

ATTENDANCE FORM

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Initials	
Student number	
Venue	

GENERAL INSTRUCTIONS

1. Do not remove the staple – hand this paper in as a whole.
2. Remove only the top page (this page), and hand it in together with this paper at the end of the session.
3. Make sure that your paper has 13 numbered pages.

ECO 100

Final assessment November 2014

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QUESTION 1: IMPERFECT COMPETITIVE MARKETS

[10]

In the South African cement industry five companies control more than 80% of the market share. What kind of market structure are we dealing with? Explain briefly i) the characteristics, ii) the setting of price and iii) the nature of the profits in the short and long run of this kind of market structure.

Kind of market structure

Characteristics

Setting of price

Profits

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QUESTION 2: INTERNATIONAL TRADE [25]

2.1 Assume that country A and country B are both producing consumables and capital goods. Assume that both countries have 250 hours per month available to produce the two kinds of goods. The maximum units of the two kinds of goods that country A can produce per month are respectively 1000 units of consumables and 1500 units of capital goods. The maximum units of the two kinds of products that country B can produce per month are respectively 500 units of consumables and 1000 units of capital goods. Complete the following table and answer the questions that follow. (12)

Country	Hours taken to produce 1 unit of product	
	Consumables	Capital goods
A		
B		

Calculate/determine the following:

1. What is the opportunity cost for 1 unit of consumables in country A?	
2. What is the opportunity cost for 1 unit of consumables in country B?	
3. What is the opportunity cost for 1 unit of capital goods in country A?	
4. What is the opportunity cost for 1 unit of capital goods in country B?	
5. In which one of the two products should country A specialise?	
6. In which one of the two products should country B specialise?	

Assume the following monthly production and consumption patterns (in units) before trade takes place.

Country	Consumables	Capital goods
A	500	300
B	300	500

Assume that the price ratio is 1:1 and that the two countries would trade 400 units of consumables for 400 units of capital goods.

Indicate with fully-annotated figures the autarky and after-trade positions of the two countries.

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Autarky

After trade

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- 2.2 Assume that you are currently in Australia and that you want to spend 800 Australian dollar on a two-day trip to the Australian outback. The current Rand/US Dollar exchange rate is 10.65/1\$ and the Australian Dollar/ US Dollar exchange rate is 3.50AD/1\$. Calculate the Rand equivalent for the two-day trip to the Australian outback (show all your calculations). (4)

Calculations:

Final Answer:

- 2.3 Assume that South Africa is experiencing a large inflow of foreign direct investment (FDI) due to a favourable trade deal between South Africa and the US that was concluded a few months ago. Explain with the aid of a fully-annotated figure the impact that this will have on the Rand/\$ exchange rate. (4)

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2.4 Assume the following exchange rates:

R10.65/1\$ (South African Rand/US dollar); £0.65/1\$ (UK pound/US dollar); R18.25/1£ (South African Rand/UK pound).

You have R10 650 available to speculate with. Indicate how you will apply the principle of cross rate arbitrage in order to realise a profit (show all your calculations). (5)

QUESTION 3: MONEY & INTEREST RATES [15]

3.1 Assume that the current interest rate in the money market is 4.5% and in the financial market the yield rate is 8.25%. Explain with the aid of fully-annotated figures how arbitrage will occur and the impact on the two markets (do all your explanations on the figures). (6)

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- 3.2 Inflation is currently in the 3-6% range set by the South African Reserve Bank (SARB), the current account of the Balance of Payments is showing a growing surplus and the M3 money supply is growing at a slower rate. The problem is that the economic growth rate is only 1.1% and the unemployment rate has increased to 28.9%. What should the aim of the monetary policy of the SARB be? Explain how the repo rate and open-market transaction instruments can be used in order to attain this aim of monetary policy. Clearly indicate how the transmission mechanism will work in these circumstances. (9)

Policy aim:

Repo rate:

Open market transactions:

QUESTION 4: MACROECONOMIC POLICY OBJECTIVES [6]

The National Development Plan (NDP), introduced in 2012, aims to eliminate poverty and reduce inequality by 2030. One of the most important goals is "Maintaining large-scale but sustainable public investment in infrastructure to facilitate economic growth, with improved maintenance and a well-defined financing strategy" (NDP, 2012). Explain in full how the development plan may have unforeseen outcomes by critically analysing how the following pair of macroeconomic objectives may be in conflict:

4.1 Economic growth and price stability

4.2 Employment creation and balance of payments equilibrium.

4.3 Economic growth and economic development

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QUESTION 5: KEYNESIAN MODEL [12]

The following questions are based on the information provided for a four-sector model. Answer all the questions. Show all calculations and round-off to two decimal points during calculations.

