

**NAMIBIA UNIVERSITY  
OF SCIENCE AND TECHNOLOGY**

**FACULTY OF MANAGEMENT SCIENCES**

**CENTRE FOR ENTERPRISE DEVELOPMENT**

<b>QUALIFICATION: CERTIFICATE IN BUSINESS PROCESS MANAGEMENT</b>	
<b>QUALIFICATION CODE: 21CABM</b>	<b>LEVEL: 7</b>
<b>COURSE CODE: ECS212S</b>	<b>COURSE NAME: ECONOMICS 2B</b>
<b>SESSION: JUNE 2018</b>	<b>PAPER: THEORY</b>
<b>DURATION: 2 HOURS</b>	<b>MARKS: 100</b>

<b>FIRST OPPORTUNITY EXAMINATION QUESTION PAPER</b>	
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<b>MODERATOR:</b>	Mr Pinehas Nangula

<b>INSTRUCTIONS</b>	
<ol style="list-style-type: none"><li>1. Answer ALL the questions.</li><li>2. Write clearly and neatly.</li><li>3. Number the answers clearly.</li><li>4. Answer Section A and B on the attached answer sheet.</li></ol>	

**THIS QUESTION PAPER CONSISTS OF 13 PAGES (Including this front page)**

**SECTION A**  
**20 Marks**

**Instructions:**

- Answer all the questions
- All answers should be on the answer sheet on page 12. Tear the page off and place it inside your examination script.

**QUESTION 1**

**1.1** which one of the following is a macroeconomic concept?

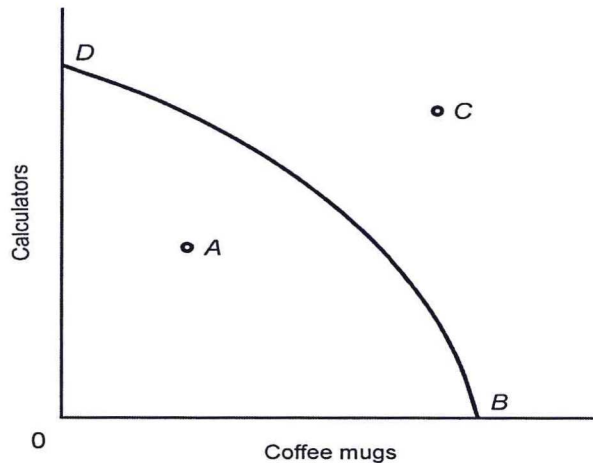
- (a) the price of petrol.
- (b) the demand for potatoes.
- (c) the consumer price index.
- (d) the supply of pumpkins.

**1.2** An economist decides to give up her job at a commercial bank, where she earns R800 000 per year. She is offered another full-time job for R850 000 per year or can work for herself from home as a private consultant. What is the opportunity cost of working from home?

- (a) zero
- (b) N\$800 000
- (c) N\$850 000
- (d) N\$1 650 000

Figure 1 below shows a society's production possibility frontier for coffee mugs and calculators. Use this information to answer this question 1.3 below.

*Figure 1: Production Possibility Curve*



**1.3** The opportunity cost of producing an additional coffee mug would be lowest at:

- (a) A.
- (b) B.
- (c) C.
- (d) D.

