Tutorial letter 101/3/2015

Macroeconomics 2

ECS2602

Semesters 1 and 2

Department of Economics

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module.

BAR CODE

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CONTENTS

1 INTRODUCTION AND WELCOME

Dear Student

We are pleased to welcome you to this Macroeconomics module and hope that you will find it both interesting and rewarding. We shall do our best to make your study of this module successful. You will be well on your way to success if you start studying early in the semester and resolve to do the assignments properly.

You will receive a number of tutorial letters during the semester. A tutorial letter is our way of communicating with you about teaching, learning and assessment.

1.1 Tutorial material

The Department of Despatch should supply you with the following study material for this module soon after registration:

- Tutorial Letters 101 and 102
- Tutorial Letter 301
- A study guide
- A CDROM entitled *Macroeconomics*

Some of this study material may not have been available when you registered. Study material that was not available when you registered will be posted to you as soon as possible, but is also available on *my*Unisa. Please contact the Despatch Department at despatch@unisa.ac.za if you did not receive your study material, CDROM or a faulty CDROM.

Note that the 200 series tutorial letters (Tutorial Letters 201, 202, 203 and 204) contain the discussions of the assignments and will therefore only be available after the closing date of the specific assignment.

This Tutorial Letter 101 contains important information about the study programme, resources and assignments for this module. We urge you to read it carefully and to keep it at hand when working through the study material, preparing the assignment(s) and for the examination and addressing questions to your lecturers.

You will also find the assignments, assessment criteria as well as instructions on the preparation and submission of the assignments. This tutorial letter also provides all the information you need with regard to the prescribed study material and other resources and how to obtain it. Please study this information carefully and make sure that you obtain the prescribed material as soon as possible.

We have also included certain general and administrative information about this module. Please study this section of the tutorial letter carefully.

Tutorial Letter 301 contains all the information regarding the contact details of the department and other general information of the department.

Right from the start we would like to point out that you must read all the tutorial letters you receive during the semester immediately and carefully, as they always contain important and, sometimes, urgent information.

1.2 Module format

1.1.2 Fully online module

Please note that this module is offered fully online.

All study material for this module will be available on *my*Unisa. It is thus very important that you register on *my*Unisa at https://my.unisa.ac.za and access the module site on a regular basis. You must be registered on *my*Unisa to be able to access your learning material, submit your assignments, gain access to various learning resources and library functions, "chat" to your lecturer or teaching assistant and fellow students about your studies and the challenges that you might encounter, and to participate in online discussion forums and blogs. Note that *my*Unisa contains the **Learning Units** tool from which you will only be able to access the study guide for this module if you have registered and have access to *my*Unisa.

1.1.2 Printed materials to support the online module

Because we want you to be successful in this online module, we also provide you with the study materials in printed format. This will allow you to read the study materials, even if you are not online. In addition, to Tutorial Letter 101 you will receive a printed copy of the online study guide available on myUnisa (MO001). While the printed material may appear slightly different (the formats differ) from the online study materials, the contents are exactly the same.

Remember, the printed support materials are a back-up to everything that is found online, on *my*Unisa. There is no extra information there**. In other words, you should NOT wait for the printed support materials to arrive to start studying.**

Please consult the *my* Studies @Unisa publication for more information on the activation of your *my*Life email address as well as obtaining access to the *my*Unisa module site.

2 PURPOSE OF AND OUTCOMES FOR THE MODULE

2.1 Purpose

Macroeconomics will be useful to students who intend to follow a career (academic or otherwise) in economic analysis or wish to understand the functioning of the macroeconomic system.

2.2 Outcomes

The main outcomes of this module are the following:

- To describe the determination of the level of output and income in closed and open macroeconomic models
- To assess the impact of stabilisation policy measures such as fiscal and monetary policy on the economy in terms of the above models

More detailed module outcomes can be found at the beginning of each learning unit in the study guide.

3   LECTURERS AND CONTACT DETAILS

3.1   Lecturers

You will find the lecturers responsible for this module contact details in Tutorial Letter 301. You can also contact us by e-mail via *my*Unisa.

All queries that are not of a purely administrative nature **but are about the content of this module** should be directed to us. Please have your study material with you when you contact us.

3.2   Department

The Department of Economics has moved to Hazelwood. The physical address is Club 1 Building, Corner of Dely Road and Pinaster Avenue, Hazelwood, Pretoria.

You can also contact the department's coordinator, Mr Themba Mzangwa at 012 433-4661.

3.3   University

If you need to contact the university about matters not related to the content of this module, please consult the publication: *my Studies @ Unisa* which you received with your study material or visit Unisa website at http://www.unisa.ac.za. The brochure and the website contain information on how to contact the university (e.g. to whom you can write for different queries, important telephone and fax numbers, addresses and details of the times certain facilities are open).

Always have your student number at hand when you contact the university.

4   MODULE RELATED RESOURCES

4.1   Prescribed book

Your prescribed textbook for this module for this year is:

> Blanchard & Johnson. 2014. *Macroeconomics: Global and Southern African Perspectives.* First edition. Pearson.

Please refer to the list of official booksellers and their addresses in *my Studies @ Unisa* brochure.

Prescribed books can be obtained from the University's official booksellers. If you have difficulty locating your book at these booksellers, please contact the Prescribed Book Section at telephone 012 429-4152 or e-mail vospresc@unisa.ac.za

4.2   Recommended books

There are no recommended books for this module.

4.3   Electronic Reserves (e-Reserves)

There are no e-Reserves for this module.

5   STUDENT SUPPORT SERVICES FOR THE MODULE

For information on the various student support systems and services available at Unisa (e.g. student counselling, tutorial support programme and classes, language support), please consult the publication *my Studies @ Unisa* that you received with your study material.

5.1   Contact with fellow students: Study groups

It is advisable to have contact with fellow students. One way to do this is to form study groups. You can get the names of other students in your area for the same modules by contacting the Department of Student Admission and Registration. For further information, please consult the *my Studies @ Unisa* brochure.

5.2   *my*Unisa

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the university. The *my*Unisa learning management system is Unisa's online campus that will help you to communicate with your lecturers, with other students and with the administrative departments of Unisa – all through the computer and the internet.

To go to the *my*Unisa website, start at the main Unisa website, http://www.unisa.ac.za, and then click on "*my*Unisa" link on the top right-hand side of the screen. This should take you to the *my*Unisa website. You can also go there directly by typing in https://my.unisa.ac.za.

Please consult the *my Studies @ Unisa* brochure for more information.

An important resource on the module website on *my*Unisa is the discussion forum. Please make use of it.

We are also in the process of building a module website with additional study material at www.econom.co.za. Please note that information on the CDROM is also available under the mentioned website.

5.3   Discussion classes

There are no discussion classes for this module.

5.4   Tutorial support programme

5.4.1   E-tutors

We aware that studying via distance education poses significant challenges to you and you might often feel alone and lost in the sea of content that you are faced with. You might often feel isolated from us and from other students and not knowing where to start when trying to get help from the institution.

The good news is that we have put together a team of subject specialist e-tutors to help you with the content and to empower you as a student to be successful in your studies. They will be your compass and help steer you in the right direction.

Once you have been registered for this module, you will be allocated to a group of students with whom you will be interacting during the tuition period as well as an e-tutor who will be your tutorial facilitator.

Thereafter you will receive a sms informing you about your group, the name of your e-tutor and instructions on how to log onto myUnisa in order to receive further information on the e-tutoring process. All you need to be able to participate in e-tutoring is a computer with internet connection. If you live close to a Unisa regional Centre or a Telecentre contracted with Unisa, please feel free to visit any of these to access the internet.

Please join and contribute to you e-tutor group as your input is needed to make a success of it.

Note that the contact with your e-tutor is through the discussion forum on the e-tutor website. Go to your e-tutor website and leave a message for your e-tutor. He/she will then respond to your message.

5.4.2 Face-to-face tutors

For this module there are face-to-face tutors allocated and tutorials for these modules take place at the Unisa regional centres. A tutorial is an organised session where students and tutor(s) meet regularly at a common venue and at scheduled times to discuss course material. The main purpose of the tutorial services is to facilitate student learning by developing the student's independent learning skills and assisting students to become motivated and independent learners. Tutorials help the students to develop and enhance their learning experience and academic performance through interaction with the tutor and fellow students. Tutorials are not compulsory. These tutorials are also offered free of charge, however, it is important for you to register at your nearest Unisa Regional Centre to secure attendance of these classes.

6   MODULE-SPECIFIC STUDY PLAN

6.1   Assignments and learning

Assignments are seen as part of the learning material for this module. As you do the assignment, study the texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

Looking at the assessment criteria given for this module, the five assignments will help you to understand what is required of you more clearly.

If you have access to the internet, you can view and download the study guides and tutorial letters for the modules for which you are registered on the university's online campus, *my*Unisa, (under the official study material folder) at https://my.unisa.ac.za.

6.2   General remarks

You will find in your *my Studies @ Unisa* brochure contact details regarding enquiries about assignments (e.g. whether or not the university has received your assignment or the date on which an assignment was returned to you). You might also find information on *my*Unisa. Use your *my Studies @ Unisa* brochure for general time management and planning skills.

6.3   Feedback on assignments

You will receive the correct answers automatically for multiple-choice questions. Assignment 02 (a written assignment) and assignment 05 (a multiple-choice assignment) are self-assessment assignments. Please work thoroughly through the answers we will provide. Compare it with your answers as well. Feedback on assignments **will be sent to all students registered for this module** in a follow-up tutorial letters, and not only to those students who submitted the assignments. The tutorial letter numbers will be 201, 202, 203 and 204. These tutorial letter are also available on the module website on *my*Unisa.

