changes the Reserve Requirement from 20% to 15%

The next table indicates the possible impact on capital formation (I) if the above events should occur.

Symbol	Impact on capital formation (I)
<b>A</b>	Increase.
<b>B</b>	Decrease.
<b>C</b>	Remains unchanged

- **Indicate the applicable symbol that links the correct impact on capital formation (I) to the events described in the first table.**

Number	Applicable symbol
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	

**5.7** Assume that autonomous investment is **250** and that the savings function is: **(2)**

$$-150 + (1-0.2)Y_d.$$

Task	Answer
What is the equilibrium income level?	
What is the value of the multiplier?	

**Question 6** **(10)**

**6.1** Consider the Keynesian transmission mechanism.

The South African Reserve Bank reduces the Reserve Requirement to boost economic growth. Indicate the impact of this policy stand on the following aggregates:

(6)

Number	Aggregate	Increase/Decrease
1	Money Supply (1)	
2	Money Demand (1)	
3	Interest rates.(1)	
4	Investment spending. (1)	
5	GDP.(2)	

6.2 Assume the following interest rate responsiveness possibilities:

(2)

6.1 A steeper slope would indicate Responsive Investment-spending in the Real Sector

6.2 A near-perfect horizontal investment-spending curve could illustrate Responsive Investment in the Real Sector

Question	Agree/Disagree
6.1	
6.2	

6.3 Following the above question, list the impact that a decrease in interest rates will have on the two differently sloped Investment spending curves

(2)

Slope of Investment Curve	Large Impact/Small Impact
Steeper curve	
Flatter Curve	

**END!**