

**ECS102-8**

(414182)

May/June 2005

ECONOMICS 102

Duration : 2 Hours

100 Marks

EXAMINERS :

FIRST :

MR WJ LE ROUX

SECOND :

MRS K SZE BENI

Use of a non-programmable pocket calculator permissible.

This partial fill-in paper consists of 10 pages plus instructions for the completion of a mark-reading sheet.

Read the following instructions **CAREFULLY** before answering the paper.

The paper is divided into two sections: Section A and Section B.

SECTION A

Candidates must answer **ALL** the question in this section.

SECTION B

In this section ALL the questions must be answered on the mark-reading sheet which is supplied.

Carefully follow the instructions for the completion of the mark-reading sheet.

Your mark-reading sheet can get lost and you **MUST** therefore also write down your answers for this section.
On the last page of this paper space is provided for this purpose.

THE USE OF A NON-PROGRAMMABLE CALCULATOR IS PERMISSIBLE.**[TURN OVER]**

SECTION A [40 MARKS]

Answer **ALL** the following questions in your examination paper in the blocks provided.

QUESTION 1

Explain the difference between a stock variable and a flow variable. Give one example of each. (4)

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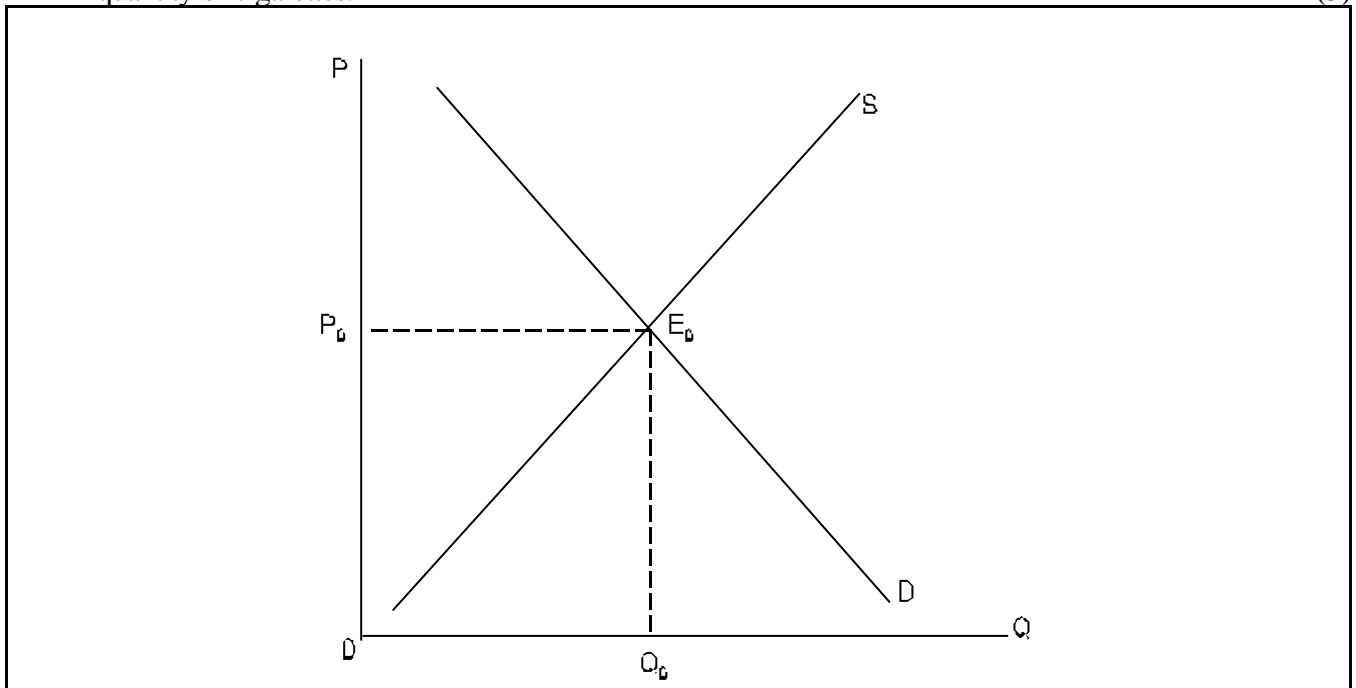
QUESTION 2