As soon as you have received the feedback, please check your answers. The assignments and the feedback on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

6.4   Learning strategy and proposed study programme

In this module, the emphasis is very much on the development of your understanding of different theories regarding the determination of output and income. Therefore, you will be exposed to a number of different concepts, such as the different assumptions which underlie the theoretical models, the interaction between the various macroeconomic variables, the different analytical tools, and the economic policy implications of each model.

It is important that you have a thorough understanding of the different building blocks of the various models so as to gain a comprehensive picture of how the economy works. Towards the end of the module, this picture will become clearer and logical.

Approach each learning unit in the study guide as follows:

Step 1: First read the learning unit outcomes which will help you to focus on the important aspects and issues in that unit. Work through each section of the study guide together with the relevant chapter in the textbook.
Remember that the study guide serves to assist you to work through the contents of the text book. Make notes or summaries as you go along.

Step 2: Work through all the activities provided in TL 102. You will see that the activities test your understanding of the content and cover a range of the different type of questions that will be examined. You should also check your answers against the solutions provided. If you are not clear on certain concepts or theories, revise them before proceeding to the next study unit.

To help you to work on this module regularly and systematically, we provide a proposed study programme below and five assignments (see section 8.4 of this tutorial letter). The proposed study programme is based on the assumption that first-semester students will commence their studies before or during the last week of January and second-semester students before or during the third week of July. In each semester the period from the last day of registration to the start of the examination consists of only 15 weeks. Hence, it is critical that you should start working as soon as possible and continue to work regularly and systematically throughout the semester.

PROPOSED STUDY PROGRAMME: FIRST SEMESTER

STUDY WEEK	Week starting	LEARNING UNIT(s) or study instruction
1	26 January	1 and 2
2	2 February	2 and 3
3	9 February	**Complete and submit compulsory Assignment 01** *Closing date: 25 February*
4	16 February	4
5	23 February	4 **Complete Assignment 02 It is a self-assessment assignment** **Do not submit Assignment 02**
6	2 March	5 **Complete and submit Assignment 03:** *Closing date: 16 March*
7	9 March	5 and 6
8	16 March	6 and 7
9	23 March	7
10	30 March	**Complete and submit Assignment 04:** *Closing date: 9 April*
11	6 April	8
12	13 April	9
13	20 April	**Complete Assignment 05 It is a self-assessment assignment** **Do not submit Assignment 05**
14	27 April	Prepare for examination
15	4 May	Prepare for examination

PROPOSED STUDY PROGRAMME: SECOND SEMESTER

STUDY WEEK	Week starting	LEARNING UNIT(s) or study instruction
1	13 July	1 and 2
2	20 July	2 and 3
3	27 July	**Complete and submit compulsory Assignment 01** *Closing date: 20 August*
4	3 August	4
5	10 August	4 **Complete Assignment 02 It is a self-assessment assignment** **Do not submit Assignment 02**
6	17 August	5 **Complete and submit Assignment 03:** *Closing date: 3 September*
7	24 August	5 and 6
8	31 August	6 and 7
9	7 September	7
10	14 September	**Complete and submit Assignment 04:** *Closing date: 30 September*
11	21 September	8
12	28 September	9
13	5 October	**Complete Assignment 05 It is a self-assessment assignment** **Do not submit Assignment 05**
14	12 October	Prepare for examination

7 PRACTICAL WORK AND WORK INTEGRATED LEARNING

There are no practicals for this module.

8 ASSESSMENT

8.1 Assessment plan

Assessment will be done by the module leader and, where applicable, the module team and/or the examiner(s). The name(s) of examiner(s) will also be indicated on examination question papers.

8.1.1 Assessment of assignments

Assessment criteria used for the assignments will done as follows: the multiple-choice questions in Assignments 01, 03 and 04 will be marked electronically in accordance with mark-reading 'masters' provided to the Assignment section by the module leader. No marks will be deducted for incorrect answers. Assignment 02 is a written self-assessment assignment and Assignment 05 a multiple-choice self-assessment assignment.

Note that assignment 01 is compulsory. The first assignment will contribute 30% to the semester mark, the third assignment 40% and the fourth assignment 30%.

Please note: **Although students may work together when preparing assignments, each student must submit his or her own individual assignment. Any form of plagiarism may lead to penalisation or you may be subjected to disciplinary proceedings by the university.**

8.1.2 Assessment of examination

For general information and requirements as far as examinations are concerned, see the brochure *my Studies @ Unisa* which you received with your study material. Please note that the applications for, and the administration of re-marks of examination scripts are handled solely by the Examination department and not academic departments.

Examination admission

Please note that submission of Assignment 01 is compulsory to gain admission to the examination. Three assignments will contribute towards the semester and final marks.

How will this work in practice?

Semester mark

Your semester mark is based on your assignment marks. The three assignments that you submit during the semester contribute towards your semester mark. Different weights are allocated to the assignments. The first assignment contributes 30%, the third assignment 40% and the fourth assignment 30% to your semester mark.

If an assignment is not submitted or submitted late (for whatever reason), zero marks are awarded for such assignment.

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The examination mark

The percentage achieved in the examination is used in the calculation of your final mark.

Final mark

The weight of the assignments will be 20% while the examination's weight is 80%.

Your final mark is calculated as follows:

Semester mark (out 100) x 20% + Examination mark (out 100) x 80%

For example:

Suppose your semester mark is 46% and you get 60% in the examination. Your final mark will be:

    (46 x 20%) + (60 x 80%)
= (46 x 0.2) + (60 x 0.8)
= 9.2 + 48
= 57.2%

The sub-minimum rule: if you do not achieve a minimum mark of 40% in the summative assessment, your year mark will not be taken into account for the purpose of calculating the final examination mark.

8.2   General assignment numbers

Assignments are numbered consecutively per module, starting from 01. In this module there are five assignments per semester, namely 01, 02, 03, 04 and 05.

8.2.1 Unique assignment numbers

In addition to the general assignment number (e.g. 01 or 02), each assignment (multiple-choice questions and written assignments) must have its own unique assignment number (e.g. 102717). In this module assignments 01, 03 and 04 consist of only multiple-choice questions and therefore must be completed on a marking-reading sheet with an own unique assignment number. Assignment 02 and 05 are self-assessment assignments that must not be submitted and have therefore no unique assignment numbers.

8.2.2 Due dates of assignments

Please note that the due dates for the submission of assignments to Unisa are indicated in the proposed study programme as well.

The last fifteen questions of Assignment 01 and 04 are designed to obtain information required for the compilation of a student profile for this module. Your kind cooperation is requested, as this information assists the department in its ongoing efforts to ensure quality tuition. Your marks for this assignment will be based on your answers to content questions.

SEMESTER 1: ASSIGNMENT SUBMISSION DATES

Assignment number	Unique number	Closing date	Contents of assignments	Type of assignment	Weight
01	656714	2015/02/25	Learning units 1 to 3	Multiple-choice	30
02	No unique number	Self-assessment Please do not submit	Learning units 1 to 4	Written	0
03	656800	2015/03/16	Learning units 1 to 4	Multiple-choice	40
04	656870	2015/04/09	Learning units 5 to 7	Multiple-choice	30
05	No unique number	Self-assessment Please do not submit	Learning units 8 to 9	Multiple-choice	0

SEMESTER 2: ASSIGNMENT SUBMISSION DATES

Assignment number	Unique number	Closing date	Contents of assignments	Type of assignment	Weight
01	656933	2015/08/20	Learning units 1 to 3	Multiple-choice	30
02	No unique number	Self-assessment Please do not submit	Learning units 1 to 4	Written	0
03	568210	2015/09/03	Learning units 1 to 4	Multiple-choice	40
04	568311	2015/09/30	Learning units 5 to 7	Multiple-choice	30
05	No unique number	Self-assessment Please do not submit	Learning units 8 to 9	Multiple-choice	0

8.3   Submission of assignments

You may submit written assignments and assignments completed on mark-reading sheets either by post or electronically via *my*Unisa. **Assignments may not be submitted by fax or e-mail**.

For detailed information on assignments, please refer to the *my Studies @ Unisa* brochure.

To submit an assignment via *my*Unisa:

- Go to *my*Unisa.
- Log in with your student number and password.
- Select the module.
- Click on "Assignments" in the menu on the left-hand side of the screen.
- Click on the assignment number you wish to submit.
- Follow the instructions.

If you experience any problems submitting your assignment electronically via *my*Unisa, please send an e-mail to myUnisaHelp@unisa.ac.za – with your student number in the subject line.

8.4 Assignments

> **SEMESTER 1**
>
> **COMPULSORY ASSIGNMENT 01**
>
> **LEARNING UNITS 1 TO 3**
>
> **DUE DATE: 25/02/2015**
>
> **UNIQUE NUMBER: 656714**

This assignment contributes 30% towards your semester mark.

Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

1. Microeconomics studies ____ while macroeconomics studies ____

   1. businesses;   people.
   2. what is happening in the economy currently;   what happened in the past.
   3. the performance of the private sector;   the performance of the government.
   4. the overall price level;   price determination in a single industry.
   5. individual decision makers;   economy's overall performance.

2. Which of the following statements is/are correct?

   a. In this module we only study the demand side of the economy which includes the goods market and the financial market. The labour market form part of the supply side analysis and are therefore excluded from this module.
   b. The two most important accounts of the balance of payments are the current account and the financial account.
   c. If total nominal output increase with 2% during a specific year and the general price level increases with 4% the real GDP will decrease and the nominal GDP will increase.

   1. a, b and c
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. Only b

3. Gross domestic expenditure (GDE), which is the total value of spending on final goods and services within the borders of a country …

   1. includes both imports and exports.
   2. excludes both imports and exports.
   3. includes imports but excludes exports.
   4. excludes imports but includes exports.

Question 4 is based on the following diagrams. Consider the consumption functions of country A and country B.