- 1.4 If we were to add up the value of output of all firms in the economy, we would:**
- (a) obtain GDP at factor cost.
  - (b) obtain GDP at market prices.
  - (c) obtain GDP using the income method.
  - (d) overestimate the value of production taking place in the economy.
- 1.5 Nominal GDP calculated at market prices differs from nominal GDP at factor cost. Which of the following items would account for the difference?**
- (a) Depreciation on capital equipment.
  - (b) Inflation.
  - (c) Interest on loans.
  - (d) taxes and subsidies.
- 1.6 GDP at \_\_\_\_\_ prices will usually be greater than GDP at \_\_\_\_\_ prices because of \_\_\_\_\_.**
- (a) constant; current; inflation
  - (b) current; constant; inflation
  - (c) constant; current; depreciation
  - (d) current; constant; depreciation
- 1.7 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.
- 1.8 Which one of the following is incorrect? Money serves as:**
- (a) a means of payment.
  - (b) a medium of exchange.
  - (c) a factor of production.
  - (d) a unit of account
- 1.9 The repo rate is:**
- (a) the rate at which the Bank of Namibia advances loans to the government.
  - (b) the best interest rate an investor can obtain on a long-term deposit.
  - (c) the rate at which banks provide loans to their best customers.
  - (d) the rate at which the Bank of Namibia provides loans to other banks.
- 1.10 A tax such as VAT would generally be viewed as:**
- (a) progressive, because the consumption expenditure of the rich is greater than that of the poor.
  - (b) regressive, because low-income households spend a greater proportion of their income on goods that attract VAT.
  - (c) proportional, because the VAT rate is constant across goods that attract VAT.
  - (d) progressive, because most goods consumed by poor households are zero rated.
- 1.11 Which one of the following statements is incorrect?**
- (a) Tax avoidance is illegal
  - (b) Tax evasion is illegal.
  - (c) Horizontal equity means that two taxpayers with the same income should pay the same amount of tax.

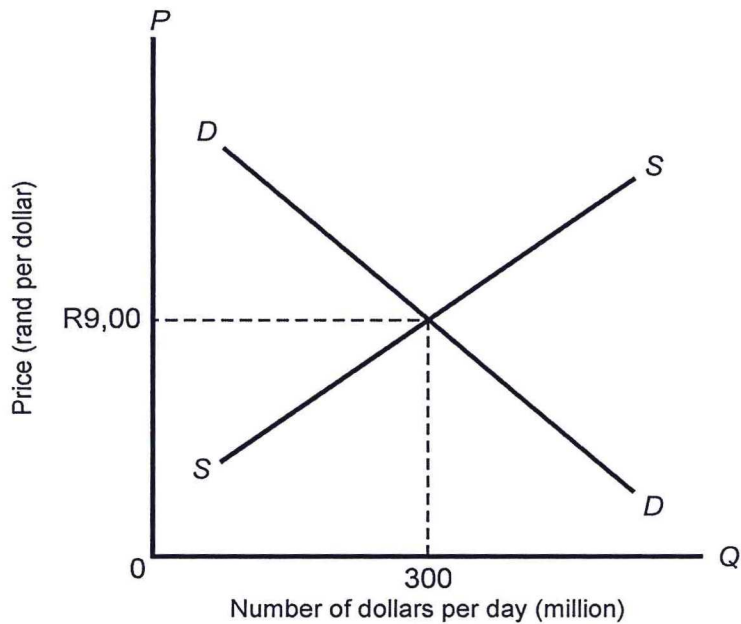
- (d) Vertical equity means that rich people should pay more tax than poor people.

**1.12 Autonomous consumption:**

- (a) varies with income
- (b) is independent of the prices in the market
- (c) does not vary with income levels
- (d) is not equal to autonomous dissaving.

Figure 2 below shows the demand and supply curves for dollars (in terms of the South African rand) in the foreign exchange market. Use this information to answer the question below.

Figure 2: Demand and Supply of dollars



Use figure 2 above to answer question 1.13 and 1.14 below.

**1.13 In this case, an increase in American tourists to South African game reserves would cause the:**

- (a) supply curve to shift to the right.
- (b) demand curve to shift to the left.
- (c) supply curve and demand curve to remain unchanged.
- (d) demand curve to shift to the right.

