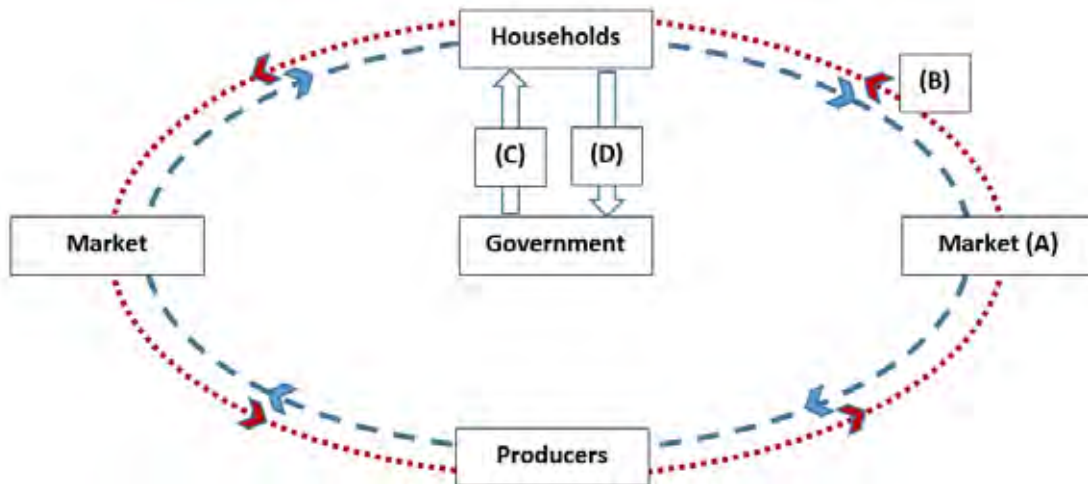


The circular flow

Study the following economic model and answer questions 1 to 5



1. This economic model represents:
  - A how prices are determined on various markets.
  - B the circular flow of a macro-economy.
  - C causes for inflation.
  - D the national aggregates of income and supply.
  
2. The market represented by (A) is the market for ...
  - A factors of production.
  - B goods and services.
  - C labour and entrepreneurship.
  - D international trade.
  
3. The flow indicated as (B) from Market (A) to Households indicates the flow of:
  - A factors of production.
  - B the remuneration of factors of production.
  - C goods and services.
  - D the remuneration for goods and services.
  
4. If this model is in equilibrium, then it follows that:
  - A total income is equal to total expenditure.
  - B total income is greater than total expenditure.
  - C total income is less than total expenditure.
  - D there is no relation between total income and total expenditure.
  
5. Flows (C) and (D) respectively indicates:
  - A public goods and subsidies.
  - B subsidies and taxes.
  - C public goods and transfer payments.
  - D transfer payments and taxes.

6. The following was taken from the SARB Quarterly Bulletin (December 2019).

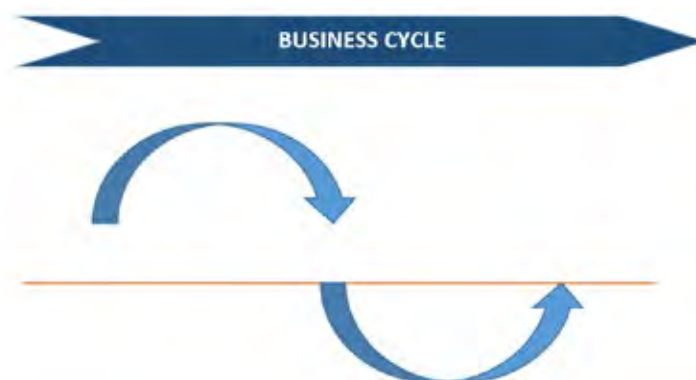
R million	2015	2016	2017	2018
Compensation of employees	1 912 083	2 072 859	2 225 800	2 320 179
Net operating surplus	1 079 222	1 123 567	1 226 323	1 249 182
Consumption of fixed capital	560 416	617 969	638 782	1 249 182
Taxes on production	81 169	85 519	92 072	101 936
Subsidies on production	7 983	8 356	9 653	6 492
Taxes on products	440 102	482 772	497 335	545 558
Subsidies on products	15 126	15 270	17 084	12 951
Extract from KB601				

