



<b>FACULTY/COLLEGE</b>	College of Business and Economics
<b>SCHOOL</b>	School of Economics
<b>CAMPUS(ES)</b>	SWC
<b>MODULE NAME</b>	Economics 1B/ Financial Services Economics 1B (Diploma)
<b>MODULE CODE</b>	ECO11B1/ FSE11B1
<b>SEMESTER</b>	Second
<b>ASSESSMENT OPPORTUNITY, MONTH AND YEAR</b>	Supplementary Final Assessment January 2019

<b>ASSESSMENT DATE</b>	January 2019	<b>SESSION</b>	
<b>ASSESSOR(S)</b>	Mr J.G.R. Musakanya		
<b>MODERATOR(S)</b>	Dr T.T. Zwane		
<b>DURATION</b>	2 hours (120 min)	<b>TOTAL MARKS</b>	100

<b>NUMBER OF PAGES OF QUESTION PAPER (Including cover page)</b>	18
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**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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<b>Surname</b>	
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<b>Initials</b>	
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<b>Student number</b>	
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Question	Marks	Total
<b>Section A</b>	<b>60</b>	
<b>B</b>	<b>40</b>	
<b>TOTAL</b>	<b>100</b>	

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**Section A****[50 Marks]**

Answer the multiple choice questions on the attached answer sheet on **page 12**. **The questions are worth 2 marks each**. Mark the correct option clearly with a big cross. Do not remove the staple or any of the pages.

1. 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.
2. 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.

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3. 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

4. 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 a withdrawal or leakage from the flow of income and spending.
- E. lower the level of autonomous spending.

5. 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.

6. 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.

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7. 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.

8. 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:

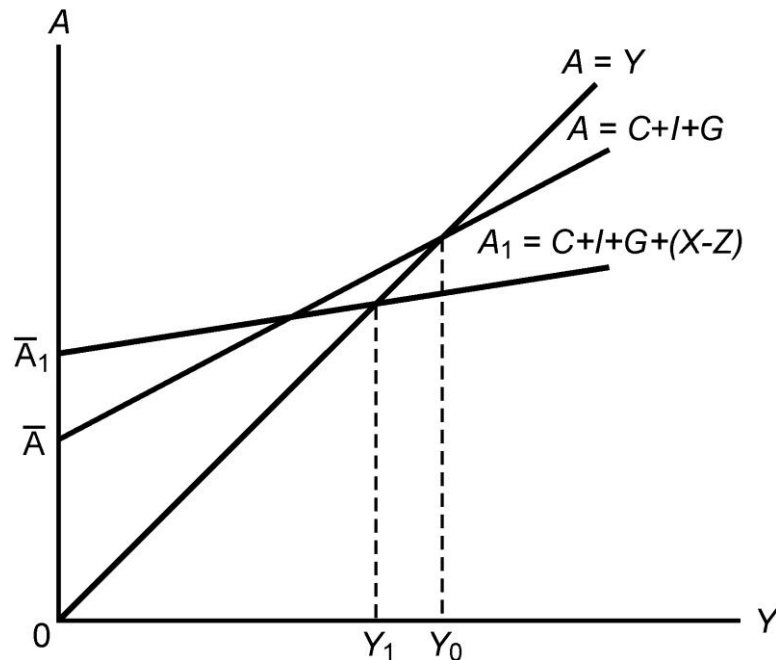
- A. 1,25
- B. 1,333
- C. 1,538
- D. 1,818
- E. 2,5

9. 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

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10. Consider the following diagram, which depicts the Keynesian model of an open economy with government, and answer Questions 10 and 11.



$Y_0$  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.

11. 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.

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12. 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?

