UNIVERSITY EXAMINATIONS

May/June 2020

ECS1501

Economics 1A

100 Marks
Duration: 2 Hours

Examiners:
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Second: **Mr FHB Serfontein**

This paper consists of 15 pages.

Instructions:

(1) This paper consists of 50 multiple-choice questions.
(2) The completion of this paper must be your own work.
(3) If you experience any technical problems during the completion of this exam, contact bugmaster@unisa.ac.za
(4) After completion of the exam paper, the answers may only be submitted online on myUnisa. **NO** emailed submission will be accepted.

1. Which is the most accurate definition of the study of economics?

   [1] Distributing surplus goods to those in need.

   [2] Dealing with affluence in a morally bankrupt world.

   [3] Using scarce resources to satisfy unlimited human wants.

   [4] Reducing human wants to eliminate the problem of scarcity.

2. Computer software represents

   [1] labour.

   [2] land.

   [3] capital.

   [4] entrepreneurship.

3. Suppose you have graduated with a degree in accounting and are offered a job with an accounting firm. But you are also considering joining a R&B band and abandoning your promising career in accounting. The opportunity cost of aiming at stardom would include all of the following except

   [1] the cost of acquiring a whole new wardrobe made entirely of leather.

   [2] the thousands of rands spent on useless tuition payments.

   [3] the lucrative salary you could be making as an accountant.

   [4] interest on the loan you take out to purchase a million-watt amplifier.

4. Tito, a Limpopo farmer, has 1000 hectares of land. He currently plants 500 hectares maize and 500 hectares sorghum. He also farms with pigs and he feeds the pigs with the maize he produces. A research scientist at the Agricultural Research Council (ARC) discovers a new way to make ethanol from maize which makes it much cheaper to produce ethanol, increasing the demand for maize. How would this influence the opportunity cost of Tito?

   [1] The opportunity cost of growing sorghum would rise.

   [2] The opportunity cost of growing maize would rise.

   [3] The opportunity cost of feeding pigs would decrease.

   [4]. It would have no bearing on the farmer's opportunity cost because he feeds the maize to the pigs.

5. Which of the following is a positive statement?

   [1] Fighting inflation should be the most important priority of the South African Reserve Bank.

   [2] Reducing unemployment levels is the most important priority of the South African Reserve Bank.

   [3] The current annual rate of inflation is 4.6 percent.

   [4] Economic growth is desirable since it increases employment opportunities.

6. Which of the following statements about economic theories is correct?

   [1] They cannot be tested because we cannot do economic "experiments."

   [2] They must apply to all countries equally to be true.

   [3] They attempt to explain economic behaviour.

   [4] They are unrealistic because of the assumptions they contain.

7. A microeconomist might be concerned with

   [1] savings by the household sector.

   [2] total output of the South African economy.

   [3] the effect of oil prices on motor vehicle sales.

   [4] the South African unemployment rate.

8. Which of the following are considered three major types of economic systems?

   [1] traditional, command and market

   [2] monopoly capital, command and market

   [3] socialism, communism and command

   [4] traditional, market and monopoly capital

9. A mixed economy is defined by economists to include

   [1] both labour and capital in the production process.

   [2] both agriculture and services.

   [3] both the employed and the unemployed.

   [4] both elements of a command economy and of a market economy.

10. In the diagram of the production possibilities curve, scarcity is indicated by

    [1] the negative slope of the curve.

    [2] the concave to the origin shape of the curve.

    [3] the unattainable points outside the curve.

    [4] the area under the curve.

11. Nosipho is a software developer for Microsoft. She decides to quit her job and instead teach computer science at her local high school. This would cause

    [1] an outward shift of the production possibilities curve.

    [2] an inward shift of the production possibilities curve.

    [3] a movement along the production possibilities curve.

    [4] movement towards the production possibilities curve.

12. _____ describes a move to the production possibilities curve and _____ describes an outward shift in the curve?

    [1] growth in the labour force; technological progress

    [2] the reallocation of inputs to good Y; the employing of unemployed resources

    [3] reallocation of inputs to good Y; growth of the labour force

    [4] employing of unemployed resources; technological progress

13. When Herman got hired as a gardener, he bought a six-pack of beer to celebrate. He is therefore

    [1] a buyer in the market for goods and a seller in the market for factors of production.