The value of the GDP at market prices for 2017 is:

- A** R 4 912 784 million                      **B** R 3 795 766 million  
**C** R 4 653 575 million                      **D** R 3 617 796 million
7. What will the change in consumption be in a closed economy with no government if there is an increase in investment of R1 000 000, and the marginal propensity to save (mps) is 0,2?
- A** -R5 000 000      **B** -R500 000      **C** R500 000      **D** R5 000 000
8. What can the government do if the economy starts to show signs of inflation and they want to curb growth in the economy?
- A** Increase both taxes and imports.  
**B** Decrease government expenditure and increase taxes.  
**C** Increase both imports and the consumption of goods and services.  
**D** Decrease taxes and increase government expenditure.

## Business cycles

Study the following representation of the business cycle and answer questions 9 to 15.



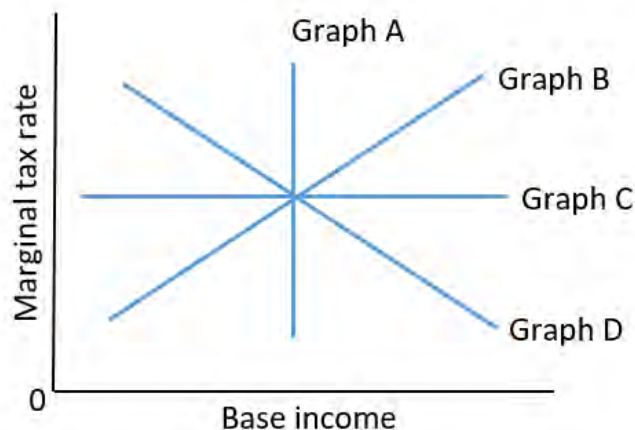
9. The opposite of a trough is the point on a business cycle where:
- A** inflation is at its lowest.  
**B** aggregate demand and cost leads to a decrease in investment.  
**C** aggregate economic activity is decreasing.  
**D** the unemployment rate is at its lowest.
10. The phase between a trough and a peak on a business cycle can best be described as ...
- A** a recovery point.      **B** an expansion phase.      **C** a contraction phase.      **D** an optimal output point.

/2

11. During the recovery phase, the economic growth rate on a year-to-year basis is:
- A** negative, but at an increasing rate.      **B** negative, but at a decreasing rate.  
**C** positive, but at an increasing rate.      **D** positive, but at a decreasing rate.
12. According to www.weforum.org, travel restrictions and quarantines as a result of Covid-19 affected hundreds of millions of people and have left Chinese factories short of labour and parts, disrupting justintime supply chains and triggering sales warnings across various industries. Based on this, which one of the following best explains the reasons for business cycles?
- A** Exogenous reasons    **B** Endogenous reasons    **C** Structural reasons    **D** Monetary reasons
13. The phase of a business cycle that occurs after a trough and when the growth rate is positive can be described as a \_\_\_\_\_ phase.
- A** boom      **B** contraction      **C** recession      **D** depression
14. In an effort to adjust economic growth, the government announces a decrease in taxes. This is an example of a/an:
- A** expansionary fiscal policy.      **B** contractionary fiscal policy.  
**C** expansionary monetary policy.      **D** contractionary monetary policy.
15. Which one of the following changes in aggregate demand and aggregate supply will lead to a decrease in economic growth?
- A** An increase in aggregate demand while aggregate supply remains constant.  
**B** An increase in aggregate supply while aggregate demand remains constant.  
**C** A decrease in aggregate demand and a decrease in aggregate supply.  
**D** An increase in aggregate demand and an increase in aggregate supply.

### The public sector

16. An economist tweets that he expects the inflation rate to increase with 1 percentage point this year, as the inflation rate has increased with 1 percentage point per year for the last 5 years. This is an example of ...
- A** historical models.      **B** econometric models.  
**C** extrapolation.      **D** moving averages.
17. Which graph depicts the South African income tax the best?



