

WORKBOOK / ICE TASK → LU1 (CH3)

- ① Which one (1) of the following options represents injections into the circular flow of income and spending? (2)

(LU 1)

- 1.1 Government spending and imports;
- 1.2 Government spending and saving;
- 1.3 **Exports and investment;** (2)
- 1.4 Exports and taxes.

- ② Which one of the following will result in a leakage from the circular flow of income and expenditure in South Africa? (2)

- (a) Defence expenditure by the South African government, via contracts with local military suppliers.
- (b) The sale of export fruit to the European Union.
- (c) A decision by a major supermarket chain to sell Australian beer.
- (d) Investment by South African Breweries in a new brewery.

- ③ Which one of the following statements is correct? (2)

- (a) The three most important flows in the economy are total wages, total investment and total income.
- (b) Investment, saving and government spending are injections into the circular flow of income and spending.
- (c) The term "public sector" includes everything that is owned by the government.
- (d) The South African economy is regarded as a closed economy, because most goods are produced locally.

- ④ List three (3) important leakages (withdrawals) from the circular flow of income and spending. (3)

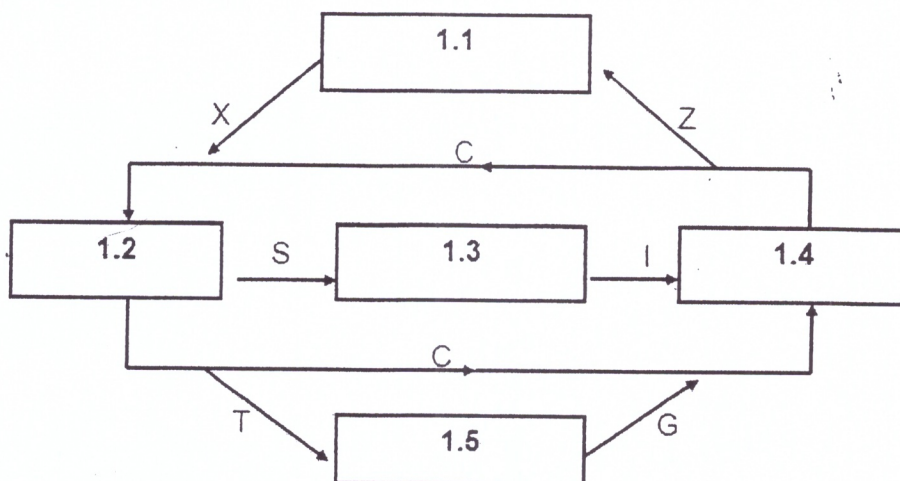
- ⑤ Explain, with the aid of an example, what is meant by "transfer payments" made by the government. (3)

- ⑥ "Aggregate spending on South African goods and services consists of spending by the four (4) sectors". Briefly describe the components of spending which are represented in $C + I + G + X - Z$. (4)

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The diagram below illustrates the major elements of the circular flow of income and spending. List the components numbered 1.1 to 1.5.

(5)



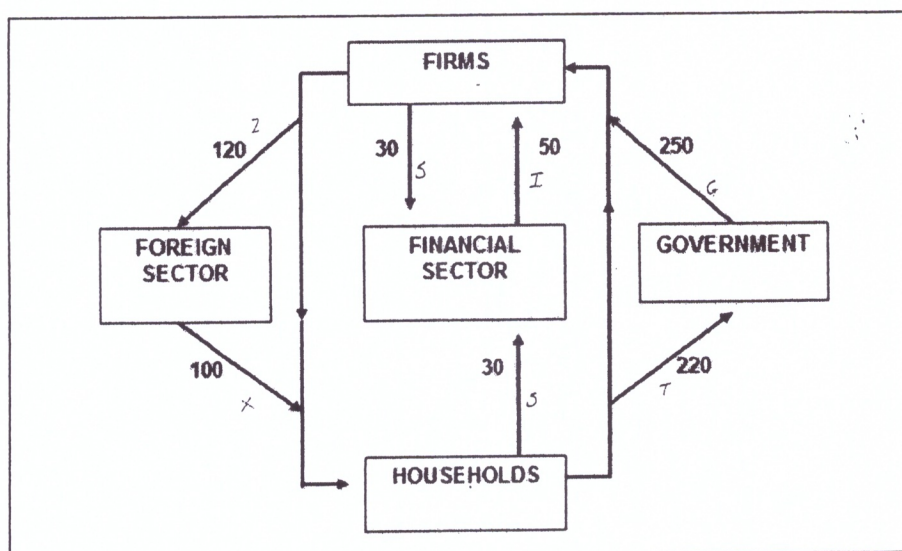
Refer to the diagram in Q.1.1. Is the following statement true or false?

(1)

The flows labelled S and I both represent injections into the circular flow.

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The diagram below depicts monetary flows in an open economy. Study the diagram, and then for questions 1.1 – 1.5, indicate whether each statement is True or False.