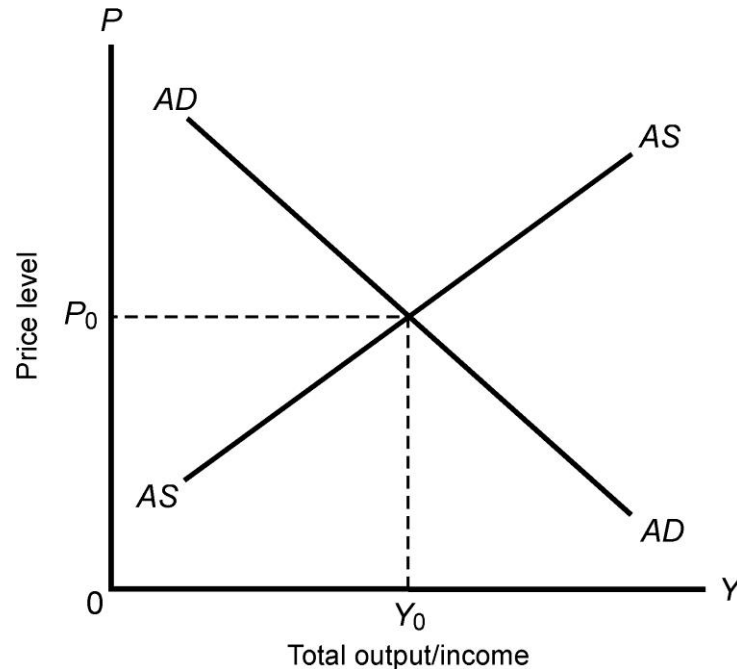
- A. Create a more favourable environment for investment spending.
- B. Spend more on infrastructural projects (for example, the construction of new roads).
- C. Encourage households to save a larger proportion of their annual income.
- D. Reduce the rate of taxation.
- E. Try to reduce imports by encouraging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

13. The government referred to in the previous question above (question 12) 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.

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14. Consider the following diagram, which depicts the Keynesian model of an open economy with government, and answer Questions 14 and 15.



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.

15. 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.



**INDEX NO.**

16. A peak in the business cycle:

- A. Occurs when the unemployment rate is its greatest.
- B. Occurs when the inflation rate is its lowest.
- C. Is a temporary maximum point.
- D. Is a temporary minimum point.

17. Which industry or sector of the economy would least likely be affected by the business cycle?

- A. Automobiles.
- B. Consumer Durables.
- C. Capital Goods.
- D. Services.

18. The industries or sectors of the economy in which output is likely to be most strongly affected by the business cycle are:

- A. Military and capital goods.
- B. Services and nondurable consumer goods.
- C. Clothing and education.
- D. Capital goods and durable consumer goods.

19. During a severe recession, we would expect output to fall the most in.

- A. The health-care industry.
- B. The clothing industry.
- C. Agriculture.
- D. The construction industry.

20. In which phase of the business cycles will the economy most likely experience rising real output and falling unemployment rates?

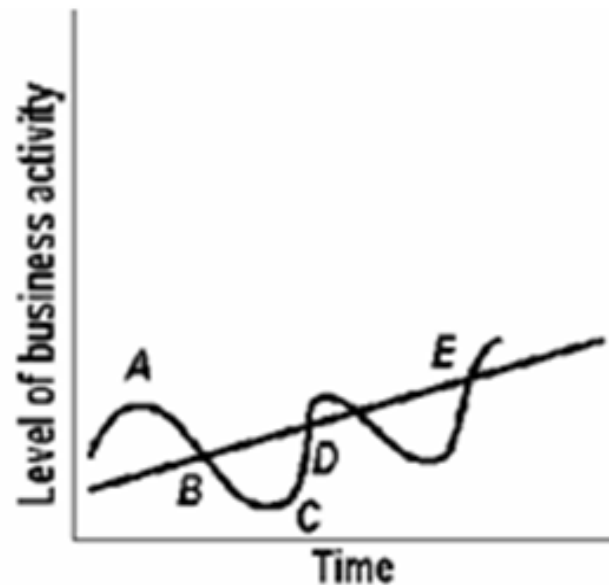
- A. Expansion.
- B. Recession.
- C. Peak.
- D. Trough.

21. A headline states: "Real GDP falls again as the economy slumps." This condition is most likely to produce what type of unemployment?

- A. Structural.
- B. Cyclical.
- C. Frictional.
- D. Natural.

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22.



The above diagram is best described as an idealised:

- A. Business Cycle.
- B. Cyclical Variation.
- C. Recession Cycle.
- D. Prosperity Cycle.

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

- A. Account for pollution expenditures.
- B. Don't account for improvements in products.
- C. Account for illegal activity.
- D. Don't account for slowdown in productivity.

24. 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.

