# ПАMIBIA UПIVERSITY
## OF SCIEПCE AПD TECHПOLOGY

## FACULTY OF MANAGEMENT SCIENCES

### CENTRE FOR ENTERPRISE DEVELOPMENT

| QUALIFICATION: BACHELOR OF ECONOMICS | |
|---|---|
| QUALIFICATION CODE: 21CABM | LEVEL: 5 |
| COURSE CODE: ECS212S | COURSE NAME: ECONOMICS 2B |
| SESSION: JUNE 2018 | PAPER: THEORY |
| DURATION: 2 HOURS | MARKS: 100 |

| SECOND OPPORTUNITY EXAMINATION QUESTION PAPER | |
|---|---|
| EXAMINER(S) | Mr Eslon Ngeendepi |
| MODERATOR: | Mr. Pinehas Nangula |

| INSTRUCTIONS | |
|---|---|
| | 1. Answer ALL the questions. |
| | 2. Write clearly and neatly. |
| | 3. Number the answers clearly. |
| | 4. This question paper is made up of four (5) sections. |
| | 5. Answer Section A and B on the attached answer sheet. |
| | 6. Answer ALL the questions and in blue or black ink. |
| | 7. Start each question on a new page in your answer booklet. |

**THIS QUESTION PAPER CONSISTS OF 11 PAGES** (Including this front page)

**Instructions:**
- Read all questions carefully
- Answer all the questions
- All answers should be on the answer sheet provided on page 10. Tear the page out and place it inside your examination script.

## QUESTION 1

**1.1    Macroeconomics is the branch of economics that attempts to**
(a)    explain why certain firms are less efficient than others.
(b)    explain the price difference between two products.
(c)    study output, employment and inflation in the economy as a whole.
(d)    explain changes in the prices of goods and services produced in an economy.

**1.2    If you want to investigate the claim that more goods and services were produced in Namibia during 2005 than during 2004, you should look at the**
(a)    nominal GDP.
(b)    real GDP.
(c)    potential GDP.
(d)    GDP per capita.

**1.3    Gross domestic product is defined as the**
(a)    average value of output produced in the economy during a short period of time.
(b)    final value of all goods produced in the economy during a short period of time.
(c)    market value of all goods produced in the economy during a short period of time.
(d)    total market value of all final goods and services produced inside the borders of a country during a given time period.

**1.4    A commercial bank is able to create money by**
(a)    creating a demand deposit as it extends a loan.
(b)    issuing cheques to depositors.
(c)    printing it.
(d)    maintaining reserves.

**1.5    If the commercial banking system receives a deposit of N$1 000 and the cash reserve requirement is 8%, maximum deposit expansion for the commercial banking system is**
(a)    N$1 000
(b)    N$1 250
(c)    N$12 500
(d)    N$10 500

**1.6** **A decrease in the cash reserve requirement has the effect of**
(a)     reducing the total reserves.
(b)     increasing the value of the credit multiplier.
(c)     reducing the value of the credit multiplier.
(d)     none of the above.

**1.7** **The amount of money held for transactions purposes is related to the function of money as a**
(a)     medium of exchange.
(b)     bearer of value.
(c)     hoarding medium.
(d)     None of the above.

**1.8** **Suppose that when your income is N$10 000 your tax liabilities are N$800 but when your income is N$20 000 your tax liabilities are N$1 200.  Such a tax is**
(a)     progressive
(b)     proportional
(c)     regressive
(d)     none of the above

**1.9** **Fiscal policy refers to**
(a)     government's attempt to regulate prices.
(b)     government's attempt to have a surplus budget.
(c)     government's attempt to have tax receipts exactly equal to expenditures.
(d)     the use of government expenditures and tax policies to effect aggregate demand.

**1.10** **Which of the following statements is not correct?**
(a)     A depreciation of the Namibian dollar against other currencies will raise the price of imported goods, ceteris paribus.
(b)     A depreciation of the Namibian dollar against other currencies will decrease the price of imported goods, ceteris paribus.
(c)     An ad valorem import tariff is a percentage that is levied on the price of an imported good.
(d)     A specific import tariff is a fixed amount that is levied on each unit of an imported good.

**1.11** **A depreciation of the Namibian dollar refers to**
(a)     a loss of foreign exchange reserves.
(b)     intervention in international foreign currency markets.
(c)     a decrease in the Namibian dollar price of foreign currency.
(d)     an increase in the Namibian dollar price of foreign currency.

**1.12** **If Ca = 50 and MPC = 0.75, how much will consumption be at an income level of N$1 600?**
(a)     N$1 250
(b)     N$1 650
(c)     N$1 675
(d)     N$1 600

**1.13** If a household consumes N$10 000 when its level of disposable income is N$11 000 and N$10 800 when its level of disposable income is N$12 000, its marginal propensity to consume is
(a) 0.75
(b) 0.50
(c) 0.80
(d) 0.91

**1.14** In a closed economy, without a government, the MPC of 0,7 would yield a multiplier of
(a) 10
(b) 3.3
(c) 4
(d) 5

**1.15** If the MPC is 0.9, an increase of N$5 million in autonomous investment will result in a
(a) N$50 million increase in the equilibrium level of income.
(b) N$50 million increase in autonomous consumption.
(c) N$5 million increase in the level of induced consumption.
(d) N$5 million increase in the equilibrium level of income.