(LU 1)

1.1 Tax revenues amount to 220, while government spending amounts to 250.

(1)

True (1)

1.2 Investment spending amounts to a total of 60.

(1)

False (1)

1.3 Exports amount to 120, while imports amount to 100.

(1)

False (1)

1.4 The deficit on the current account amounts to 20.

(1)

True (1)

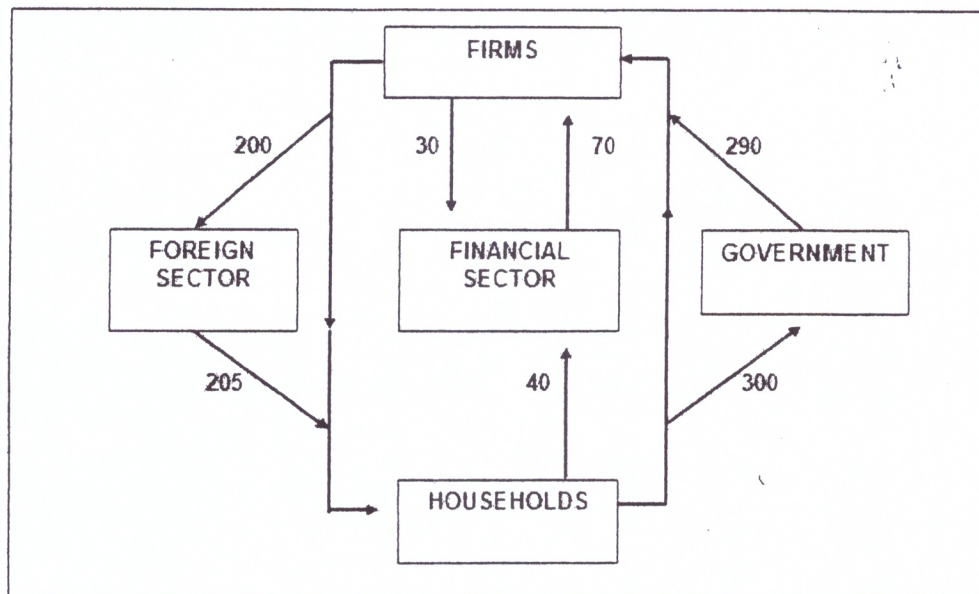
1.5 The budget deficit amounts to 30.

(1)

True (1)

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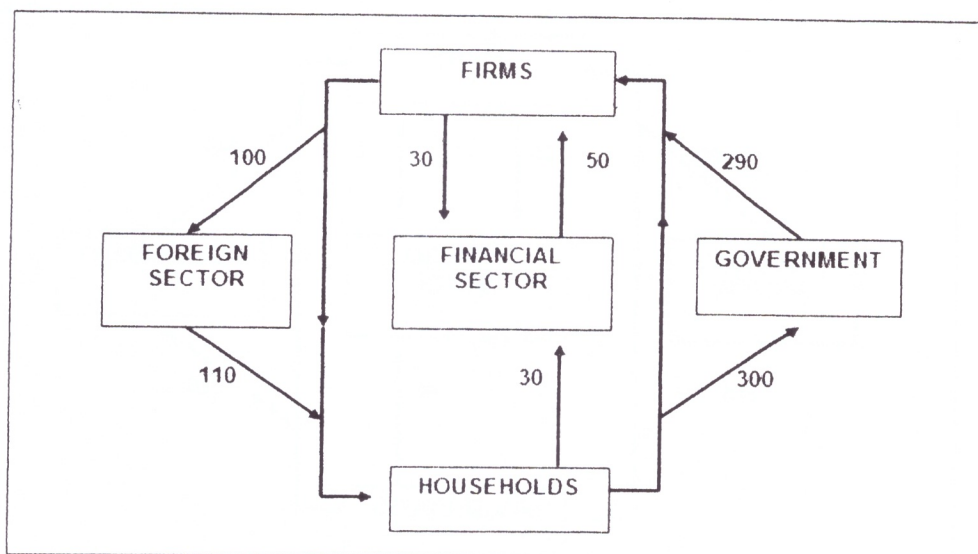
The diagram below depicts monetary flows in an open economy. All the amounts are in rands. Study the diagram, and then for questions Q.1.1 – Q.1.5, indicate whether each statement is True or False.



- Q.1.1 Government's tax revenues amount to R300, while government spending amounts to R290, indicating that there is a budget deficit. (1)
- Q.1.2 The total value of leakages in the circular flow amounts to R570. (1)
- Q.1.3 Exports amount to R200, while imports amount to R205. (1)
- Q.1.4 The deficit on the current account amounts to R5. (1)
- Q.1.5 If consumption spending by households in this economy amounts to R500, then the value of expenditure on GDP amounts to R865. (1)

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The diagram below depicts monetary flows in an open economy. All the amounts are in rands. Study the diagram, and then for questions Q.1.1 –Q.1.5, indicate whether each statement is True or False.



- Q.1.1 The flows to and from government show that the government is applying a contractionary fiscal policy. (1)
- Q.1.2 Saving amounts to a total of R60. (1)
- Q.1.3 Imports amount to R100, while exports amount to R110. (1)
- Q.1.4 The deficit on the current account amounts to R10. (1)
- Q.1.5 If consumption spending by households in this economy amounts to R400, then the value of expenditure on GDP amounts to R750. (1)