

UNIVERSITY OF FORT HARE
ALICE AND EAST LONDON CAMPUS

ECO123L/F

BACHELOR OF COMMERCE MAIN EXAMINATION
NOV/DEC 2019

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Time: 3 Hours

Subject: Macroeconomics

Marks: 100

This paper consists of 19 pages including the cover page

Internal Examiners

Moderator

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Instructions

1. Answer ALL questions in Section A. Section A is compulsory.
2. Answer only ALL questions in section B
3. Answer ONE question in section C, all questions carry equal marks.
4. Section A is to be answered on the answer grid provided.
5. Answer Section B in the answer book.
6. The multiple choice answer sheets are to be placed inside the examination book on completion of the examination.

SECTION A (compulsory)

1. What is a bond in the context of money and monetary sector?
 - A. A close, interpersonal relationship.
 - B. A financial instrument that has to be paid back after a specific period of time and that earns a fixed interest rate.
 - C. A legal contract between a financial institution and a firm that links the two parties for an undefined period of time.
 - D. A financial instrument that has to be paid back after a specific period of time and that earns a fluctuating interest rate.
2. Money overcomes the problem of a double coincidence of wants inherent in the barter system through its function as a:
 - A. medium of exchange.
 - B. unit of account.
 - C. standard of deferred payment.
 - D. store of value.
 - E. financial intermediary.
3. Which one of the following statements is NOT true?
 - A. Money is a unit of account.
 - B. Money is a store of value.
 - C. Money is a medium of exchange.
 - D. Money is another term for income
 - E. Money is the most liquid asset.
4. Which one of the following statements is **incorrect**?
 - A. The M1 money stock consists largely of demand deposits.
 - B. The M2 money stock consists largely of notes and coins.
 - C. M3 is the most comprehensive measure of money.
 - D. M1 includes everything that normally serves as a means of payment.
 - E. M3 relates to the store of value function rather than to the means of payment function of money.

5. Which one of the following statements is incorrect?
- A. As interest rates increase, bond prices decrease.
 - B. As interest rates decrease, bond prices increase.
 - C. There is a positive relationship between interest rates and bond prices.
 - D. If interest rates are high, the quantity of money demanded will tend to be low.
 - E. If interest rates are low, the quantity of money demanded will tend to be high.
6. Which of the following is true of the money market?
- A. The speculative demand for money is a function of the interest rate.
 - B. The liquidity preference curve slopes upward.
 - C. The transactions demand for money is a function of the interest rate.
 - D. The precautionary demand for money is a function of the interest rate.
 - E. Higher rates of interest lead to a higher demand for liquidity.
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7. Which of the following would be classed as an expansionary monetary policy?
- A. A decrease in the quantity of money.
 - B. A decrease in interest rates.
 - C. An increase in government taxation.
 - D. An increase in government expenditure.
 - E. An increase in VAT.
8. Which one of the following statements is correct?
- A. In a monetary economy there always has to be a double coincidence of wants.
 - B. Money can never lose its usefulness as a unit of account.
 - C. Money is always the best possible store of value.
 - D. The stock of money consists largely of notes and coins.
- Money is.

9. Which one of the following statements regarding income, wealth and money is correct?
- A. Income, wealth and money all refer to the same thing.
 - B. Money and wealth are the same thing, but can be differentiated from income.
 - C. Income is measured over a period of time; wealth is measured at a specific point in time.
 - D. All income is money, and all money is income.
10. What does it mean if assets are 'liquid'?
- A. It refers to those assets that are in the liquid phase, i.e. not a solid.
 - B. It means that the assets are volatile and not very secure.
 - ~~C. It means that the assets are adjustable and modifiable.~~
 - D. It means that the assets can easily be converted into money.
11. South Africa has a comparative (relative) advantage over France in the production of maize if it:
- A. produces maize with fewer material inputs than France.
 - B. can match France's output of maize and have resources left over.
 - C. can produce maize with the same resources as France but faster.
 - D. has an absolute advantage over France.
 - E. Produces maize at a lower opportunity cost than France.
12. Australia has an absolute advantage over South Africa in wool production if, during a year, Australia:
- A. can produce more wool than South Africa.
 - B. specialises in wool production.
 - C. can produce less wool than South Africa
 - D. can produce more wool than South Africa with a given amount of resources.
 - E. consumes more wool than South Africa on average