    [2] a seller in the market for goods and a buyer in the market for factors of production.

    [3] a buyer in the market for goods and a buyer in the market for factors of production.

    [4] a seller in the market for goods and a seller in the market for factors of production.

14. In the circular flow diagram, _____ represent a real flow.

    [1] wages paid to labour

    [2] household savings

    [3] goods consumed by households

    [4] taxes collected by government

15. In the circular flow diagram, _____ represent a nominal flow.

    [1] services consumed by government

    [2] labour employed by businesses

    [3] goods exported to other countries

    [4] incomes received by households

Question 16 is based on the following two statements:

Statement A. "An increase in the price of tea will cause a decrease in the demand for tea."

Statement B. "An increase in the price of tea will cause a decrease in the demand for the complement sugar."

16. In which of these two statements is the term "demand" used correctly?

    [1] neither statement.

    [2] Statement A.

    [3] Statement B.

    [4] both statements.

17. An inferior good is defined as a good for which

    [1] the quantity demanded increases when the price falls.

    [2] the quantity demanded decreases when the price falls.

    [3] the demand curve for it shifts to the right when income rises.

    [4] the demand curve for it shifts to the left when income rises.

Questions 18 and 19 are based on the following table which shows the supply and demand schedules for face masks:

Price	Quantity supplied	Quantity demanded
R20	400	700
R25	500	650
R30	600	600
R35	700	550
R40	800	500

18. We can expect that the equilibrium price for face masks will be

    [1] R20

    [2] R25

    [3] R30

    [4] R35

19. What is the maximum number of face masks firms should produce?

    [1] 500

    [2] 600

    [3] 700

    [4] 800

20. In 2017 an outbreak of African armyworms in the North West Province severely reduced the supply of maize, which is used to feed cattle. The effect in the beef market was a shift of the _____ curve of beef to the _____.

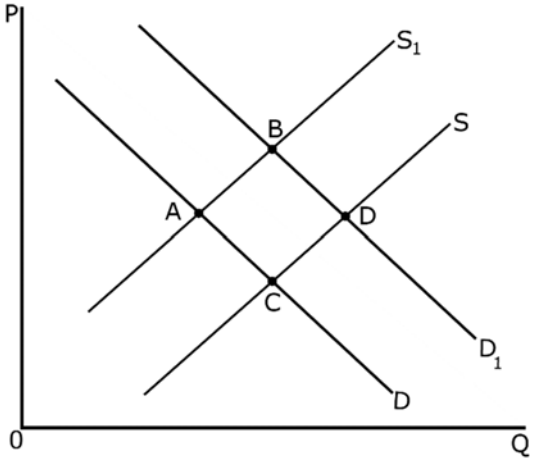
    [1] supply; right

    [2] supply; left

    [3] demand; right

    [4] demand; left

Questions 21 to 23 are based on the following diagram of the market for hot dogs.



21. Suppose there is an increase in the price of buns. the equilibrium position will change from point _____ to point _____.

    [1] A; B

    [2] B; D

    [3] D; C

    [4] C; A

22. If there is an increase in the price of hamburgers, a substitute, the equilibrium position will change from point _____to point _____.

    [1] A; C

    [2] C; D

    [3] D; B

    [4] B; A

23. If there is an increase in the cost of producing hot dogs and an increase in the incomes of consumers, the equilibrium position will change from point _____to point _____.

    [1] B; A

    [2] A; C

    [3] C; D

    [4] C; B

24. Suppose the government requires warning labels on bottles of wine, informing consumers of the dangers of alcohol consumption which leads to a decrease in the preference for alcohol. At the same time, there is a drought in the Western Cape wine-producing region. The effect on the wine market will be a(n)

    [1] decrease in both the equilibrium quantity and the equilibrium price.

    [2] decrease in the equilibrium quantity and an increase in the equilibrium price.

    [3] increase in the equilibrium quantity and a decrease in the equilibrium price.