Domestic demand is one of the main sources of economic growth viewed from the demand side. Name the two other demand factors. (2)

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QUESTION 3

(i) Show on the following diagram how the imposition of an excise tax affects the equilibrium price and quantity of cigarettes. (3)

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- (ii) The burden of the excise tax is shared by three groups: the consumers of cigarettes, the owners of the cigarette companies and the employees of the cigarette companies. What determines the distribution of the burden of the excise tax between the three groups? (1)

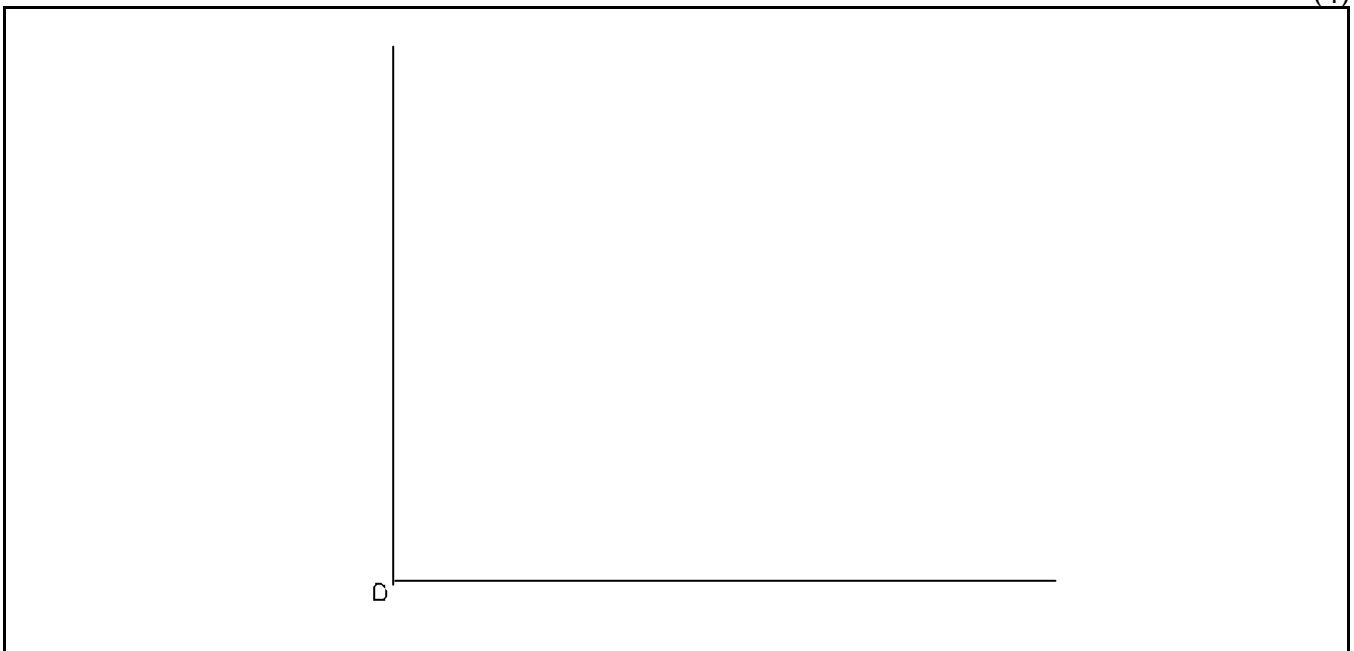
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- (iii) Explain how the employees of the cigarette companies share the burden of the excise tax. (2)

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QUESTION 4

- (i) Illustrate on the following diagram what will happen to the exchange rate between the rand and the US dollar if South African exports to the United States increase. Remember to label your diagram. (4)



- (ii) Has the price of the US dollar increased or decreased in rand terms as a result of the increase in exports? (1)

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- (iii) Did the increase in exports lead to an appreciation or a depreciation of the rand against the dollar? (1)