Country A	Country B
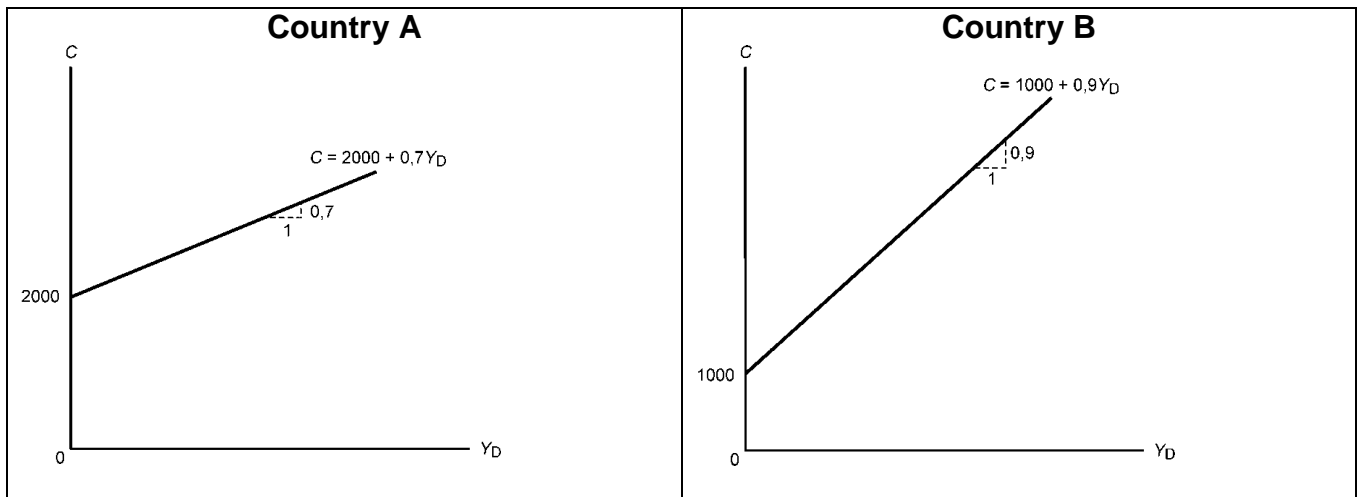
4.   Which of the following statements is/are correct?

a.   The consumption function for country A is: $C = 2\,000 + 0.7Y_D$.
b.   The consumption function for country B is: $C = 1\,000 + 0.9Y_D$.
c.   In country A autonomous consumption is higher than in country B.
d.   In country B induced consumption is definitely higher than in country A if the level of disposable income is R5 000.
e.   If the level of disposable income is R5 000 in both countries then consumption spending in country B is higher.

1.   a, b, c, d and e
2.   Only a, b, c and d
3.   Only b, c, d and e
4.   Only a, b, d and e
5.   None of the options 1 to 4

5.   Which of the following statements with regards to the following consumption function $C = c_0 + cY_D$ is/are correct?

a.   A change in the marginal propensity to consume will result in a change in income.
b.   If autonomous consumption should be zero consumption will be equal to cY_D.
c.   A change in autonomous consumption will cause a change in marginal propensity to consume.

1.   a, b and c
2.   Only a and b
3.   Only a and c
4.   Only b and c
5.   Only b

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6. When an economist refers to investment, he or she usually means …

1. financial investment, in other words, investment in shares and other financial instruments.
2. financial investment, in other words, spending on additions to the capital stock, such as machinery and structures.
3. real investment, in other words, investment in shares and other financial instruments.
4. real investment, in other words, spending on additions to the capital stock, such as machinery and structures.

Questions 7 to 9 are based on the following goods market model:
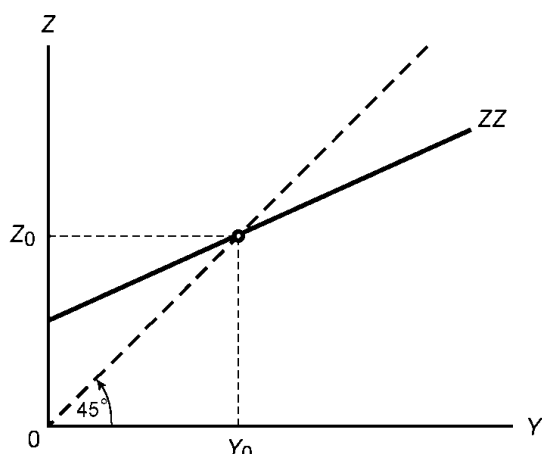
7. In the goods market model a decrease in taxes will result in …

a. a downward shift of the ZZ curve.
b. an increase in autonomous consumption.
c. an increase in disposable income.
d. an increase in income.
e. a decrease in induced consumption.

1. a, b, c and d
2. Only a, b and d
3. b, c and e
4. Only a, c and d
5. Only c and d

8. Which of the following are correct in terms of the goods market model?

a. $G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow Y_D\uparrow \rightarrow C\uparrow$
b. $I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow Y_D\uparrow \rightarrow C\uparrow$
c. $T\downarrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow Y_D\uparrow \rightarrow C\uparrow$
d. $c_0\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow Y_D\uparrow \rightarrow C\uparrow$
e. The ZZ curve will shift upwards if autonomous spending increases.

1. a, b, c, d and e
2. Only a, b and c
3. Only a, b, d and e
4. Only b, c and d
5. Only a, c and d

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9.   Which of the following are correct in terms of the goods market model?

   a.   Autonomous consumption is represented by $c_0 + \bar{I} + G - cT$.
   b.   Induced consumption is presented by cY_D.
   c.   The demand for goods determines the amount of goods that producers produce and they will only change their production if the demand for goods changes.
   d.   Equilibrium is presented by $Y = c_0 + c(Y-T) + \bar{I} + G$.

   1.   a, b, c and d
   2.   Only a, b and d
   3.   Only b, c and d
   4.   Only a, b and c
   5.   Only a, c and d

Questions 10 to 18 are based on the following data for the country BONANZA for 2013.

Marginal propensity to consume	= 0.5
Autonomous consumption	= R600 million
Investment spending	= R40 million
Government spending	= R280 million
Taxes	= R300 million

10.   It is clear from the data that …

   a.   the country Bonanza has a relatively small private sector and a large government sector.
   b.   the citizens of Bonanza has higher marginal propensity to save than to consume.
   c.   the country Bonanza has a high budget deficit.
   d.   the citizens of Bonanza has other means of income apart for the income derived from taking part in the production of domestic goods and services.

   1.   b, c and d
   2.   a, b and c
   3.   a, c and d
   4.   Only a and d
   5.   Only a

11.   Which one of the following good market models represent the data given for country Bonanza:

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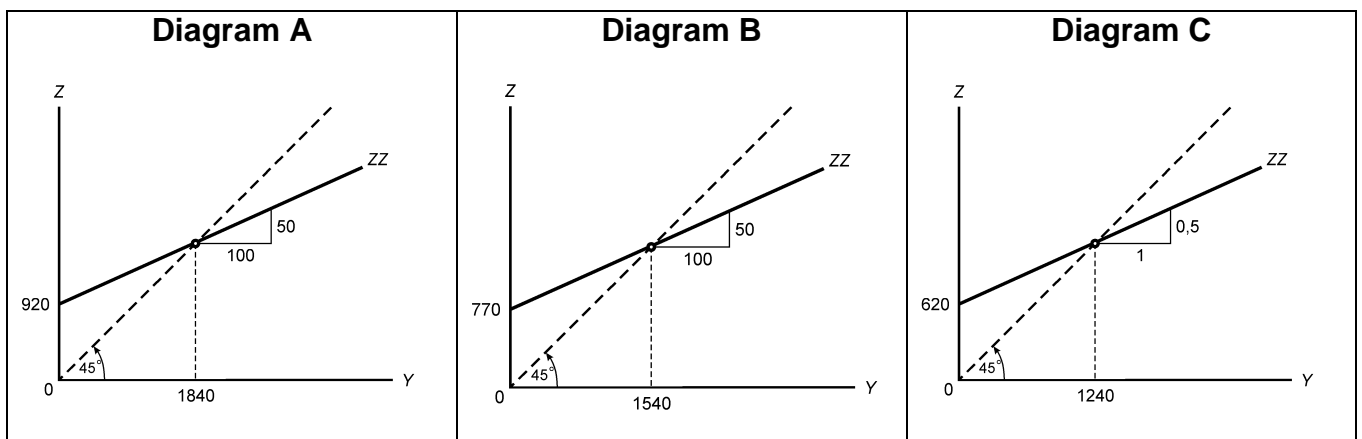
1. Diagram A
2. Diagram B
3. Diagram C

12. Which of the following statements are correct?

    a. The value of the multiplier is equal to 2.
    b. The budget surplus is R20 million.
    c. The equilibrium level of output and income is R1 540 million.
    d. Total consumption at equilibrium is R1 220 million.

    1. Only a, b and c
    2. Only a, b and d
    3. Only b, c and d
    4. Only a, c and d
    5. a, b, c and d

13. An economist Dr Kumalo calculated that the gap between the current level of output and income and the full employment level of income is R110 million.

    Which of the following will ensure that the full employment level is reached?

    a. An increase in government spending of R80 million which will result in a budget deficit of R10 million.
    b. A decrease in taxation of R160 million which will result in a budget deficit of R90 million.
    c. An increase in government spending of R40 million and a decrease in taxation of R80 million which will result in a budget deficit of R50 million.
    d. An increase in government spending of R55 million which will result in a budget deficit of R35 million.

    1. Only a
    2. Only b
    3. Only c
    4. Only d
    5. None of the options 1 to 4

14. The President of the country Mr Benefit is not interested in full employment. He is only interested to win the general elections during the current fiscal year and decided to cut taxes by R150 million.

    By how much will the level of output and income increases if taxes are cut by R150 million?

    1. R300 million.
    2. R150 million.
    3. R75 million.
    4. R50 million.

15. Mr Benefit then realised that the country cannot afford an increase in the budget deficit due to its inability to raise loans to finance the budget deficit. He decided to keep the tax cuts at a R150 million and a budget surplus of R20 million.
To ensure a budget surplus of R20 million the government will have to ...

