ECONOMICS ADIE003/S3EBHQ3

DEPARTMENT OF ECONOMICS AND ECONOMETRICS

SUPP ASSESSMENT NOV 2019

Economics ADIE003/S3EBHQ3

Date: November 2019

Assessor: **DR M Biyase**

Time: **3hrs**

Total Marks: 100

Moderator **PROF P Baur**

1. The paper consists of only one section, 8 pages.
2. Noiseless calculators may be used.
3. Answer all the questions in the spaces provided on the examination script.

Surname																			
Initials																			

Student number											

Question	Marks	Total		Question	Marks	Total
Q 1	15					
Q 2	45					
Q 3	15					
Q 4	19					
Q 5	6					

Student number……Surname……

TOTAL	/100

QUESTION 1 [15]

You are an economist working for the national treasury in Johannesburg. You receive this letter from an important member of parliament (MP).

Dear Economist
Parliament is about to consider the government's proposal to cut taxes by 5 percent. Before deciding whether to endorse the policy, I would like your analysis. I see little hope of reducing government spending, so tax cut would mean an increase in the budget deficit. Explain and illustrate using the Keynesian models as to how would the tax cut and budget deficit affect the economy and the economic wellbeing of the country?

Sincerely
Member of SA parliament

Student number……Surname……

QUESTION 2 [45]

1. Determine the likely effect of each of the following on AD –or – SRAS (only one shift, negative or positive) and the resulting impacts on the economy.

	Effect on AD	Effect on SRAS	Impact on Price Level	Impact on Real GDP	Impact on Unemployment
A decrease in wealth					
Pessimistic consumer expectations					
A decrease in stock (inventory)					
Contractionary fiscal policy					

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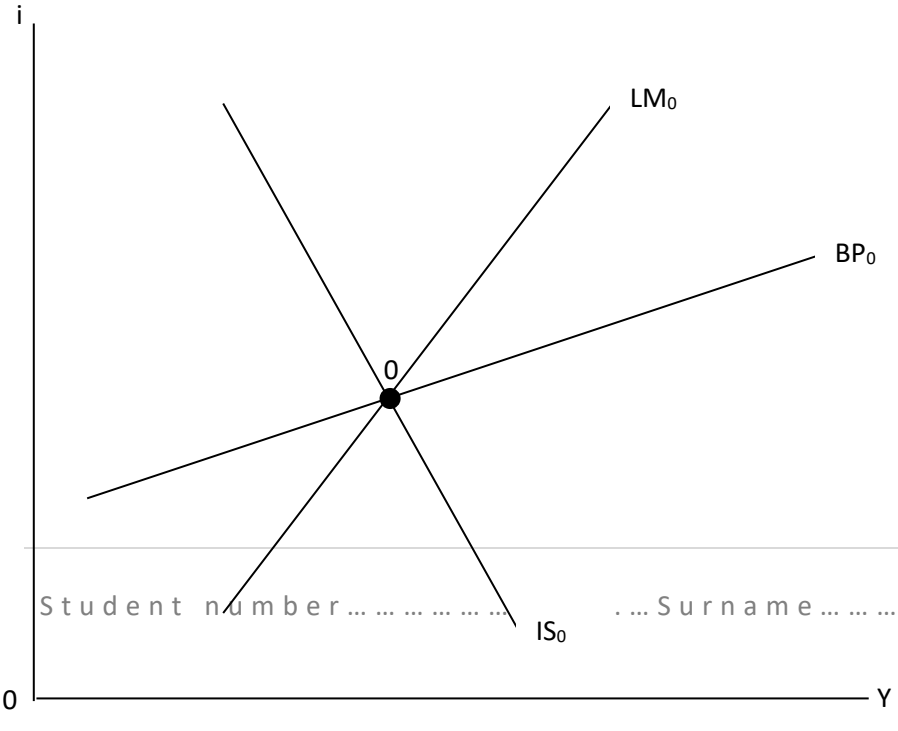
Expansionary fiscal policy					
A decrease in the quantity of money					
An decrease in the cost of oil					
An increase in minimum wage					
A significant improvement in technology					

QUESTION 3 [15]

Zambia's annual rate of inflation as measured by the all items Consumer Index (CPI) has risen by 0.2 percent from the December 2013's 7.1 percent to 7.3 percent recorded January this year.

You have been asked to use **IS-LM-BP model** to explain and illustrate as to what would be the appropriate policy response by the Reseve Bank of Zambia under these sercumstances and its impact



Student number……. ….Surname……..

The primary effect is: (2)

The secondary effect is: (2)

Net Effect (I)

The intitial BoP effect is: (2)

The concluding BoP effect is: (2)

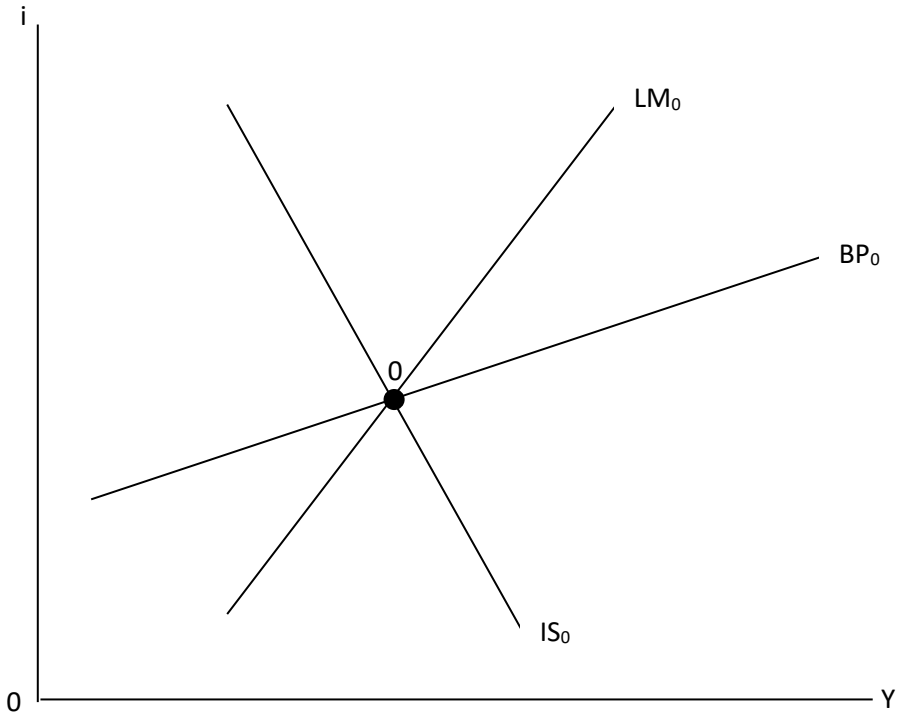
Student number…… Surname……..

QUESTION 4 [19]

In the business Day (2013) the former minister of finance was reported as saying "OVERALL government expenditure will rise 8.9% to R1.15-trillion for the 2013-14 financial year".

4.1 Explain whether the minister applied expansionary or restrictive fiscal policy. Write *expansionary* or *restrictive*, and explain the reasons for your choice. (5)

4.2 Make use of the **IS-LM-BP model** to illustrate and explain carefully the impact of the policy which you think was used by the minister in 6.1 above. (15)



Student number……Surname……

The primary effect is: (2)

The secondary effect is: (2)

Net Effect (1)

The intitial BoP effect is: (2)

The concluding BoP effect is: (2)

QUESTION 5 [6]

Identify the factors that would influence the exports as well of the directional relationship.

Factor	Directional Relationship (Positive/ Negative)

Student number……Surname……