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

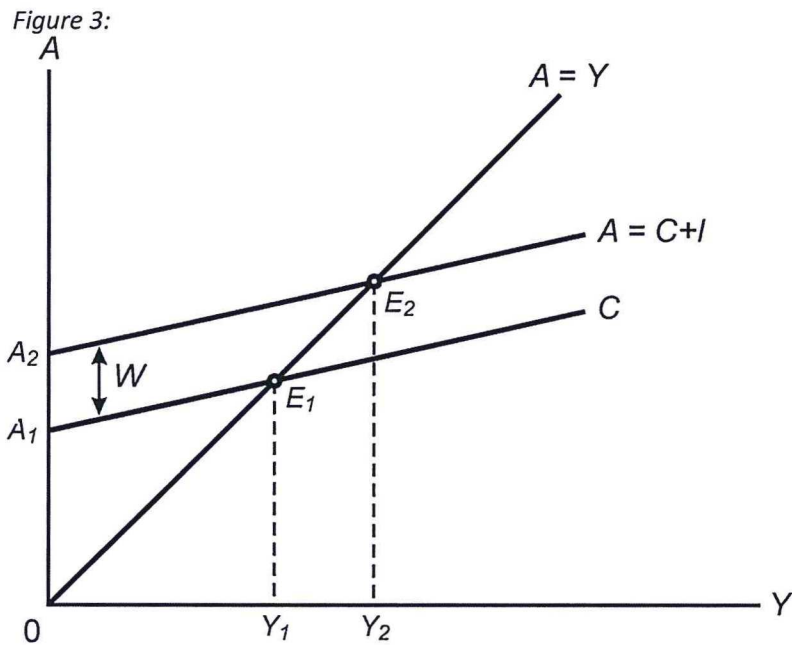
- (a) an appreciation of the rand relative to the dollar.
- (b) a depreciation of the rand relative to the dollar.
- (c) an appreciation of the dollar relative to the rand.
- (d) that it will cost South Africans more to visit the United States.

1.15 If the consumer price index at the end of 2011 was 100 and at the end of 2012 was 120, then the rate of inflation for 2012 was:

- (a) 25%
- (b) 20%
- (c) 16.66%
- (d) 1.5%

1.16 Inflation tends to:

- (a) benefit lenders at the expense of borrowers.
- (b) benefit taxpayers at the expense of the government.
- (c) Benefit the young at the expense of the elderly.
- (d) benefit creditors at the expense of debtors.



1.17 The point labelled  $A_2$  represents:

- (a) induced consumption
- (b) autonomous consumption
- (c) equilibrium consumption
- (d) autonomous spending

1.18 The gap labelled  $W$  represents:

- (a) autonomous consumption.
- (b) investment spending.
- (c) induced consumption.
- (d) none of the above.

**1.19 Eslon resigns his job as an economist in Windhoek and moves to Walvis BAY to be closer his parents. It takes Eslon three months to find new employment as an economist in Walvis Bay. During these three months, Eslon was:**

- (a) structurally unemployed
- (b) seasonally unemployed
- (c) casually unemployed
- (d) frictionally unemployed

**1.20 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.

- (a) i, ii and iii
- (b) i, ii, iii and iv
- (c) ii, iii and iv
- (d) i and iv

<b>SECTION B</b> <b>20 Marks</b>
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**Instructions:**

- Answer all the questions
- All answers should be on the answer sheet on page 13. Tear the page out and place it inside your answer book.

**QUESTION 1 [20 marks]**

- 1.1 As money moves from households to firms and back, some leaks out in the form of saving, taxation and imports. [T/F]
- 1.2 To avoid double counting in national income accounts, only intermediate goods and services should be counted. [T/F]
- 1.3 A student buys a second hand car from a dealer in Windhoek. The value of the car is included in this year's GDP. [T/F]
- 1.4 Imports are recorded in the current account of the balance of payments and exports in the capital account. [T/F]
- 1.5 The quantity theory of money suggests that an increase in the money supply would lead to an increase in the price level, and therefore increases in the money supply are simply inflationary. [T/F]
- 1.6 When interest rates are high, the opportunity cost of holding money is high, therefore people will rather buy bonds or other interest bearing assets. [T/F]
- 1.7 When the Bank of Namibia sells bonds, the money supply increases. [T/F]
- 1.8 A tax is proportional if the percentage of income paid as tax remains the same irrespective of the level of income. [T/F]
- 1.9 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]
- 1.10 A sales tax on necessities is usually regressive. [T/F]
- 1.11 When a German company invests in a vehicle manufacturing operation in Namibia, the amount concerned is entered as an inflow in the capital account of the Namibian balance of payments. [T/F]
- 1.12 The balance of payments is a summary of government income and expenditure. [T/F]
- 1.13 A specific import tariff is a fixed amount that is levied on each unit of an imported good. [T/F]