- A** Graph A      **B** Graph B      **C** Graph C      **D** Graph D

18. The sluggy snail is a large snail found in the shallow water of the rivers of Imaginary Island. These waters are so shallow, and so clear, that a single person may harvest many sluggy snails in a single day. The sluggy snail can best be described as a ...
- A** common good.    **B** public good.    **C** collective good.    **D** merit good.
19. The following are characteristics of goods:
- (a) These goods have true personal benefit.  
 (b) These goods have a positive externality.  
 (c) People don't realise or ignore the costs of using these goods.  
 (d) These goods have negative externalities.
- Merit goods are best described by:
- A** (a) and (b)    **B** (b) and (c)    **C** (c) and (d)    **D** (a) and (d)
20. Which one of the following is TRUE?
- A** In a free market, there will be overconsumption of merit goods, and underconsumption of demerit goods.  
**B** In a free market, there will be overconsumption of both merit goods and demerit goods.  
**C** In a free market, there will be underconsumption of merit goods and overconsumption of demerit goods.  
**D** In a free market, there will be underconsumption of both merit goods and demerit goods.
21. Which one of the following best describes a negative externality?
- A** A farmer grows orange trees which provide nectar for a nearby beekeeper who gains increased honey as a result of the farmer's orchard.  
**B** Private education ensures that the government saves the cost of a publicly funded school.  
**C** Providing work to previously homeless people helps to reduce the social problem of homelessness.  
**D** Non-organic farmers use fertilisers and pesticides which may cause health problems in the future.
22. The lockdown on social gatherings as a means to curb the spread of Covid-19 is an example of:
- A** increasing the accountability of the public sector.  
**B** managing government spending programmes.  
**C** government regulating economic activities.  
**D** government curbing corruption.
23. In order to overcome negative externalities, the economy needs some form of government intervention. Which one of the following would NOT work?
- A** Taxes can be reduced in order to increase the consumption of goods with negative externalities.  
**B** Subsidies on goods with positive externalities can be increased.  
**C** The government may place regulations which limit the externalities.  
**D** The government could place incentives and make it easier to choose less costly environmental choices.

## Foreign exchange markets

24. Which of the following is a reason not to promote free trade between countries?
- A** Less wastage as surplus raw materials are used.  
**B** Domestic monopolies will face more competition from other countries.  
**C** Structural unemployment may decrease.  
**D** Developing economies may struggle to diversify their economy.

/ 4

25. Jane and Mike are working in Firm A. Jane can make 11 units of product A and 13 units of product B in one hour. Mike can make 10 units of product A and 3 units of product B in one hour. According to the information provided:
- A Jane should produce both products A and B.
  - B Jane and Mike should carry on producing the number of units they are currently producing.
  - C Jane should specialise in product A and Mike should specialise in product B.
  - D Mike should specialise in product A and Jane should specialise in product B.

26. Possible reasons for a current account deficit are:

- (a) Overvalued exchange rates where exports are more expensive, but imports are cheaper.
- (b) High consumer spending leads to an increase in imports.
- (c) Unbalanced economy where the economy focuses on consumer spending rather than investment and exports.
- (d) If there is a decline in relative competitiveness, e.g. rising wage costs, industrial unrest or poor-quality goods, then it is harder to export.

Which of the possibilities are TRUE?

- A (a), (c) and (d)
- B (b) and (d)
- C only (c)
- D (a), (b), (c) and (d)

**On 21 February 2020, 1 South African Rand equalled 0,060 Euro. On 21 March 2020, 1 South African Rand equalled 0,053 Euro. Answer questions 27 and 28 based on these figures.**

27. The Rand \_\_\_\_\_ against the Euro.

- A devaluated
- B revaluated
- C depreciated
- D appreciated

28. On 21 March 2020, imports of €1 000 will ...

- A cost R2 201.25 more.
- B cost R2 201.25 less.
- C cost the same.
- D Impossible to say.

29. In order to reduce a current account deficit, the government needs to intervene.

- (a) Reduce consumer spending.
- (b) Increase consumer spending.
- (c) Supply side policies to improve competitiveness.
- (d) Demand side policies to improve competitiveness.
- (e) Devaluation of the exchange rate.
- (f) Revaluation of the exchange rate.