    1. cut government spending by R80 million.
    2. cut government spending by R75 million.
    3. cut government spending by R150 million.
    4. increase government spending by R100 million.

16. The end result of the actions by Mr Benefit is that the level of output and income will …

    1. increase by R150 million.
    2. increase by R300 million.
    3. be unchanged.
    4. decrease by R300 million.
    5. decrease by R150 million.

17. After these actions the gap between the equilibrium level of output and income and the full employment level of income (as calculated by Dr Kumalo) will be …

    1. R280 million.
    2. R110 million.
    3. R0.
    4. R260 million.

18. If Mr Benefit has decided to increase government spending by 200 and increase taxes by 240 the level of output and income would have ...

    1. decreased by 200.
    2. increased by 160.
    3. decreased by 160.
    4. increased by 40.
    5. increased by 240.

Questions 19 to 30 are based on the following approximate figures for Country ABC's economy in 2013:

Investment spending	= R358 000 million
Government spending	= R383 000 million
Real GDP	= R1 835 000 million
Estimated population	= 50 million
Labour force	= 20 million
Unemployment rate	= 25%
Budget deficit	= R142 000 million
Government debt	= R822 400 million
Marginal propensity to consume	= 0.33
Multiplier	= 1.5

20

19. It is clear from the data for Country ABC …

a. that it has an unemployment problem.
b. that investment spending as a percentage of real GDP is greater than government spending as a percentage of real GDP.
c. the budget deficit as a percentage of real GDP is more than 6%.
d. government debt as a percentage of real GDP is more than 30%.

   1. a, b, c and d
   2. Only a, c and d
   3. Only b, c and d
   4. Only c and d
   5. Only b and d

20. Which one of the following goods market models represent the data given for country ABC's economy:

Diagram A	Diagram B	Diagram C
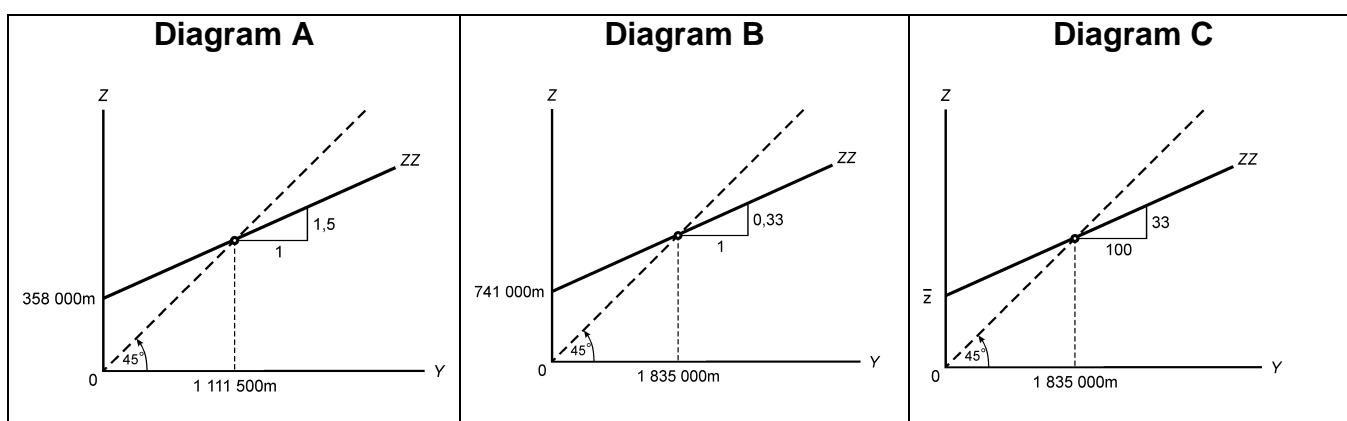
   1. Diagram A
   2. Diagram B
   3. Diagram C

21. Given the structural constraints of Country ABC's economy the central bank of the country and the World Bank estimated that the potential growth rate for Country ABC is 3.5%. Given a real GDP for Country ABC of R1 835 000 million in 2013 by how much should real GDP have to increase to achieve an economic growth rate of 3.5%?

   1. R64 225 000 million.
   2. R1 835 000 million.
   3. R1 899 225 million.
   4. R524 285 million
   5. R64 225 million.

22. Assuming a multiplier of 1.5 by how much should autonomous spending in Country ABC's economy increase to achieve a growth rate of 3.5%?

   1. R64 225 million.
   2. R42 817 million.
   3. R1 223 333 million.
   4. R524 285 million.
   5. R1 835 000 million.

23. If this economic growth rate of 3.5% is to be achieved through an increase in government spending by how much should government spending increase?

    1.   R64 225 million.
    2.   R42 817 million.
    3.   R1 223 333 million.
    4.   R524 285 million.
    5.   R1 835 000 million.

Questions 24 to 26 are based on the following additional information:

Assuming that the tax revenue stays the same and government spending increases to achieve a 3.5% growth rate.

24. What impact will it have on the budget deficit?

    1.   It will increase the budget deficit by R42 817 million.
    2.   It will increase the budget deficit by R64 225 million.
    3.   It will increase the budget deficit by R524 285 million.
    4.   It will decrease the budget deficit by R64 225 million.
    5.   It will decrease the budget deficit by R42 817 million.

25. What is the percentage change in the budget deficit?

    1.   It will increase the budget deficit by approximately 45%.
    2.   It will increase the budget deficit by approximately 30%.
    3.   It will increase the budget deficit by approximately 36%
    4.   It will decrease the budget deficit by approximately 45%.
    5.   It will decrease the budget deficit by approximately 30%.

26. The government debt will...

    1.   be unchanged at R822 400 million.
    2.   increase to R886 625 million.
    3.   decline with R42 817 million.
    4.   increase to R865 217 million.

27. If the 3.5% growth rate is to be achieved by a change in taxation what should happen to taxation?

    1.   Taxes should be cut by R64 225 million.
    2.   Taxes should be cut by R42 817 million.
    3.   Taxes should be cut by R129 749 million.
    4.   Taxes should be increased by R64 225 million.
    5.   Taxes should be increased by R42 817 million.

28. If the change in the budget deficit is unacceptable which other component of expenditure might cause an increase in output and income?

    a.   Autonomous consumption expenditure.
    b.   Investment expenditure.
    c.   Imports.

22

1. a, b and c
2. Only b and c
3. Only a and c
4. Only a and b
5. None of the options 1 to 4

29. How many people were unemployed in Country ABC in 2013?

   1. 30 million.
   2. 12.5 million.
   3. 5 million.
   4. 20 million.

30. Assuming that the output per worker is R122 000 and for every additional worker employed output will increase with R122 000 (in other words, constant returns apply). By how much will employment increase if the economy grows at 3.5%?

   1. 950 555
   2. 350 787
   3. 250 643
   4. 526 434

31. Which of the following statements regarding Country ABC is correct?

   a. An economic growth of 3.5% is not sufficient to solve the unemployment problem.
   b. If an economic growth of 3.5% is to be achieved through an increase in government spending and a decrease in taxation it will leave country with a very high budget deficit and government debt.
   c. To solve the unemployment problem through an increase in spending requires an increase in both investment spending and government spending if a high budget deficit is unacceptable.

   1. a, b and c
   2. Only b and c
   3. Only a and c
   4. Only a and b
   5. Only c

32. Which of the following statements regarding the South Africa economy is/are correct?

   a. South Africa has a serious unemployment problem.
   b. South Africa needs and economic growth rate of more than 3.5% to solve its unemployment problem.
   c. It is possible to solve the unemployment problem in South Africa through an increase in government spending and/or a decrease in taxation.
   d. To solve the unemployment problem in South Africa more then in spending is needed.

   1. Only a, b and c
   2. Only a, b and d
   3. Only b, c and d
   4. Only a and d
   5. a, b, c and d

33. Which of the following statements is/are correct?

   a. An increase in government spending and/or a decrease in taxes can decrease cyclical unemployment.
   b. A decrease in taxes in order to decrease unemployment will be as effective in a capital-intensive economy as in a labour-intensive economy.
   c. An expansionary fiscal policy is a mean to increase production, income and employment. However, high imports, crowding out of private investment and a too high budget deficit are all constraints to the effectiveness of this expansionary fiscal policy to increase output.

   1. a, b and c
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. None of the options 1 to 4

34. Which of the following statements is/are correct?

   a. The liquidity preference theory of money refers to the demand for active and passive balances which are determined by the need to do transactions and the need to keep wealth in the form of money.
   b. If bonds were to pay a high interest, market participants would want to hold as little passive money as possible.
   c. If the interest rate drops from 20% to 2% market participants will tend to sell their bonds and to keep more of their wealth in the form of money.

   1. a, b and c
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. Only a

Questions 35 to 39 are based on the following financial market diagram:
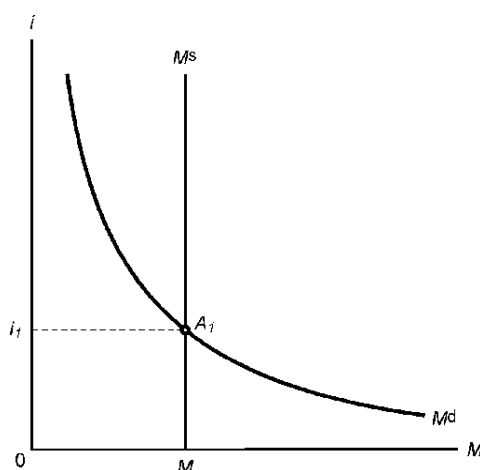
35. Which of the following statements is/are correct?

    a.   On the financial market an increase in income will increase the interest rate.
    b.   Expansionary monetary policy will increase the supply of bonds and the price of bonds will decrease.
    c.   Exogenously determined money supply implies that as the money supply increases the interest rate will also increase.