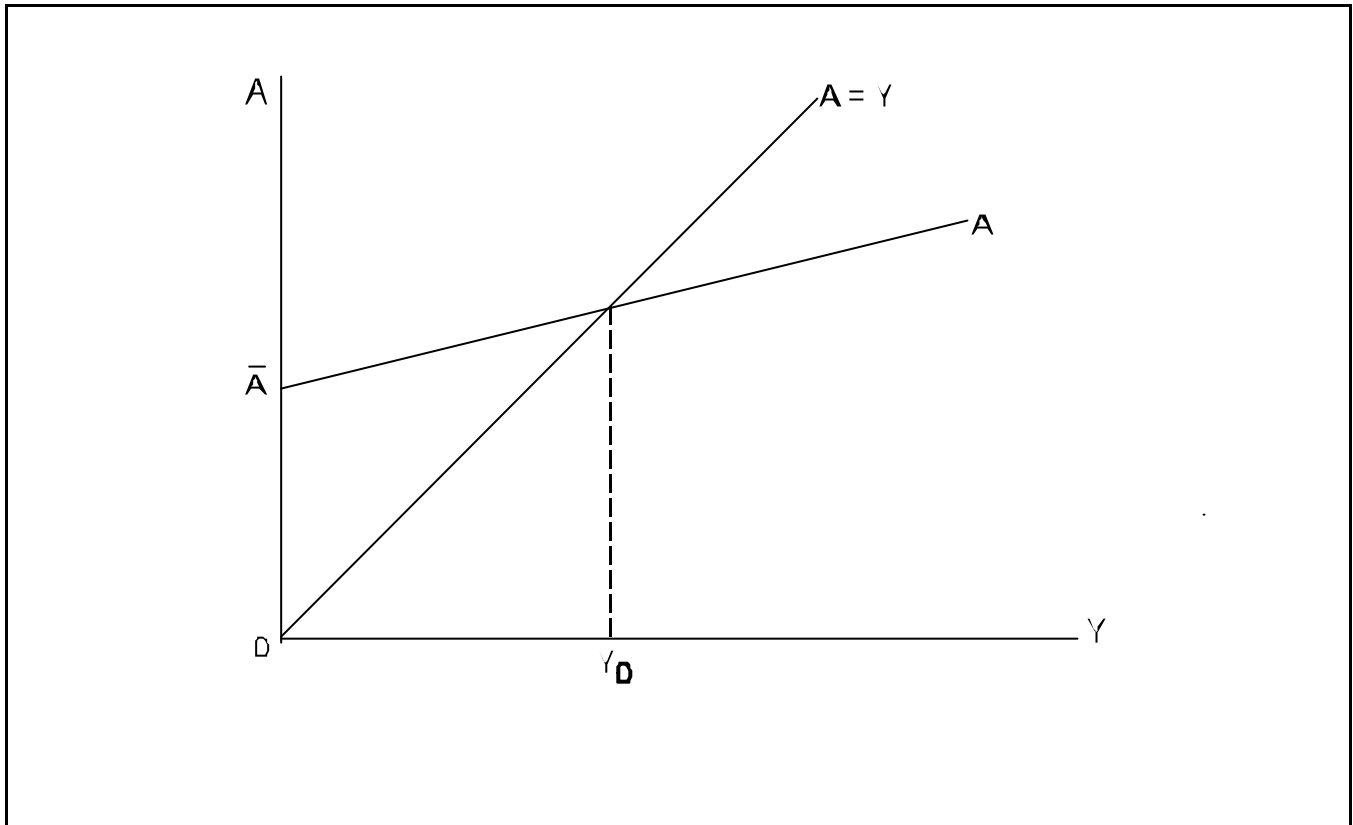
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QUESTION 5

Given a Keynesian model of an economy without a government and a foreign sector,

- (i) illustrate on the following diagram the impact of an increase in investment spending on the equilibrium level of income. (2)



- (ii) Explain the impact of the increase in investment spending on the equilibrium level of income. Comment on the size of the change in income relative to the size of the change in investment spending. (4)

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QUESTION 6

Given the following information:

$$C = 200 + \frac{2}{3}Y$$
$$I = 300$$

Calculate (Show all your work):

- (i) autonomous spending (1)

- (ii) the multiplier (2)

- (iii) the equilibrium level of income (2)

- (iv) total spending if the economy is at equilibrium. (2)