$$C = 300 + 0.9Y_d$$

$$\text{tax} = 25\%$$

$$I = 300$$

$$G = 600$$

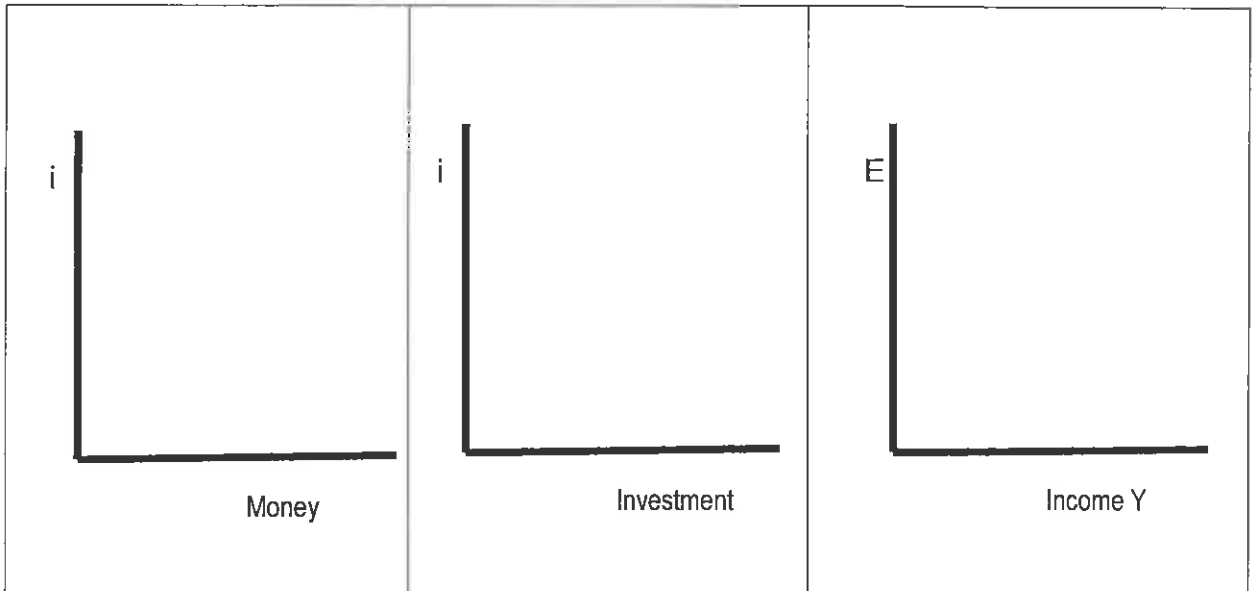
$$NX = -200$$

Autonomous consumption spending	(1)	
Total autonomous spending	(1)	
Marginal propensity to consume (MPC)	(1)	
Expenditure Multiplier	(1)	
Equilibrium income level	(1)	
The contribution of Investment in this economy	(1)	
The contribution of the Government sector in the economy. Hint: Remember to take all Government actions into account	(3)	
Due to the success of the NDP an increase in autonomous consumption expenditure of 100 is experienced. Calculate the impact on equilibrium income.	(1)	
Calculate the impact of a depreciation of the Rand, changing exports with 300 and imports with 50, on the equilibrium level of income.	(2)	

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QUESTION 6: POLICY INTEGRATION [19]

6.1 The latest national budget of 2014/15 was expansionary of nature. Use the Keynesian model and illustrate and explain the impact of the expansionary government spending on the private sector of the economy. Label and explain fully all graphs and show clearly with the use of arrows all the necessary shifts of the graphs. (10)



Explanation:

PRIMARY EFFECT:

SECONDARY EFFECT:

CONCLUSION:

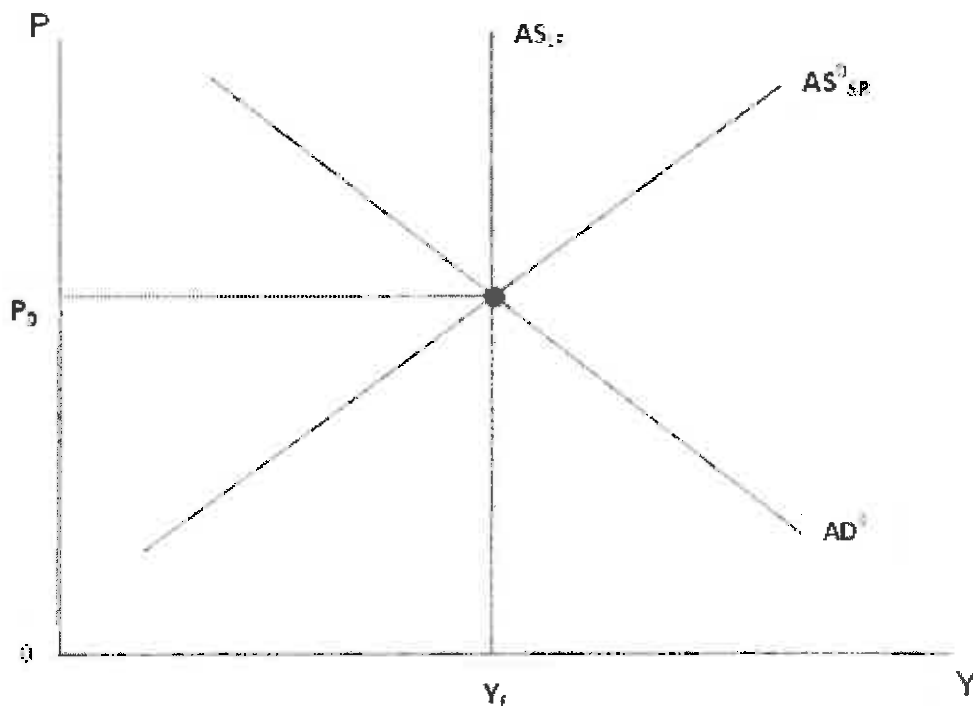
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6.2 There are three main sources of financing a budget deficit, with different macroeconomic consequences of the three options. Complete the following table to illustrate the impact of the financing decision on the economy. (9)

Source of financing budget deficit	Macroeconomic consequence (expansionary, restrictive, neutral)	Impact on interest rate (increase, decrease, neutral)

QUESTION 7: AD-AS MODEL [13]

The USA, one of South Africa's main trading partners, is currently recovering after a serious recession. Make use of the following diagram to explain and illustrate the adjustment process in South Africa following this USA and worldwide upswing. (Indicate all shifts clearly).



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EXPLANATION:

Initial impact:

Short-term impact:

Medium-term impact:

Long-term impact:

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