The best policies to attain the goal of reducing the current account deficit are:

- A (a), (c) and (f)
- B (b), (d) and (e)
- C (b), (d) and (f)
- D (a), (c) and (e)

30. Due to the Covid-19 virus, Country F experiences a decrease in productivity. This will cause the currency of Country F to \_\_\_\_\_ because goods are produced at a \_\_\_\_\_ price.

- A appreciate; lower
- B depreciate; lower
- C appreciate; higher
- D depreciate; higher

# PROVERTO EMS OLYMPIAD 2020 – GRADE 12

## ECONOMICS

### ROUND 2

#### Protectionism and free trade

1. During the lockdown period, international trade was suspended. This is an example of:
  - A regulating national trade.
  - B import substitution.
  - C protection.
  - D export promotion.
  
2. The Bilateral Trade Agreement between South Africa and Zimbabwe was terminated on 20 November 2018. Which one of the following is correct with regards to bilateral trade agreements?
  - A A bilateral trade agreement between two countries eliminates tariffs and other trade taxes charged on a non-partner country.
  - B It gives the partner countries an opportunity to dump products at a price below what it would sell for at home or even its cost to produce in order to obtain market share.
  - C Governments are allowed to subsidise strategic industries, giving them an unfair advantage when exporting to another nation.
  - D The agreement standardises regulations, labour standards and environmental protections, thus reducing the regulations and giving the country's exporters a competitive advantage over its foreign competitors.
  
3. South Africa implemented quotas on imports of selected clothing and textile lines from China at the beginning of 2007. This forms part of:
  - A export promotion.
  - B import substitution.
  - C protection.
  - D free trade.
  
4. What will the benefit be for South Africa if they implement a quota on imports of selected clothing and textile lines from China?
  - A Local producers will get the opportunity to produce goods for international markets.
  - B It will lead to an increase in local jobs.
  - C Lower prices are paid in the local market.
  - D The quality of goods available on local markets will increase.

## The dynamics of imperfect markets

5. Which ONE of the following is the best example of firms in monopolistically competitive markets?
- A The sole general practitioner in a small rural town.
  - B Netflix.
  - C Restaurants in a large shopping mall.
  - D Computer operating systems such as Apple and Windows.

**Study the following table showing the Total Revenue and Total Cost on a strawberry farm, and answer questions 6 to 8.**

Quantity (Q)	Total Revenue (TR)	Total Cost (TC)	Profit	Marginal Revenue (MR)	Marginal Cost (MC)
0	R0	R62	-R62		–
10	R40	R90	-R50	R4.00	R2.80
20	R80	R110	-R30	R4.00	R2.00
30	R120	R126	-R6	R4.00	R1.60
40	R160	R138	R22	R4.00	R1.20
50	R200	R150	R50	R4.00	R1.20
60	R240	R165	R75	R4.00	R1.50
70	R280	R190	R90	R4.00	R2.60
80	R320	R230	R90	R4.00	R4.00
90	R360	R296	R64	R4.00	R6.60
100	R400	R400	R0	R4.00	R10.40
110	R440	R550	R-110	R4.00	R15.00
120	R480	R715	R-235	R4.00	R16.60

6. The maximum profit that the farmer can make from producing strawberries is:
- A R75 when he produces 60 strawberries, as  $MR > MC$ .
  - B R90 when he produces 70 strawberries, as  $MR > MC$ .
  - C R90 when he produces 80 strawberries, as  $MR = MC$ .
  - D R64 when he produces 90 strawberries, as  $MR < MC$ .
7. What will the profit be if the farmer decides not to produce strawberries at all, but he does not exit the market?
- A -R62
  - B -R50
  - C -R30
  - D -R6
8. Assume that the fixed costs of the strawberry farm increases. What would happen to the Total Cost curve?
- A The Total Cost curve would move downwards by the amount of the fixed costs.
  - B The Total Cost curve would shift upwards and become steeper.
  - C The Total Cost curve would maintain its curvature, but would shift up by the amount of the fixed cost.
  - D The Total Cost curve would move downwards, as more output is produced.