    [4] decrease in the equilibrium quantity and an indeterminate result for the equilibrium price.

25. In the lead up to the 2010 Soccer World Cup 800 000 FIFA approved soccer balls were sold at a price of R599. In the period before the 2016 Soccer World Cup 1,2 million soccer balls were sold at a price of R599. The most likely explanation for this is that the supply curve of soccer balls shifted to the _____ and the demand curve for soccer balls shifted to the _____.

    [1] right; left

    [2] left; right

    [3] right; right

    [4] left; left

Question 26 is based on the following table showing Lineo's demand schedule for yogurt.

Price	Quantity Demanded
R2,00	1
R1,50	2
R1,10	3
R0,80	4
R0,60	5

26. If the market price is R0.80, Lineo's consumer surplus will be

    [1] R1.20

    [2] R2.20

    [3] R3.20

    [4] R5.40

27. At a flea market, Thapelo purchases a toy train for R8 when he was willing to pay R25. If a new toy train costs R75, Thapelo's consumer surplus would be

    [1] R17

    [2] R33

    [3] R67

    [4] R83.

Question 28 is based on the following table showing the supply and demand schedules for hand cleaners.

Price	Quantity supplied	Quantity demanded
R10	100	150
R15	120	120
R20	140	90
R25	160	60
R30	180	30

28. If the government establishes a price ceiling of R25, the quantity produced will be

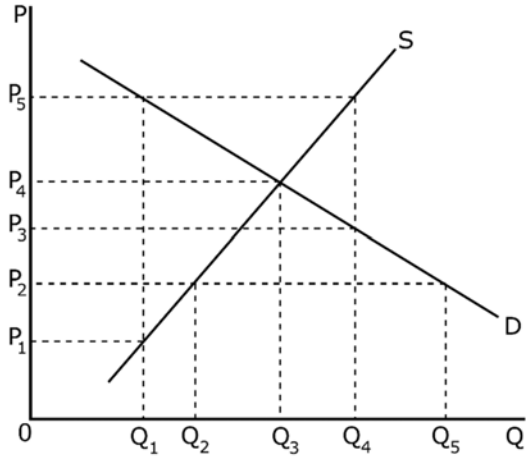
    [1] 120.

    [2] 140.

    [3] 160.

    [4] 180.

Questions 29 to 31 are based on the following diagram of the market for bread flour.



29. Suppose the government establishes a price ceiling of P_2 to reduce food costs during Level 5 of the Covid-19 lockdown period. The quantity that will be purchased in the market is

    [1] Q_1

    [2] Q_2

    [3] Q_3

    [4] Q_5

30. If the government decides, during level 1 of the of Covid-19 lockdown period to introduce price supports to raise the income of farmers, and as a result the price of wheat is raised to P_5, there will be an excess supply of

    [1] $Q_4 - Q_1$

    [2] $Q_5 - Q_2$

    [3] 0

    [4] $Q_4 - Q_3$

31. If the government decides, after the of Covid-19 lockdown period, to remove all price interventions in the market for bread flour, the excess supply will be

    [1] $Q_5 - Q_1$

    [2] $Q_5 - Q_2$

    [3] 0

    [4] $Q_4 - Q_1$

32. After a good maize crop in the North West Province in 2018, the cost of cattle feed fell leading to a decrease in the price of beef. The change in the price of beef was proportionately smaller than the change in quantity beef demanded. The reason for this is

    [1] the supply of beef is elastic.

    [2] the supply of beef is inelastic.

    [3] the demand for beef is elastic.

    [4] the demand for beef is inelastic.

33. If consumers have strong brand loyalties towards Levi jeans, which of the following statements about cross elasticity of demand for Levi jeans is likely?

    [1] It will be large and positive.

    [2] It will be large and negative.

    [3] It will be small and positive.

    [4] It will be small and negative.

34. If the price elasticity of demand is 3, a 10 percent increase in the price of the good results in a

    [1] 3 percent increase in the quantity demanded.

    [2] 30 percent increase in the quantity demanded.

    [3] 300 percent increase in the quantity demanded.

    [4] 30 percent decrease in the quantity demanded.