13. As a result of more Americans visiting South Africa, we can expect, *ceteris paribus*:

- A. An appreciation of the rand relative to the dollar.
- B. a depreciation of the rand relative to the dollar.
- C. an appreciation of the dollar relative to the rand.
- D. that it will cost South Africans more to visit the United States.
- E. an appreciation of the dollar relative to all major currencies.

14. A tariff is:

- A. a tax on exported goods.
 - B. a source of revenue to the exporting nation.
 - C. A tax on imported goods.
 - D. a tax on foreign property.
 - E. a form of quota.
-

15. What is meant by the 'exchange rate'?

- A. The price of one country's currency in terms of another country's currency.
- B. The price that a certain type of goods or services can fetch when exported from one country to another.
- C. The annual turnover of a country's total production.
- D. The ratio of a country's total value of imports relative to its total value of exports.

16. When a foreign currency becomes less expensive, it is said that the rand has:

- A. Devaluated
- B. Revaluated
- C. Depreciated
- D. Appreciated

17. What is the main reason for countries to trade?

- A. The uneven distribution of resources throughout the world.

- B. The constant need to establish better international relations amongst different countries.
- C. Countries' inherent drive for economic power and superiority.
- D. Countries' constant need to gain comparative advantage relative to other countries.

18. What is the main reason for governments to impose import tariffs?

- A. To reduce the developmental gap between First World and Third World countries.
 - B. To protect local industries and increase revenue.
 - C. To restrict the volume of goods or services that may be imported into a country.
 - D. To ensure that specific quality standards are met on all imported goods, leading to an increase in the development of the economy.
-

19. Which one of the following statements is incorrect?

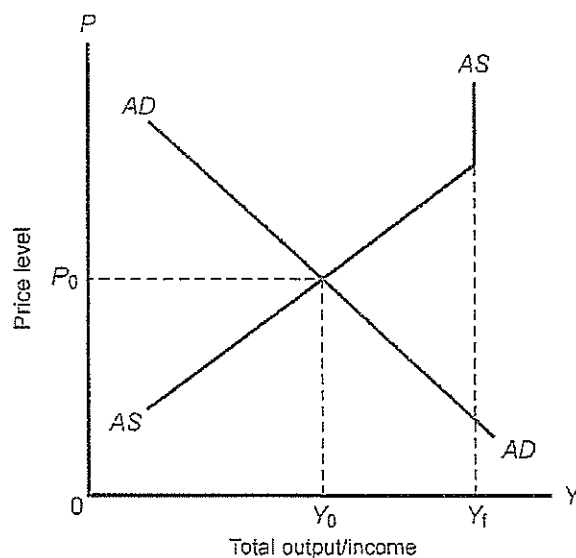
- A. The aggregate AD-AS model seeks to explain the general price level and the aggregate production of goods and services.
- B. The aggregate demand curve shows the aggregate quantities that are demanded at different price levels.
- C. If aggregate supply falls, there will be an upward pressure on prices, *ceteris paribus*.
- D. In terms of the AD-AS model, if aggregate demand falls, with no changes in aggregate supply, unemployment will tend to decrease.
- E. An increase in investment spending will result in a rightward shift of the AD curve.

20. Which one of the following statements is correct?

- A. The aggregate demand curve (AD curve) can be shifted by monetary as well as fiscal policy measures.
 - B. A restrictive fiscal policy will result in a rightward shift of the aggregate demand curve.
 - C. A general increase in wages in the economy will, *ceteris paribus*, shift the aggregate supply curve downward (to the right).
 - D. A supply shock results in a simultaneous increase in prices and production in the economy.
 - E. None of the above statements is correct.
-

21. According to supply-side theorists, the aggregate supply curve will shift to the right when:

- A. the quantity of money increases.
- B. marginal tax rates rise.
- C. government spending on on-the-job training increases.
- D. unemployment benefits are increased.
- E. the government's education budget is cut.