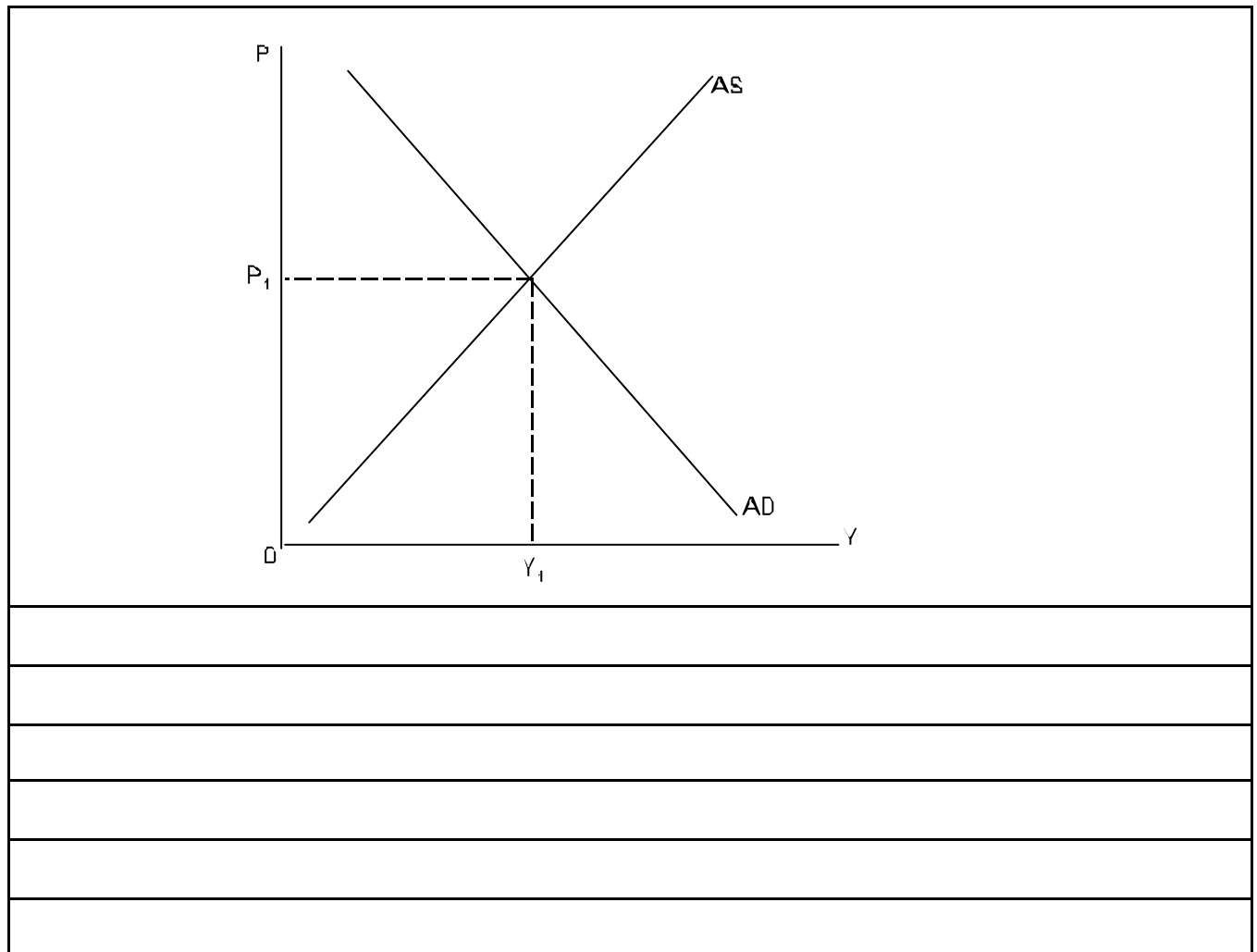
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QUESTION 7

You are the chief economic advisor for the government of Mahala. Mahala is experiencing demand-pull inflation despite the stated objective of the government to achieve price stability.

Explain, with the aid of the following diagram, what steps the government of Mahala should take to achieve this objective. (9)

- Clearly indicate on the diagram any changes to aggregate demand or aggregate supply, prices and production that might result from the actions taken by the government. The diagram will count three (3) marks.
- In your explanation you must at least deal with the following:
The instruments of fiscal policy,
how they are applied and
what effects they have.
Your explanation will count six (6) marks.



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