    1.   Only a
    2.   Only b
    3.   Only c
    4.   a and b
    5.   Not a, b or c

36. Which of the following statements is/are correct?

    a.   An increase in income shifts the demand for money curve to the right.
    b.   An increase in the interest rate is represented by an upward movement along the demand for money curve.
    c.   The money supply is determined by the central bank and is represented by a horizontal line, because it is not a function of the interest rate.

    1.   a, b and c
    2.   Only a and c
    3.   Only a and b
    4.   Only b and c
    5.   Only a

37. Which of the following is/are correct regarding the financial market?

    a.   If the equilibrium interest rate is 6% then there will be an excess supply of money at 10% and an excess demand for money at 3%.
    b.   An increase in income will cause an excess demand for money which will cause the interest rate to increase.
    c.   An increase in the money supply will shift the demand for money curve to the right.

    1.   Only a
    2.   Only b
    3.   Only c
    4.   a and b
    5.   b and c

38. Which of the following is/are correct regarding the financial market?

    a.   A rising interest rate can be offset by an increase in the money supply.
    b.   A rising interest rate can be offset by contractionary monetary policy.
    c.   A rising interest rate can be offset by an increase in the supply of treasury bills by the central bank.
    d.   The rate of return in the market determines the price paid for treasury bills.

1. Only d
2. Only c
3. Only b
4. Only a
5. a and d

39. Which of the following is/are correct regarding the financial market?

   a. There is a negative relationship between the price of a treasury bill and the interest rate.
   b. There is an inverse relationship between the price of a treasury bill and the interest rate.
   c. If the price of a treasury bill is R9 700 and the rate of return is 3%, the rate of return will be lower than 3% if the price of the treasury bill increases to R9 800.

   1. Only a
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. a, b and c

40. Which of the following are correct in terms of the events chain: $D_B\uparrow \rightarrow P_B\uparrow \rightarrow i\downarrow$?

   a. The events chain applies to the financial market.
   b. The events chain is part of an expansionary monetary policy.
   c. The events chain is part of an expansionary open market operations.
   d. The events chain shows what happens if the central bank buys treasury bills.

   1. Only a, b and c
   2. Only a, b and d
   3. Only b, c and d
   4. Only a, c and d
   5. a, b, c and d

41. Which of the following is/are correct in terms of the events chain: $Y\downarrow \rightarrow M^d\downarrow \rightarrow P_B\uparrow \rightarrow i\downarrow$?

   a. The events chain applies to the financial market.
   b. The events chain illustrates the impact of a decrease in income on the goods market.
   c. The events chain illustrates what happens to the interest rate if market participants sell more bonds.

   1. Not a, b or c
   2. Only a
   3. Only b
   4. Only c
   5. a and c

42. Assuming that the face value of the treasury bill is R250 000 and the date to maturity is one year. Which of the following statements is/are correct?
   (The rate of return is rounded off to one decimal point.)

   a. If the price paid for the treasury bill is R245 000 the rate of return is 2.0%.
   b. If the price paid for the treasury bill is R243 000 the rate of return is 2.9%.
   c. If the price paid for the treasury bill is R242 750 the rate of return is 3.0%.
   d. If the price paid for the treasury bill is R210 000 the rate of return is 19.0%.

26

1. Only a, b and c
2. Only a, b and d
3. Only b, c and d
4. Only a, c and d
5. a, b, c and d

43. Which of the following statements is/are correct?

    a. A decrease in income with a simultaneous increase in the money supply shifts the demand for money curve to the left and the money supply curve to the right. The equilibrium interest rate is lower.
    b. An increase in income with a simultaneous selling of treasury bills by the central bank shifts the demand for money curve to the right and the money supply curve to the left. The equilibrium interest rate is higher.
    c. An increase in income with simultaneous expansionary open market operations by the central bank shifts the demand for money curve to the right and the money supply curve to the left. The equilibrium interest rate is definitely higher.

    1. a, b and c
    2. Only b and c
    3. Only a and c
    4. Only a and b
    5. Only b

44. If the financial market is in a liquidity trap it implies that …

    a. the return on holding bonds is extremely high.
    b. there is a high demand for money
    c. there is a high demand for bonds
    d. the return on holding money is zero
    e. the return on holding bonds is extremely low

    1. a, b and d
    2. c and e
    3. a and c
    4. b, d and e
    5. Only b and e

45. If the financial market is in a liquidity trap ...

    a. a decrease in the interest rate can be brought about by buying of bonds by the central bank.
    b. financial money market participants will buy bonds if the money supply is increased
    c. financial money market participants will keep money if the money supply is increased.
    d. monetary policy is ineffective in bringing about a decrease in the interest rate.

    1. c and d
    2. a, c and d
    3. a, b and d
    4. Only c
    5. Only d

The following questions are for information purposes and does not count any marks.

46. How do you usually access the internet for studying purposes?

    1. Laptop
    2. Computer
    3. Smart phone
    4. Tablet
    5. I do not have access.

47. Where do you usually access the internet for studying purposes?

    1. From work.
    2. From home.
    3. Some one else's home.
    4. Unisa computer laboratory.
    5. Other.

48. How much of you data bundle per month do you have available for studying purposes?

    1. I have unlimited access to the internet.
    2. Less than 500 MB.
    3. Between 500MB and 1GB.
    4. Between 1GB and 2GB.
    5. More than 2GB.

49. Which one of the following best describes your experience using the CDROM?

    1. I find it extremely helpful.
    2. I find it fairly helpful.
    3. I find it helpful.
    4. I did not find it very helpful.
    5. I did not use it at all.

50. Did you make use of the econom.co.za website to study for the module?

    1. Yes.
    2. No, because I did not know about it.
    3. No, because I have not sufficient access to the WWW.
    4. No, because the printed study material was sufficient for me to understand the work.
    5. No, because I did not have the time to use it.

51. Did you make use of video clips on *You Tube*?

    1. No, because I do not have access to the internet.
    2. No, because I do not have sufficient broadband access to the WWW.
    3. No, because I was unable to download and view the video clips.
    4. Yes.

52. Did you make use of other resources on the WWW apart for *my*Unisa?

   1. Yes.
   2. No, because I do not have access to the internet.
   3. No, because of the cost of using the internet.
   4. No, because the printed study material was sufficient for me to understand the work.
   5. No, because I did not have the time to do it.

53. If you have made use of the CDROM, econom.co.za website and video clips which one did you find the most useful in your studies?

   1. The CDROM.
   2. The econom.co.za website.
   3. The video clips.
   4. Not applicable since I did not use all of them.

54. Which one of the following best describes your use of the module web site on *my*Unisa?

   1. I did not visit it at all.
   2. I only visited it once or twice.
   3. I visited it occasionally.
   4. I visited it regularly.
   5. I visited it extensively.

55. Which one of the following best describes your use of the e-tutor site on *my*Unisa?

   1. I did not visit it at all.
   2. I only visited it once or twice.
   3. I visited it occasionally.
   4. I visited it regularly.
   5. I visited it extensively.

56. Which one of the following best describes your experience with the services of the e-tutor?

   1. I find it extremely helpful.
   2. I find it fairly helpful.
   3. I find it helpful.
   4. I did not find it very helpful.
   5. I did not find it helpful at all.

57. If you compare the volume of work for this module with your other modules would you say that it is less, more or the same as you other modules?

   1. The same
   2. More
   3. Less

58. Which one best describes the life cycle you are in?

    1.   Single living with my parents or other family.
    2.   Independent single living on my own or sharing with others.
    3.   Young family.
    4.   Mature family.
    5.   Single parent family.

59. How did you pay for your studies?

    1.   A loan from a bank.
    2.   An Eduloan.
    3.   My parents or other family members paid for my studies.
    4.   My employer paid from my studies.
    5.   I paid for my studies.

60. Have you studied at any other higher education institution (college or university)?

    1.   Yes
    2.   No

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SEMESTER 1

WRITTEN ASSIGNMENT 02

LEARNING UNITS 1 TO 4

SELF-ASSESSMENT ASSIGNMENT

DO NOT SUBMIT THIS ASSIGNMENT

</div>

HINT: Align the length of your answers to the marks indicated. Do not submit your answers. Assess or mark your answers once you have received Tutorial Letter 202.

Question 1 (5 marks)
The IS-LM model is a simplification of the interrelationship between selected economic variables. The model consists of a number of endogenous variables (those variables whose values are determined inside the model) and a number of exogenous variables (those variables whose values are determined outside the model).

List the various endogenous and exogenous variables in the IS-LM model.

Question 2 (6 marks)
Explain why investment spending is a negative function of the interest rate and a positive function of the level of output and income and name two determinants of autonomous investment in South Africa.

Question 3 (6 marks)
Use the following information to derive an IS curve:
● A decrease in the interest rate from 6% to 4% increases investment spending by 200.
● Autonomous spending before the decrease in the interest rate is 800.
● The multiplier is 5.

Question 4 (6 marks)
Derive the LM curve by assuming that the level of output and income decreases.

Question 5 (6 marks)
Critically discuss the following statement:

The more sensitive investment spending is for a change in the interest rate and the less sensitive it is for a change in the level of output and income the greater the impact of an expansionary fiscal policy on the level of output and income.

Question 6 (8 marks)
Use the IS-LM model to identify the variables that will have an impact on the effectiveness of an expansionary fiscal policy to increase the level of output and income and explain how these variables influence the effectiveness of fiscal policy.