22. With the graph above which of the following statements is correct?

- A. The economy is in equilibrium at full employment.
 - B. Fiscal policy can be freely used to achieve full employment without risking a rise in the price level.
 - C. The use of fiscal policy to achieve full employment will bring about a rise in the price level.
 - D. Monetary policy can be freely used to achieve full employment without risking a rise in the price level.
-

E. Monetary policy cannot be used to achieve full employment since it will affect only the price level in the short run.

23. Stagflation refers to a situation where:

- A. economic growth is experienced and leads to an increase in the inflation rate.
- B. high inflation rates and high employment rates are experienced simultaneously.
- C. high inflation rates and high employment rates are experienced simultaneously.
- D. a period of high inflation is followed by a period of stagnation in the economic growth rate.

24. Indicate which one of the following statements is false

- A. In the AD-AS model prices are regarded as variable.
- B. In the AD-AS model wages have no impact on the level of input.
- C. In the AD-AS model the impact of monetary policy on the level of output can be analysed.
- D. In the AD-AS model the level of economic activity (output) is determined by the interaction of aggregate demand and supply.

25. Which one of the following statements is true?
- A. In the AD-AS model the price level refers to the general level of prices.
 - B. In the AD-AS model the derivation of the aggregate demand curve and the aggregate supply curve involves the summation of market demand and supply curves for different goods and services in the economy.
 - C. In the AD-AS model it is assumed that aggregate supply adjusts passively to aggregate demand.
26. Which one of the following is not assumed in the *AD-AS* model?
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- A. Prices are variable.
 - B. Wages are variable.
 - C. Aggregate supply can change independently of aggregate demand.
 - D. The quantity of money is fixed.
 - E. Interest rates are variable.
27. Which one of the following is not a component of aggregate demand in the economy?
- A. Consumption spending by households.
 - B. Investment spending by firms.
 - C. Spending on our exports by foreigners.
 - D. The productivity of the factors of production.
 - E. Government spending
28. Which one of the following will not give rise to a shift of the *AS* curve?
- A. An increase in wages.
 - B. A decrease in wages.
 - C. An increase in productivity.
 - D. A decrease in productivity.
 - E. An increase in spending by households.

29. Which one of the following will give rise to an increase in aggregate supply, illustrated by a rightward shift of the *AS* curve?

- A. An increase in wages.
- B. An increase in productivity.
- C. An increase in interest rates.
- D. An increase in the price of oil.
- E. An increase in government spending.

30. Which one of the following statements about inflation is true? Inflation refers to:

-
- A. a sudden and self-contained increase in prices.
 - B. a small increase in prices.
 - C. "too much money chasing too few goods".
 - D. a sustained increase in the general price level.
 - E. an increase in the purchasing power of money.

31. Which of the following statements is **incorrect**?

- A. Cost-push inflation is associated with rising prices and declining unemployment.
- B. Attempts to decrease cost-push inflation by restrictive monetary or fiscal policy are likely to produce even greater unemployment.
- C. Cost-push inflation may result from firms increasing their profit margins.
- D. Cost-push inflation may follow from a depreciation of the domestic currency against the currencies of the country's major trading partners.

32. Which one of the following can be regarded as a neutral definition of inflation?

- A. Inflation is too much money chasing too few goods.
- B. Inflation is an excessive increase in the money supply
- C. Inflation is a persistent increase in the cost of production.
- D. Inflation is a continuous and considerable rise in the price level.