9. Which one of the following is NOT a key feature of a monopoly?
- A No close substitute.
  - B Influence over price.
  - C Diseconomies of scale.
  - D Barriers to entry in the market.
10. Firm D is a single-price monopoly and Firm E is a perfectly competitive firm. Firm E will produce:
- A more output and has a higher price.
  - B more output and has a lower price.
  - C less output and has a higher price.
  - D less output and has a lower price.

## Market failures

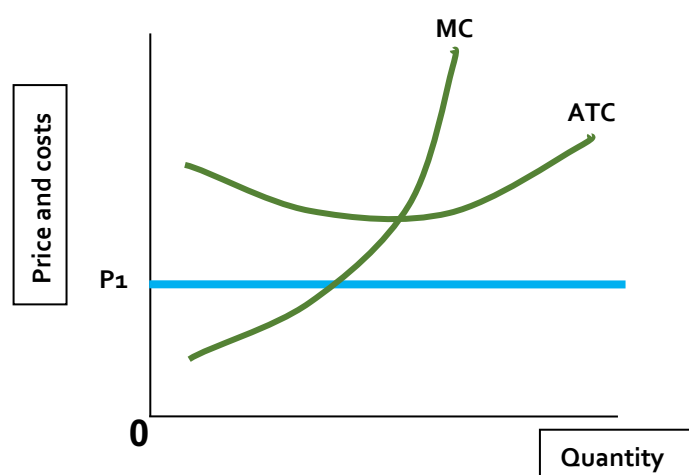
11. Country Y experiences a market failure. This indicates a situation where:
- A markets encourage owners of factors of production to take risks.
  - B sellers are not able to make profits in the market.
  - C the utility that buyers gain in the market is way more than the opportunity costs of buying the goods.
  - D markets fail to allocate the factors of production efficiently to satisfy wants and needs.
12. Which of the following will be regarded as market failures?
- (i) The price of goods increase because there is a shortage of goods.
  - (ii) There is a shortage in the supply of merit goods.
  - (iii) Reducing prices leads to decreasing profits.
  - (iv) Private goods are under-supplied.
  - (v) Property rights are not allocated.
  - (vi) Abuse of monopoly power.
- A (i), (iii) and (iv)
  - B (i), (ii) and (vi)
  - C (iii), (iv) and (v)
  - D (ii), (v) and (vi)
13. Which one of the following reasons is the most accurate explanation of why the government would start to supply a public good in a market economy?
- A The government does not pay custom duties on imported raw materials necessary for producing the public goods.
  - B Governments have full knowledge of all information regarding economies all over the world.
  - C The government can spend taxes to fund the provision of this type of goods.
  - D The chances of a market forming in order to supply these public goods are basically zero.
14. During the Covid-19 epidemic, the public sector provided healthcare to the people. Which of the following is an acknowledged risk associated with the provision of free healthcare by the public sector?
- A They may only use inferior treatments.
  - B If the state provides free healthcare, then private healthcare may not exist.
  - C Doctors in the public sector may not be as educated as doctors in the private sector.
  - D The provision of free healthcare can create moral hazard, as people may take chances during lockdown.



## The dynamics of perfect markets

15. Perfect competition is an industry with:
- A a few firms producing identical goods.
  - B many firms producing goods that differ somewhat.
  - C a few firms producing goods that differ somewhat in quality.
  - D many firms producing identical goods.
16. Farm A and Farm B produce wheat in a perfect market. The demand for wheat from Farm A is perfectly elastic, because wheat from Farm A is:
- A a perfect complement to wheat from Farm B.
  - B a perfect substitute for wheat from Farm B.
  - C a normal good
  - D an inferior good.
17. The market for fish in a fishing village is perfectly competitive. The price elasticity of demand for fish from Fisherman G:
- A is sometimes greater than and sometimes less than the elasticity of demand for fish overall.
  - B is greater than the elasticity of demand for fish overall.
  - C is less than the elasticity of demand for fish overall.
  - D equals the elasticity of demand for fish overall.
18. Economists assume that a perfectly competitive firm's objective is to maximise its:
- A revenue.
  - B economic profit.
  - C output price.
  - D quantity sold.