Question 7 (8 marks)

Use the IS-LM model to identify the variables that will have an impact on the effectiveness of an expansionary monetary policy to increase the level of output and income and explain how these variables influence the effectiveness of monetary policy.
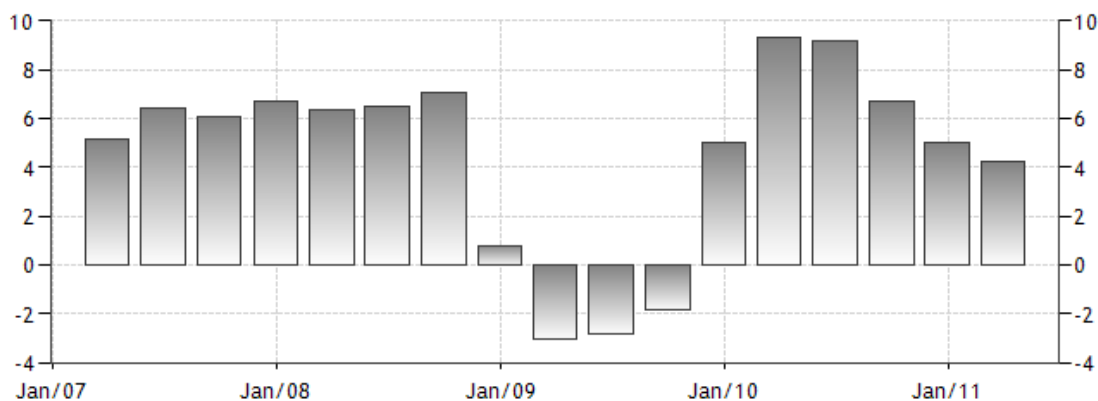
Question 8 (10 marks)

This question is based on the following text and information about the Brazilian economy.

The Great Recession

The Great Recession originated in the financial markets of the United States of America in 2007. It was triggered by falling house prices which led to the so-called "subprime mortgage" crisis. Preceding the crisis there was a rapid increase in mortgages to less creditworthy borrowers. A combination of falling house prices and default mortgage payments led to the failure and near failure of major financial institutions in America. This sent shockwaves across the financial markets of the world and resulted in a loss of confidence in financial markets and institutions, with the result that share prices fell sharply, investor confidence plunged and the availability of credit to firms and households was severely curtailed. This had the result that consumption spending by households and investment spending by firms declined which had a major impact on the level of output and income.

In response to the world wide economic crisis many countries used monetary and fiscal policies in an attempt to deal with the impact of the recession on the level of output and income.
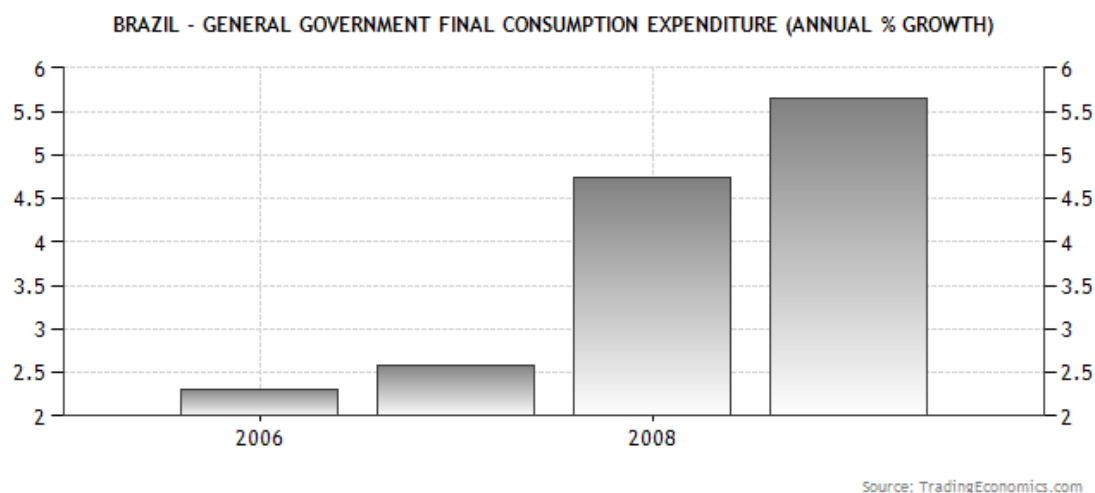

BRAZIL GDP ANNUAL GROWTH RATE

source: TradingEconomics.com; IBGE

BRAZIL INTEREST RATE
Benchmark Interest Rate

source: TradingEconomics.com; Banco Central do Brasil

BRAZIL - GENERAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE (ANNUAL % GROWTH)

Source: TradingEconomics.com

a. During which year did Brazil experienced an economic recession?
b. Based on the above information use the IS-LM model to explain how Brazil made use of monetary and fiscal policies to deal with the economic recession they experienced.

Question 9 (4 marks)
The impact of an expansionary fiscal policy differs in the goods market model compared to the impact in the IS-LM model. What are the similarities and differences between the impact in the goods market model and the IS-LM model?

Question 10 (6 marks)
Use the IS-LM model to compare the impact of an expansionary fiscal policy with that of a contractionary monetary policy.

This assignment contributes 40% towards your semester mark.

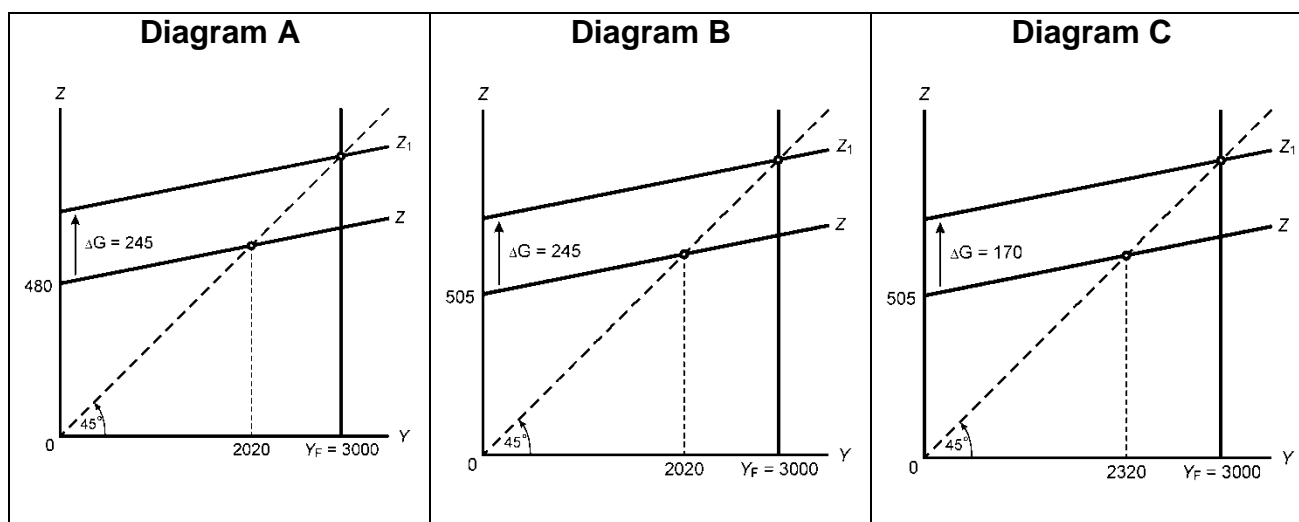Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

1. Which of the following statements is/are correct?
    Gross domestic product (GDP) …

    a. is the same as gross domestic expenditure.
    b. is the total value of all goods and services produced within the boundaries of a country in a particular period.
    c. is the broadest, best-known and most used measure of economic activity.
    d. includes imports of goods and services.
    e. can be expressed in real or nominal prices.

    1. a, b, c and e
    2. Only c and e
    3. b, c and d
    4. c, d and e
    5. Only b, c and e

Question 2 is based on the following diagram.
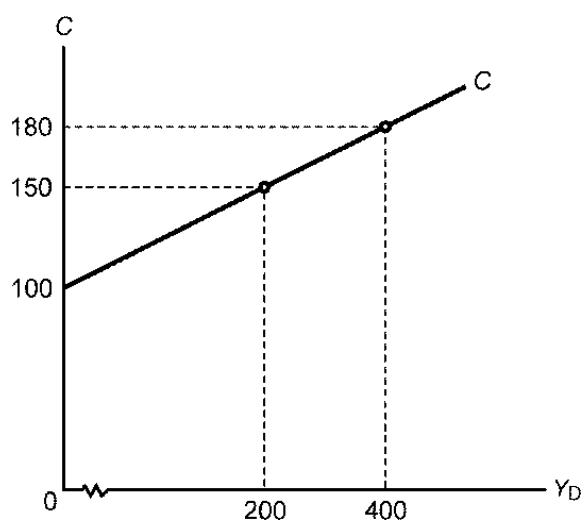
2. Which of the following statements is/are correct?

   a. Induced consumption is equal to R100 if income is R200.
   b. The marginal propensity to consume is equal to 0.15.
   c. An increase in autonomous consumption will influence the slope of the consumption curve.
   d. If the marginal propensity to save by households increases, the marginal propensity to consume will be lower. In other words, the slope of the C curve will be flatter.
   e. It is not possible to calculate the marginal propensity to save.

   1. a, b and c
   2. b, c and d
   3. b, d and e
   4. Only b and d
   5. Only d

3. Given that c_0 = 800, $\bar{I}$ = 600, G = 700, c = 0.8 and T = 400 the equilibrium level of output and income is ...

   1. R12 500
   2. R12 100
   3. R2 100
   4. R8 900
   5. R1 424

4. Given that c_0 = R50, $\bar{I}$ = R230, G = R300, c = ¾, T = R100 and Y_F = R3 000 the equilibrium level of output and income is _____ and in order to reach the full-employment level of income, government spending must increase by _____

   1. R2 320 million;   R170 million.
   2. R2 020 million;   R245 million.
   3. R2 020 million;   R980 million.
   4. R2 720 million;   R70 million.