- 1.14 A flexible (floating) exchange rate system is one where the value of a currency is determined by supply and demand for foreign currency and there is no interference by monetary authorities. [T/F]
- 1.15 According to John Maynard Keynes, total demand in the economy can never be insufficient because supply creates its own demand. [T/F]
- 1.16 If  $C_a = 80$  and  $c = 0.8$ , then  $C = 880$  at an income level of 1 000. [T/F]
- 1.17 Demand-pull inflation raises the price level while at the same time reducing the level of production or income in the economy. [T/F]
- 1.18 Changes in the consumer price index (CPI) reflect changes in the purchasing power of a fixed amount of money. [T/F]
- 1.19 Demand-pull inflation can be combated by expansionary monetary policy. [T/F]
- 1.20 A trough in the business cycle occurs when employment and income reach their lowest levels. [T/F]



**SECTION C**  
**35 Marks**

**QUESTION 1 [4 marks]**

Table 1 below describes the process by which a loaf of bread is made available to a consumer as a final good. Use the table to answer questions 1.1 and 1.2 below.

Table 1: Value Addition to Bread

	Price (N\$) of a loaf of bread
Farmer sells wheat to miller	5,00
Miller sells flour to baker	6,00
Baker sells bread to grocer	10,00
Grocer sells bread to consumer	12,00

- 1.1 Derive the total value of bread. (2)
- 1.2 What is the value added by the grocer? (2)

**QUESTION 2 [6 marks]**

Fill in the missing values from table 2 above. (6)

Table 2: Economic Indicators

Year	GDP at current prices	GDP at constant 2012 prices	GDP deflator
2011	400 000	600 000	A
2012	500 000	B	C

### QUESTION 3 [12 marks]

Suppose you are given a consumption function in the following form:

$$C = 90 + 0.86Y$$

- (a) Calculate the income multiplier. (3)
- (b) Determine by how much savings (S) will increase if income (Y) increases by N\$20? (3)
- (c) How much is consumption (C) when income (Y) is 500? (4)
- (d) What does the figure 90 represent? (2)

### QUESTION 4 [13 marks]

Consider the set of national accounts figures (all valued at market prices) given in Table 3. Use these statistics to calculate the GDE and GDP.

Table 3: Gross Domestic Expenditure and Gross Domestic Product

	N\$ millions
Gross capital formation	6 156
Exports of goods and services	8 710
Final consumption expenditure by households	10 914
Final consumption expenditure by general government	4 957
Imports of goods and services	10 718
Residual item	- 1 070

**SECTION D**  
**25 Marks**

**QUESTION 1 [10 marks]**

The following assumptions are made where Namibia trades with Angola. Labour is the only input and Beef and Millet are the only products produced by Namibia and Angola. Table 2, provides a summary of production of beef and millet between Angola and Namibia.

Table 2:

Product	Namibia (tons/hour of labour)	Angola (tons/hour of labour)
Millet	150	100
Beef	1	2

- a) Determine which country has an absolute advantage in the production of Beef? (2)
- b) Determine which country has an absolute advantage in the production of Millet? (2)
- c) Determine which country has a comparative advantage in the production of Beef? (3)
- d) Determine which country has a comparative advantage in the production of Millet? (3)

**QUESTION 2 [15 marks]**

Table 3: Labour Statistics data

Category	Number (millions)
Working age population	222.0
Labor force	146.8
Employment	138.0

- a) Determine the number of people who are unemployed. (5)
- b) Calculate the number of people who are not part of the labor force. (5)
- c) Calculate the unemployment rate. (5)

**TOTAL MARKS FOR PAPER: 100**

Student number: .....

**ANSWER SHEET FOR SECTION A**

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		