33. Which one of the following statements is true?
- A. The consumer price index (CPI) measures the cost of all consumer goods and services.
 - B. A 10% rate of inflation means that inflation is 10% per month.
 - C. The inflation rate is calculated from a set of CPI figures.
34. The producer price index (PPI):
- A. measures the cost of a representative basket of goods and services to the consumers.
 - B. includes the cost of manufactured goods to the consumers.
 - C. includes the cost of capital and intermediate goods.
 - D. excludes the price of imported goods.
-
35. Inflation is:
- A. an increase in certain important prices in the economy.
 - B. a once-off increase in prices in general.
 - C. a rapid increase in the quantity of money.
 - D. a sustained increase in prices in general.
 - E. too much money chasing too few goods.
36. Which one of the following statements is incorrect?
- A. The consumer price index (CPI) is simply another term for the inflation rate.
 - B. The CPI is an index that reflects the cost of a representative basket of consumer goods and services.
 - C. The inflation rate is usually expressed as an annual rate.
 - D. The inflation rate is usually obtained by comparing the CPI for a particular month with the CPI for the same month of the previous year.
 - E. The inflation rate is expressed as a percentage change (from one year to the next).
37. If a country's rate of unemployment increases then we can conclude that:
- A. the country is experiencing jobless growth.
 - B. no new jobs are being created.
 - C. GDP growth must be falling.

- D. the proportion of people of working age who want employment and who cannot find employment is increasing.
- E. all of the above are true.
38. During an economic downturn, sales fall and some workers lose their jobs. This unemployment is referred to as:
- A. seasonal unemployment.
- B. frictional unemployment.
- C. cyclical unemployment.
-
- D. structural unemployment.
- E. technological unemployment.
39. People leave the labour force when they:
- A. find employment.
- B. become unemployed.
- C. retire.
- D. work in the informal sector.
- E. all of the above
40. Pitso resigns his job as an economist in Durban and moves to Port Elizabeth to be closer his parents. It takes Pitso three months to find new employment as an economist in Port Elizabeth. During these three months, Pitso was:
- A. structurally unemployed.
- B. seasonally unemployed.
- C. cyclically unemployed.
- D. casually unemployed.
- E. frictionally unemployed.

41. Which of the following situations describe structural unemployment?

- i. Julia is qualified as an economist, but cannot find employment because employers prefer to hire male economists.
 - ii. Jacob used to work in a gold mine and lost his job after the price of gold fell and the mine closed.
 - iii. Johanna is a typist and cannot find employment because she does not know how to use a word processor (personal computer).
 - iv. Jim can only find work as a tourist guide on the Cape Wine Route during the summer months.
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- A. i, ii and iii
- B. i, ii, iii and iv
- C. ii, iii and iv
- D. i and iv
- E. i, ii and iv

42. Which of the following might be expected to generate employment?

- A. Economic growth that is capital intensive.
- B. Higher taxes for small businesses.
- C. An increase in the wage rate, *ceteris paribus*.
- D. A fall in the productivity of workers.
- E. The promotion of exports and investment.

43. Which of the following would NOT be expected to generate employment?

- A. Easier access to credit for small business.
- B. Public works programmes.

- C. An increase in imports.
- D. An increase in the labour intensity of production.
- E. A decrease in the relative price of labour.

44. Which one of the following would not necessarily enhance economic growth in South Africa?

- A. Technological improvements.
- B. Increased labour productivity through on-the-job training.
- C. Higher levels of net investment in the economy.
- D. Higher levels of net investment in the economy.
- E. Higher levels of government spending that raise local interest rates.
- F. All of the above.

45. Investment in human capital:

- A. can be illustrated by a shift of the aggregate supply curve to the left.
- B. increases structural unemployment.
- C. increase labour productivity.
- D. can be illustrated by a shift of the Phillips curve to the right.

46. During a recession, cyclical unemployment will _____ and cyclical inflation will _____.

- A. decrease; decrease
- B. decrease; increase
- C. increase; increase
- D. increase; decrease

47. The phase of the business cycle at which almost all available resources in the economy are in use is referred to as:

- A. the recovery phase.
- B. the expansion phase.
- C. the peak or boom phase.
- D. the trough phase.