5. Which one of the following goods market models represent the data given for question 4 above?

Diagram A	Diagram B	Diagram C

1. Diagram A
2. Diagram B
3. Diagram C

6. Given that an economy is at equilibrium at an income level less than full employment, an increase in the marginal propensity to consume will cause a(n) _____ of the demand for goods curve and an increase in any autonomous spending component will cause a(n) _____ of the demand for goods curve.

   1. upward shift;   upward shift
   2. downward shift;   upward shift
   3. flatter slope;   upward shift
   4. higher vertical intercept;   upward shift
   5. steeper slope;   upward shift

Questions 7 to 11 are based on the following approximate figures for the South African economy in 2011:

Real GDP   = R1 895 000 million
Multiplier   = 1.2
Government debt   = R667 040 million (35.2% of real GDP)
Government deficit = R79 590 million (4.2% of real GDP)

7. If the government increases its expenditure by R100 million by how much will real GDP increase?

   1. R120 million.
   2. R40 million.
   3. R100 million.
   4. R240 million.
   5. R140 million.

Read the following and answer the questions 8 to 11.

A positive relationship exists between economic growth and employment creation. The larger the employment intensity of economic growth the more jobs are created for a given economic growth rate. An employment intensity of 0.2 indicates that for a 1% economic growth rate employment increases by 0.2% while an employment intensity of 0.4 indicates that for a 1% economic growth rate employment increases by 0.4%. The following data indicates the relationship between employment intensity and the % change in GDP needed to create 500 000 new employment opportunities in South Africa.

Employment intensity	% Change in GDP needed to create 500 000 new employment opportunities
0.2	18%
0.4	8%
0.6	6%
0.8	4%
1	3%

8. Assuming an employment intensity of 0.6 the % increase in real GDP must be approximately ____ to create 500 000 new jobs.

    1. 12%
    2. 10%
    3. 8%
    4. 6%
    5. 4%

9. By how much should real GDP increase to create 500 000 new jobs?

    1. R151 600 million.
    2. R189 500 million
    3. R75 800 million.
    4. R227 400 million.
    5. R113 700 million.

10. If this increase in GDP is to be achieved by an increase in government spending on infrastructure by how much should government increases its spending?

    1. R113 700 million.
    2. R812 214 million.
    3. R108 286 million.
    4. R162 429 million.
    5. R94 750 million.

11. If the creation of 500 000 new jobs is to be achieved by a decrease in taxes by how much should taxes, given a marginal propensity to consume of 0.17, decrease?

    1. R108 286 million.
    2. R94 750 million.
    3. R113 700 million.
    4. R557 353 million.
    5. R16 108 million.

Question 12 is based on the figure below:
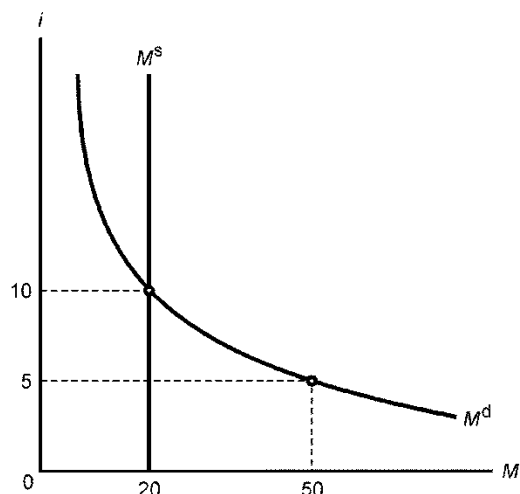
12. Which of the following statements are correct?

    a.   If the money supply is regarded as exogenous at an interest rate of 5% the quantity of money supplied is 20.

    b.   At an interest rate of 10% equilibrium occurs in the financial market; the quantity of money supplied (=20) is equal to the quantity of money demanded (=20).

    c.   If the level of income increases, an excess supply of money will exist at an interest rate of 10%.

    d.   An increase in the demand for money shifts the M^s curve to the right.

    1.   a, b and c
    2.   a and d
    3.   b, c and d
    4.   Only a and b
    5.   Only b and d

13. An expansionary monetary policy involves the …

    1.   selling of bonds by the central bank on the open market to increase the supply of money and the interest rate will decrease.

    2.   selling of bonds on the open market by the central bank to decrease the supply of money and the interest rate will increase.

    3.   buying of bonds on the open market by the central bank to increase the supply of money and the interest rate will decrease.

    4.   buying of bonds on the open market by the central bank to decrease the supply of money and the interest rate will increase.

14. Which of the following statements is/are correct?

A decrease in income with simultaneous contractionary open market operations by the central bank …

    a.   is represented by a shift of the demand for money curve to the left and the money supply curve to the right.

    b.   is represented by a shift of the demand for money curve to the right and the money supply curve to the left.

    c.   will result in an increase in the interest rate.

    d.   will result in a decrease in the interest rate.

    e.   will result in an indeterminate impact on the interest rate.

    1.   a and e
    2.   b and c
    3.   b and d
    4.   b and e
    5.   Only e

15. Which one of the following statements represents the following diagram?
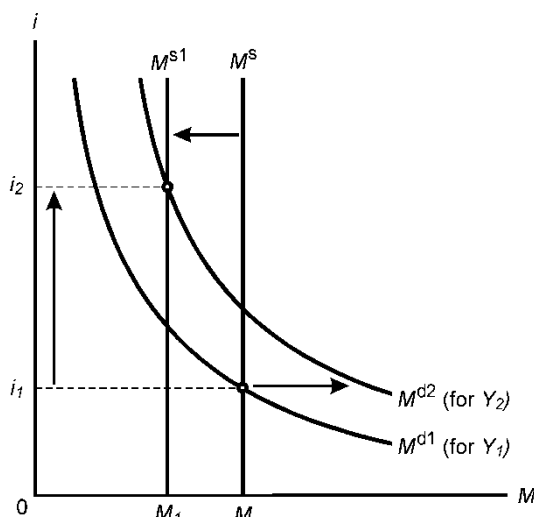
1. A decrease in income with simultaneous contractionary open market operations by the central bank.
2. An increase in income with simultaneous contractionary open market operations by the central bank.
3. An increase in income with simultaneous expansionary open market operations by the central bank.
4. A decrease in income with simultaneous expansionary open market operations by the central bank.

16. Which of the following are endogenous variables in the goods market model?

1. The level of output and income and investment spending.
2. Marginal propensity to consume and the level of output and income.
3. The level of output and income.
4. Investment spending.

17. Which of the following are exogenous variables in the financial market?

1. The interest rate.
2. Real money supply and the total demand for money.
3. Interest rate, the demand for money and the nominal money supply.
4. Nominal money supply and the part of the demand for money that is influenced by expectations, business confidence, and political and social factors.

18. Which of the following are exogenous variables in the IS-LM model?

1. Level of output, interest rate, investment, consumption spending.
2. Government spending, taxation, money supply, marginal propensity to consume.
3. Interest rate, demand for money, supply of money.
4. Consumption spending, investment, government spending.

19. Which of the following statements are correct?
    In the IS-LM model:

    a. Investment is influenced by the interest rate only.
    b. Investment is influenced by the interest rate and the level of output.
    c. Investment is negatively related to the interest rate and the level of output.
    d. Investment is negatively related to the interest rate and positively related to the level of output.
    e. Investment is influenced by exogenous factors such as expectations, business confidence and regulations.

    1. a and c
    2. b and d
    3. b, d and e
    4. a, c and e
    5. Only b and e

20. Which one of the following explains what happens on the goods market if the interest rate increases?

    1. An increase in the interest rate increases government spending, the demand for goods increases and the equilibrium level of income rises.
    2. An increase in the interest rate decreases investment spending which decreases the demand for goods and the equilibrium level of output and income falls.
    3. An increase in the interest rate increases investment spending which increases the demand for goods and the equilibrium level of income rises.
    4. An increase in the interest rate decreases taxation, disposable income of households increases which increases the demand for goods, and the equilibrium level of income rises.

Study the following diagram that shows the derivation of an IS curve and answer questions 21 to 25.
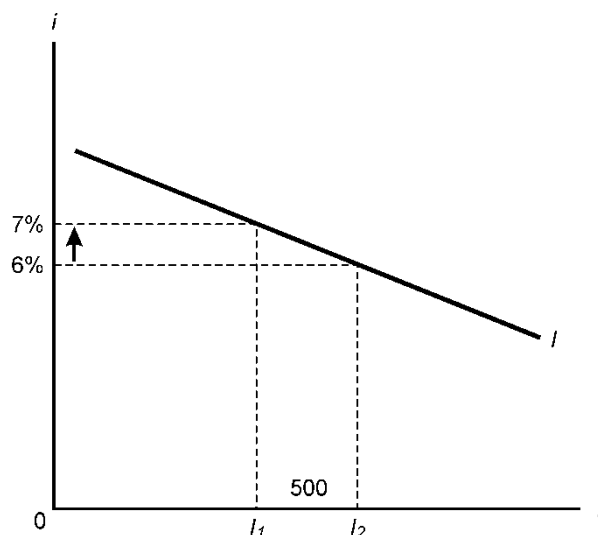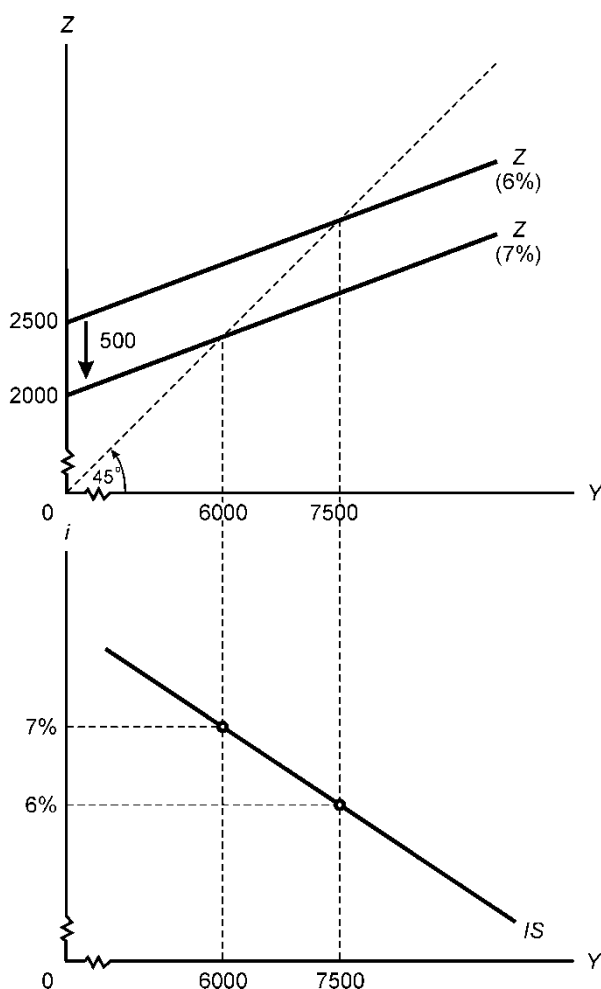
21. An increase in the interest rate from 6% to 7% …

    1. decreases investment spending by 100.
    2. increases investment spending by 500.
    3. decreases investment spending by 500.
    4. decreases investment spending by 1 500.
    5. increases investment spending by 1 500.