**INDEX NO.**

25. What function is money serving when you take it on a trip and keep it in your wallet or purse in case you need it?
- A. A flow of funds.
  - B. A unit of account.
  - C. A store of value.
  - D. A medium of exchange.
26. What function is money serving when you buy a ticket to a movie?
- A. A store of value.
  - B. A unit of account.
  - C. A transaction demand.
  - D. A medium of exchange.
27. When money serves as a means for determining the relative worth of goods, services, and resources, it is functioning as a:
- A. Unit of account.
  - B. Store of value.
  - C. Medium of exchange
  - D. Standard of deferred payment
28. One major advantage of the medium of exchange function of money is that it allows society to:
- A. Transfer purchasing power from the present to the future.
  - B. Measure the relative worth of products.
  - C. Escape the complications of barter.
  - D. Use credit cards instead of currency.
29. Money eliminates the need for a coincidence of wants primarily through its use as a:
- A. Unit of account.
  - B. Medium of exchange.
  - C. Store of value.
  - D. Standard of confidence.
30. Bond prices and interest rates are:
- A. Directly related.
  - B. Positively related.
  - C. Negatively related.
  - D. Unrelated.

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## Section A

## Multiple Choice Questions - Answer Sheet

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
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					

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	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Question <b>23</b>					
Question <b>24</b>					
Question <b>25</b>					
Question <b>26</b>					
Question <b>27</b>					
Question <b>28</b>					
Question <b>29</b>					
Question <b>30</b>					

**Section B****[40 Marks]****Topic: The role of government****(10 Marks)**

1. State and briefly explain the following externalities

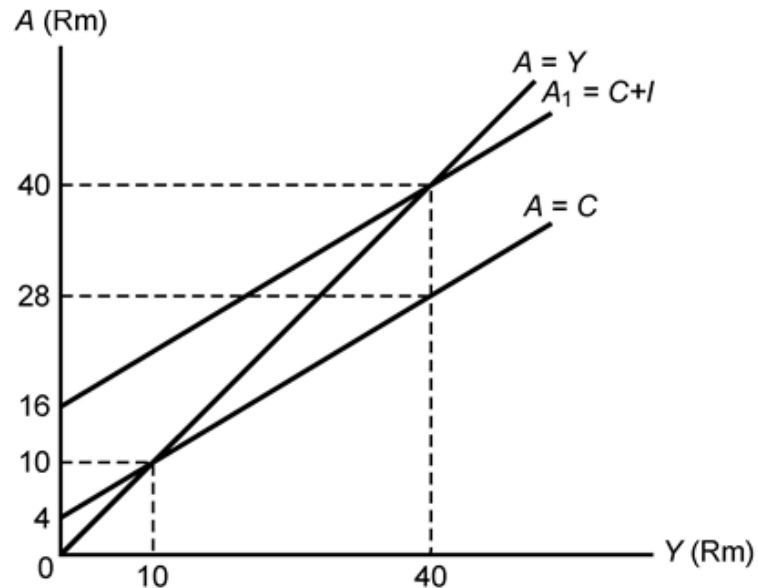
<b>Concept</b>	<b>Kind of externality</b>
Old power stations are totally dependent on coal to generate electricity.	
Medical research at a South African university resultant in a new product that can heal cancer rapidly.	
Good music that you enjoy for motivational purposes played by your roommate loudly 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**  
**SHOW ALL WORKINGS****(30 marks)**1. State the Multiplier formula and briefly explain the multiplier concept: **(4 Marks)**

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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)

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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**



**INDEX NO.****Topic: International Trade****(24 Marks)**

Use the statement below to answer questions 1.1 to 1.8

**1. Suppose the USA can produce 80 units of X by using all its resources to produce X or 60 units of Y by devoting all its resources to Y and South Africa can produce 60 units of X by using all its resources to produce X or 60 units of Y by devoting all its resources to Y.**

1.1. Use the information in 1 to calculate the opportunity cost of producing one unit of Y for the USA (3)

1.2. Use the information in 1 to calculate the opportunity cost of producing one unit of X for the USA (3)

1.3. Use the information in 1 to calculate the opportunity cost of producing one unit of Y for South Africa (3)

1.4. Use the information in 1 to calculate the opportunity cost of producing one unit of X for South Africa (3)

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1.5. Using the above statement, what product does the USA have an absolute advantage in? (3)

1.6. Using the above statement, what product does the USA have an absolute advantage in? (3)

1.7. Using the statement above, what product does the USA have a comparative advantage in? (3)

1.8. Using the statement above, what product does the South Africa have a comparative advantage in? (3)