35. If the income elasticity of demand for a good is 3, a 10 percent increase in income results in a

    [1] 3 percent increase in the quantity demanded.

    [2] 30 percent increase in the quantity demanded.

    [3] 300 percent increase in the quantity demanded.

    [4] 30 percent decrease in the quantity demanded.

36. When Mamma's Pies decreases the price of pies from R40 to R35, the quantity of the pies demanded increases from 800 to 1 150. Calculate the price elasticity of demand for pies at Mamma's Pies for this price range.

    [1] 2,43

    [2] 2,69

    [3] 2,71

    [4] 3,00

37. When unemployment in South Africa increases, motor vehicles sales usually declines. This fact indicates that the _____elasticity of demand for motor vehicles is _____.

    [1] income; positive

    [2] income; negative

    [3] cross; positive

    [4] cross; negative

38. A seller in a perfectly competitive market faces a demand curve that is

    [1] perfectly inelastic.

    [2] perfectly elastic.

    [3] relatively inelastic.

    [4] relatively elastic.

Question 39 is based on the following data about Thea's consumption of coffee and tea.

Quantity	Coffee	Tea
	MU	MU
1	30	54
2	24	45
3	18	36
4	12	18

39. If her income is R30, the price of coffee is R6 and the price of tea R4,50, how many cups of tea must she buy to reach maximum satisfaction?

    [1] 1

    [2] 2

    [3] 3

    [4] 4

40. If Zurika's marginal utility for a loaf of bread is 10 and for 500g of cheese is 30, her

    [1] total utility would be maximised if the price of 550g cheese is triple the price of a loaf of bread.

    [2] total utility could be increased by buying more bread and less cheese.

    [3] total utility could be increased by buying more cheese and less bread.

    [4] total utility would be maximised if the price of 500g cheese is one-third the price of a loaf of bread.

Use the data in the following table to answer questions 41 to 43.

Output (Units)	Total cost	Marginal cost	Average fixed cost	Average variable cost	Average total cost
0	100				
1	110				
2	130				
3	166				
4	220				
5	300				

41. The marginal cost of the fourth unit is

    [1] 10

    [2] 20

    [3] 36

    [4] 54

42. The average fixed cost of the fifth unit is

    [1] 10

    [2] 20

    [3] 50

    [4] 100

43. The average variable cost of the third unit is

    [1] 11

    [2] 22

    [3] 30

    [4] 33

44. If a firm in a perfectly competitive market were to raise its price, its

    [1] revenue would decrease if market demand were elastic.

    [2] revenue would increase if market demand were inelastic.

    [3] profits would increase if costs were constant.

    [4] revenue would fall to zero.

45. A perfectly competitive firm maximises its profits by

    [1] maximizing its revenues.

    [2] minimizing its costs.

    [3] choosing the right level of output.

    [4] choosing the optimal price.

46. If a perfectly competitive market experiences an increase in demand, the short-run response will be

    [1] entry into the market by new firms.

    [2] increased output by existing firms and higher prices.

    [3] an outward shift of the market supply curve.

    [4] manipulation of prices by firms.

47. When a perfectly competitive market experiences an increase in demand, the long-run response will be

    [1] entry by new firms into the market.

    [2] increased output by existing firms and higher prices.

    [3] an increase in the costs of production.

    [4] increased profit margins by firms.

48. At the profit-maximising level of employment in a perfectly competitive labour market,

    [1] the marginal revenue product equals the value of marginal product.

    [2] the marginal revenue product equals the marginal cost of labour.

    [3] the marginal product equals the marginal revenue product.

    [4] the marginal product equals the marginal cost of labour.

49. The _____ effect of a wage increase states that a higher wage rate increases workers' real income, and thus increases their demand for all normal goods, including leisure, which decreases the quantity of labour supplied.

    [1] leisure

    [2] non-market work

    [3] substitution

    [4] income

50. If the minimum wage in the market for unskilled labour is repealed, we would expect to see an increase in

    [1] the number of people seeking employment as unskilled workers.

    [2] the wages of unskilled workers.

    [3] unemployment among unskilled workers.

    [4] employment of unskilled workers.

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