The following graph shows the marginal cost and the average total cost curves of Firm T.



19. If the price of goods is P1, Firm T is currently:
- A earning a normal profit.
  - B incurring an economic loss.
  - C earning enough revenue to pay all of its opportunity costs.
  - D making an economic profit.

## The circular flow, national aggregates and business cycles

20. The recovery phase of the business cycle usually begins with:
- A low interest rates, and continues with increases in demand and employment, which leads to economic expansion.
  - B high interest rates, and continues with decreases in demand and employment, which leads to economic expansion.
  - C low interest rates, and continues with increases in demand and employment, which leads to economic contraction.
  - D high interest rates, and continues with decreases in demand and employment, which leads to economic contraction.
21. The South African government announced a R500 billion economic support package in order to preserve the economy as a result of the Covid-19 lockdown. According to the Minister of Finance, the third part of the package will see an extensive set of tax relief and support for workers. This forms part of the \_\_\_\_\_ policy of the state.
- A BEE
  - B fiscal
  - C monetary
  - D social
22. If a foreign country invests in South Africa, the investment is seen as a/an \_\_\_\_\_ aggregate demand.
- A injection that decreases
  - B injection that increases
  - C withdrawal that decreases
  - D withdrawal that increases
23. Injections in the economy consist of:
- A exports, government expenditure and investments.
  - B imports, savings and taxes.
  - C exports, investments and savings.
  - D imports, government expenditure and taxes.
24. During the Covid-19 epidemic, Cuban doctors came to assist South Africa. The remuneration paid to them will:
- A have no influence on the national figures of South Africa.
  - B have no influence on the national figures of Cuba.
  - C be added to the GNP of South Africa.
  - D be added to the GNP of Cuba.

## The public sector, foreign exchange market, exchange rates and the balance of payments

25. Which of the following best describes a macro economic issue?
- A The price of Covid-19 test kits.
  - B The wage rate of Cuban doctors imported to help South Africa.
  - C Your decision to go to work or work from home during the lockdown.
  - D The increase in the level of unemployment in South Africa as a result of the slowdown of the economy.

26. Which one of the following can the government not use directly to get the economy back on track after the lockdown?
- A Wage rates of employees in the private sector.
  - B Wage rates of employees in the public sector.
  - C Increase in the investment of state education.
  - D Increase in the subsidies paid to previously disadvantaged citizens.
27. South Africa has a trade deficit. This means that:
- A net exports are negative.
  - B net capital outflow must be positive.
  - C exports exceed imports.
  - D net exports are positive.
28. Which of the following is an example of foreign direct investment?
- A BMW SA buys a computer software programme from India.
  - B Investec purchases shares in a pharmaceutical company in Ireland.
  - C Louis Vuitton opens a shop in Sandton.
  - D South African publisher sells the rights to make a movie of a book to Universal Studios.
29. An appreciation of the Rand is likely to occur if:
- A domestic interest rates fall.
  - B there is an increase in demand for imports.
  - C there is an increase in demand for exports.
  - D there is an increase in the balance of payments deficit.
30. If the South African monetary government wants to prevent the decrease of the external value of the Rand, they should:
- A sell Rands.
  - B decrease interest rates.
  - C purchase Rands.
  - D purchase foreign reserves.

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# MEMORANDUM

	ANSWER
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	LOWER LEVEL
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	MODERATE LEVEL
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	HIGHER LEVEL
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## ROUND ONE: 30 Questions

TOPICS		A	B	C	D
THE CIRCULAR FLOW	1.				
	2.				
	3.				
	4.				
	5.				
	6.				
	7.				
	8.				
BUSINESS CYCLES	9.				
	10.				
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	15.				

TOPICS		A	B	C	D	
THE PUBLIC SECTOR	16.					
	17.					
	18.					
	19.					
	20.					
	21.					
	22.					
	23.					
	FOREIGN EXCHANGE MARKETS	24.				
		25.				
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	ANSWER
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	LOWER LEVEL
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	MODERATE LEVEL
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	HIGHER LEVEL
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## ROUND TWO: 30 Questions

	A	B	C	D
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