48. Which one of the following statements is incorrect?

Economic growth:

- A. may be measured as the annual rate of increase in real GDP.
- B. may be measured as the annual rate of increase in GDP at constant prices.
- C. may be measured as the annual rate of increase in GDP at current prices.
- D. should preferably be measured on a per capita basis.

49. Which one of the following is not a problem associated with GDP?

- A. GDP pertains only to production inside the country.
- B. The estimation of the value of production that is not sold in a market.
- C. Many activities are not recorded.
- D. GDP data are inevitably revised as more and better information become available.
- E. GDP is not a good measure of economic welfare.

50. Which one of the following statements is incorrect?

- A. Normal GDP is the appropriate basis for calculating economic growth.
- B. The impact of inflation first has to be eliminated before economic growth can be calculated.
- C. All production is included in GDP, irrespective of whether it could be classified as "good" or "bad".
- D. The economic growth rate does not reflect the distribution of income and wealth.
- E. South African GDP includes estimates of the value of informal sector activity.

[50]

SECTION B (COMPULSORY)

Question 2

1. Illustrate graphically the changes in aggregate demand when the expansionary monetary and fiscal policy in the AD-AS framework are applied. In your answer indicate which instrument is used for each policy and the direction in which it is adjusted (increase or decrease). (8)

2. Using everyday life examples, explain the difference between absolute advantage and comparative advantage. (4)
3. What are the main similarities and differences between the consumer price index (CPI) and the producer price index (PPI)? (5)
4. Discuss four (4) types of unemployment (8)

[25]

SECTION C (CHOOSE Q3 OR Q4)

Question 3

1. Define economic growth and explain how it is measured. (4)
2. Define business cycle, and illustrate it by means of a clear-labelled diagram. (10)
3. What are the main possible causes of demand-pull inflation? (4)
4. How would you explain to a family member what money is? Further, explain the motives of holding with the aid of examples. (7)

[25]

OR

Question 4

1. Briefly discuss the main possible causes of a cost-push inflation and indicate whether monetary and fiscal policy be used to combat cost-push inflation? Explain with the aid of a diagram. (13)
2. a. What kinds of monetary and fiscal policies could be introduced to reduce unemployment?
b. Why would we expect these policies to have inflationary consequences? Illustrate your answer diagrammatically. (12)

[25]

SECTION A: MULTIPLE CHOICE ANSWER SHEET

NAME.....STUDENTNO:.....

COURSE.....

Indicate your choice by making a CROSS in the choice block:

Question number	Options: choose only one				
	USE an 'X' to select your answer				
1	A	B	C	D	E
2	A	B	C	D	E
3	A	B	C	D	E
4	A	B	C	D	E
5	A	B	C	D	E
6	A	B	C	D	E
7	A	B	C	D	E
8	A	B	C	D	E
9	A	B	C	D	E
10	A	B	C	D	E
11	A	B	C	D	E
12	A	B	C	D	E
13	A	B	C	D	E
14	A	B	C	D	E
15	A	B	C	D	E
16	A	B	C	D	E
17	A	B	C	D	E
18	A	B	C	D	E
19	A	B	C	D	E
20	A	B	C	D	E
21	A	B	C	D	E
22	A	B	C	D	E
23	A	B	C	D	E
24	A	B	C	D	E
25	A	B	C	D	E

26	A	B	C	D	
27	A	B	C	D	E
28	A	B	C	D	E
29	A	B	C	D	E
30	A	B	C	D	E
31	A	B	C	D	E
32	A	B	C	D	E
33	A	B	C	D	E
34	A	B	C	D	E
35	A	B	C	D	E
36	A	B	C	D	E
37	A	B	C	D	E
38	A	B	C	D	E
39	A	B	C	D	E
40	A	B	C	D	E
41	A	B	C	D	E
42	A	B	C	D	E
43	A	B	C	D	E
44	A	B	C	D	E
45	A	B	C	D	E
46	A	B	C	D	E
47	A	B	C	D	E
48	A	B	C	D	E
49	A	B	C	D	E
50	A	B	C	D	E