**1.16** An inflationary gap can be eliminated by
(a) equal increases in taxes and government spending.
(b) equal decreases in taxes and government spending.
(c) a decrease in taxes or an increase in government spending.
(d) an increase in taxes or a decrease in government spending.

**1.17** Which of the following statements is <u>correct</u>?
(a) Inflation is harmful to everybody.
(b) Inflation tends to benefit debtors at the expense of creditors.
(c) Inflation benefits pensioners and people with fixed incomes.
(d) Inflation tends to benefit creditors at the expense of debtors.

**1.18** If the consumer price index was 118.4 for January 2004 and 122.3 for January 2005, the inflation rate for this period was
(a) 5.4%
(b) 3.3%
(c) 4.7%
(d) 8.3%

**1.19** Upon graduation from the Polytechnic of Namibia, Bill begins his job search. Two months later he is hired as an accountant at the ABC Company. During this period, Bill encounters
(a) structural unemployment.
(b) cyclical unemployment.
(c) seasonal unemployment.
(d) frictional unemployment.

**1.20** During the recovery phase (upswing) of the business cycle
(a) output, profits and employment are rising.
(b) unemployment and idle production capacity are at their highest levels.
(c) output, interest rates and the level of employment are falling.
(d) employment and profits are at their highest level.

**Instructions:**
- Read the questions carefully.
- Answer all the questions.
- All answers should be on the answer sheet provided on page 11. Tear the page out and place it inside your answer book.

## QUESTION 1

1.1     The wages earned by a citizen of Angola working in a mine in Namibia form part of Namibia's GNP.                                                                                    [T/F]

1.2     To avoid double counting in the national accounts, only sales of final goods and services or the value added during the different stages of production should be taken into account.     [T/F]

1.3     The beans bought by a factory to produce tins of baked beans are an intermediate good and so are the beans bought by Mrs Amutenya to make bean soup for her family.             [T/F]

1.4     The use of money eliminates the need for a double coincidence of wants associated with a barter economy.                                                                               [T/F]

1.5     According to Keynes, the total quantity of money demanded depends on the level of income and the interest rate.                                                                         [T/F]

1.6     A tax is progressive if lower income groups pay a smaller percentage of their taxable income in the form of tax than the higher income groups.                                          [T/F]

1.7     Government could use the budget to try to influence variables such as total production, income and employment and to redistribute income in the economy.                              [T/F]

1.8     A budget deficit is usually financed through taxation.                                                     [T/F]

1.9     Adam Smith argued that countries should try to be as self-sufficient as possible.              [T/F]

1.10    Exports create a supply of foreign exchange while imports constitute a demand for foreign exchange.                                                                                       [T/F]

1.11    If the Namibian dollar depreciates against other currencies, Namibian exports will become more competitive, ceteris paribus.                                                           [T/F]

1.12    An absolute advantage is a prerequisite for trade.                          [T/F]

1.13    Induced consumption refers to the fixed part of consumption spending that does not change as
        the level of income changes.                                                [T/F]

1.14    The multiplier indicates how much a change in autonomous spending will change the
        equilibrium level of income.                                                [T/F]

1.15    Workers who are replaced by labour-saving machines become structurally unemployed.  [T/F]

1.16    Inflation increases the purchasing power of money.                          [T/F]

1.17    An increase in the price of vegetables is a good example of inflation.      [T/F]

1.18    Demand-pull inflation can be illustrated by a rightward shift of the aggregate demand curve.
                                                                                     [T/F]

1.19    An increase in the quantity and/or quality of the various factors of production is a prerequisite
        for sustained economic growth.                                              [T/F]

1.20    The expansion phase (upswing) of the business cycle comes to an end at the peak of the cycle.
                                                                                     [T/F]

## QUESTION 1 [4 marks]

Use the following statistics to calculate the GDP growth rate for 2016.

Nominal GDP at market prices for 2003 = N$31 550 million
Nominal GDP at market prices for 2004 = N$33 909 million
CPI for 2015 = 109.3
CPI for 2016 = 114.4

## QUESTION 2 [16 marks]

Use the statistics in Table 1 to compile Account 1: Gross Domestic Product and Expenditure of country X.

On the income side of the account, show the GDP at factor cost and the GDP at market prices.

Table 1

|  | N$ millions |
|---|---|
| Final consumption expenditure by households | 385 280 |
| Gross capital formation | 105 858 |
| Consumption of fixed capital | 78 923 |
| Final consumption expenditure by general government | 120 139 |
| Net operating surplus | 169 191 |
| Compensation of employees | 309 064 |
| Exports of goods and services | 151 795 |
| Other taxes on production | 11 646 |
| Taxes on products | 58 185 |
| Other subsidies on production | 2 846 |
| Subsidies on products | 5 746 |
| Imports of goods and services | 143 340 |
| Residual item | 1 315 |

## QUESTION 1 [8]

Figure 1 Consumption Function
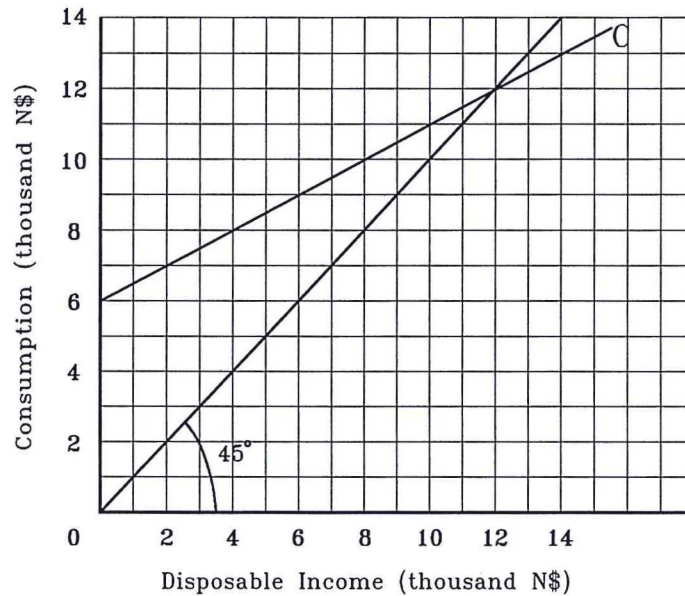


Refer to Figure 1

1.1    What is the amount of autonomous consumption?                                    (1)

1.2    At which income level will savings be equal to zero?                               (1)

1.3    What is the amount of consumption when income is N$10 000?                (1)

1.4    What is the amount of savings or dissavings when income is N$8000?       (1)

1.5    Calculate the marginal propensity to consume and the marginal propensity to save for an
       increase in income from N$12 000 to N$14 000.                                   (4)

## QUESTION 2 [12 marks]

2.1 Explain who in Namibia would benefit and who would lose if the Namibian government doubles the tariff on frozen chickens imported from South Africa. (6)

2.2 Given the following situation, determine which commodity Japan and South Africa should specialise in. One unit of resource can produce the quantities given in Table 2 per hour. Copy Table 2 into your answer book and show your calculations.

Table 2

|  | Radios | Cameras |
|---|---|---|
| Japan | 2 | 4 |
| South Africa | 1 | 3 |

The opportunity costs are:
:       1 Radio = _____      1 Camera = _____
South Africa      1 Radio = _____      1 Camera = _____ (4)

Japan should specialise in the production of _____
South Africa should specialise in the production of _____ (2)

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| SECTION E |
|---|
| 20 Marks |

## QUESTION 1 [20 marks]

1.1 What are the differences between progressive, regressive and proportional taxation? Give an example of each. (6)

1.2 Discuss the requirements of a good tax system. (10)

1.3 In each of the following situations, state whether discretionary fiscal policy is expansionary or restrictive. Motivate your answer.

(a) The government increases tax rates for households and corporations. (2)

(b) Government expenditures on food aid programs to help the poor are increased by 5%. (2)

**TOTAL MARKS FOR PAPER: 100**

**Student number:** ……………………………………………

<u>**ANSWER SHEET FOR SECTION A**</u>

Mark the correct answer with an X.

|      | a | b | c | d |
|------|---|---|---|---|
| 1.1  |   |   |   |   |
| 1.2  |   |   |   |   |
| 1.3  |   |   |   |   |
| 1.4  |   |   |   |   |
| 1.5  |   |   |   |   |
| 1.6  |   |   |   |   |
| 1.7  |   |   |   |   |
| 1.8  |   |   |   |   |
| 1.9  |   |   |   |   |
| 1.10 |   |   |   |   |
| 1.11 |   |   |   |   |
| 1.12 |   |   |   |   |
| 1.13 |   |   |   |   |
| 1.14 |   |   |   |   |
| 1.15 |   |   |   |   |
| 1.16 |   |   |   |   |
| 1.17 |   |   |   |   |
| 1.18 |   |   |   |   |
| 1.19 |   |   |   |   |
| 1.20 |   |   |   |   |

Student number:………………………………………..

**ANSWER SHEET FOR SECTION B**

Mark the correct answer with an X.

|      | True | False |
|------|------|-------|
| 1.1  |      |       |
| 1.2  |      |       |
| 1.3  |      |       |
| 1.4  |      |       |
| 1.5  |      |       |
| 1.6  |      |       |
| 1.7  |      |       |
| 1.8  |      |       |
| 1.9  |      |       |
| 1.10 |      |       |
| 1.11 |      |       |
| 1.12 |      |       |
| 1.13 |      |       |
| 1.14 |      |       |
| 1.15 |      |       |
| 1.16 |      |       |
| 1.17 |      |       |
| 1.18 |      |       |
| 1.19 |      |       |
| 1.20 |      |       |