22. In the goods market autonomous spending decreases from ____ to _____ if the interest rate increases from ___ to ____.

    1. 6 000 tot 2 000;   6% to 7%
    2. 2 500 tot 2 000;   6% to 7%
    3. 2 500 tot 2 000;   7% to 6%
    4. 7 500 tot 6 000;   6% to 7%
    5. 7 500 tot 6 000;   7% to 6%

23. At an interest rate of 7% the demand for goods is equal to:

    1. 500
    2. 2 000
    3. 2 500
    4. 7 500
    5. 6 000

24. If the interest rate increases from 6% to 7% the equilibrium level of output and income decreases by____ and the multiplier is equal to ____

1. 500   2
2. 1 500   3
3. 2 000   2.5
4. 7 500   3.5
5. 6 000   4

25. At an interest rate of 6% the goods market is in equilibrium at an income and output level of _____ and at an interest rate of 7% the goods market is in equilibrium at an income and output level of ____.

1. 500   2 000
2. 2 000   2 500
3. 2 500   2 000
4. 7 500   6 000
5. 6 000   7 500

26. Which of the following statements is/are correct?

a. To derive the IS curve we change the interest rate to determine the effect on the level of output and income.
b. To derive the IS curve we change the level of income to determine the effect on the interest rate.
c. To derive the IS curve we change government spending to determine the effect on the level of output and income.
d. To derive the LM curve we change the level of income to determine its effect on the demand for goods.
e. To derive the LM curve we change the level of income to determine its effect on the interest rate.

1. Only a
2. Only b
3. c and e
4. Only e
5. a and e

Question 27 is based on the following diagram:

42
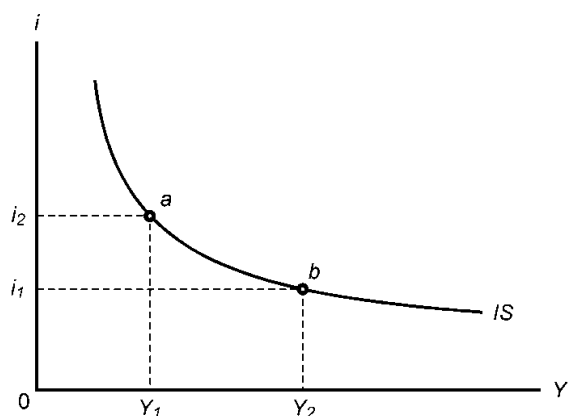
27. Which of the following statements is/are correct?

  a. The movement from point b to point a implies an increase in investment spending
  b. The movement from point a to point b implies a decrease in the interest rate which will increase investment spending and the demand for goods and consequently the IS curve shifts to the right.
  c. The movement from point a to b implies a decrease in the interest rate which will increase investment spending and the demand for goods.
  d. A change in investment spending does not always shift the IS curve because an increase in investment spending due to a decrease in the interest rate is represented by a movement along the IS curve.

  1. a, c and d
  2. Only b and d
  3. Only c and d
  4. b, c and d
  5. None of the options 1 to 4

28. An increase in business confidence and a decrease in the interest rate both increases investment spending and in both cases the IS curve shifts to the left.
    The above statement is **incorrect** since:

  1. An increase in business confidence and a decrease in the interest rate both increases investment spending and in both cases the IS curve shifts to the right.
  2. An increase in business confidence and a decrease in the interest rate both decrease investment spending and in both cases the IS curve shifts to the right.
  3. An increase in business confidence and a decrease in the interest rate both increase investment spending. The increase in investment spending due to an increase in business confidence causes a downward movement along the IS curve while an increase investment due to a decrease in the interest rate causes a rightward shift of the IS curve.
  4. An increase in business confidence and a decrease in the interest rate both increase investment spending. The increase in investment spending due to an increase in business confidence shifts the IS curve to the right while an increase investment due to a decrease in the interest rate causes a downward movement along the IS curve.

Question 29 is based on the following LM curve:
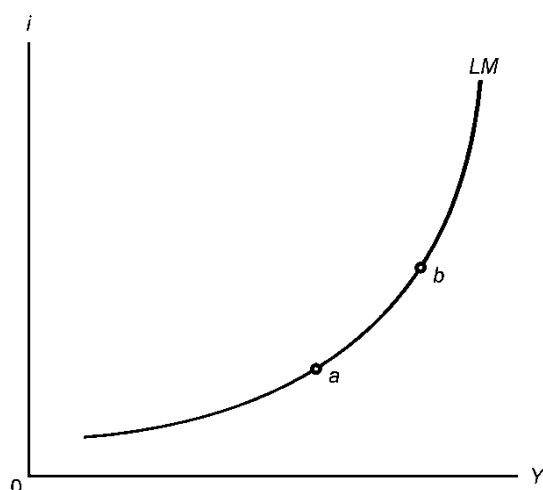
29. Given the LM curve the situation at point a compared to point b is described the best by which one of the following?

	Demand for money	Supply of money	Interest rate	Output
1.	Higher	Higher	Higher	Higher
2.	Lower	Lower	Lower	Lower
3.	Higher	The same	Higher	Higher
4.	The same	Higher	Higher	Higher
5.	Lower	The same	Lower	Lower

Questions 30 to 35 are based on the following diagram:
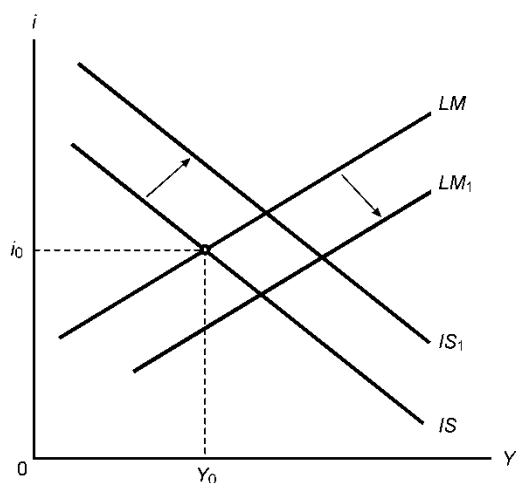
30. The diagram indicates a(n) _____ and a(n) _____ .

    a.   contractionary fiscal policy;   contractionary monetary policy
    b.   expansionary fiscal policy;   contractionary monetary policy
    c.   expansionary fiscal policy;   expansionary monetary policy
    d.   increase in government spending;   decrease in nominal money supply
    e.   increase in government spending;   increase in nominal money supply

    1.   a and d
    2.   b and d
    3.   c and e
    4.   Only c
    5.   Only e

31. The shift from IS to IS_1 causes an increase in the interest rate and the shift from LM to LM_1 causes a decrease in the interest rate.

The reason for the higher interest rate in the case of the shift of the IS curve is that the _____ while in the case of the LM curve the interest rate is lower since the _____.

    1.   money supply is lower;   money supply is higher
    2.   demand for money is higher;   money supply is higher
    3.   money supply is higher;   demand for money is higher
    4.   demand for money is higher;   demand for money is higher

32. The shift from IS to IS$_1$ implies investment spending is indeterminate and the shift from LM to LM$_1$ implies that investment spending is _____.

   1. lower
   2. higher
   3. indeterminate
   4. unchanged

33. The reason investment spending is indeterminate in the case of a shift of the IS curve to the right is because an ...

   1. increase in the interest rate increases investment while the increase in output decreases investment.
   2. increase in the interest rate decreases investment while the increase in output increases investment.
   3. increase in the interest rate increases investment while the increase in output increases investment.
   4. increase in the interest rate decreases investment while the increase in output decreases investment.

34. The reason investment spending is higher in the case of a shift of the LM curve down is because the ....

   1. decrease in the interest rate decreases investment and the increase in the level of output increases investment.
   2. decrease in the interest rate increases investment and the increase in the level of output decreases investment.
   3. decrease in the interest rate increases investment and the increase in the level of output increases investment.
   4. decrease in the interest rate decreases investment and the increase in the level of output decreases investment.

35. The reason the budget deficit increases in case of a shift of the IS curve to the right is because _____ while it is unchanged when the LM curve shifts down since _____.

   1. government spending increases and/or taxes decreases; government spending increases and/or taxes increases.
   2. government spending increases and/or taxes increases;   government spending and/or taxes are unchanged.
   3. government spending and/or taxes are unchanged; government spending increases and/or taxes increases.
   4. government spending increases and/or taxes decreases; government spending and/or taxes are unchanged.

Questions 36 to 38 are based on the following scenario for a hypothetical country:

Period	Quarterly change in real GDP
2012/Q3	2.8%
2012/Q4	1.9%
2013/Q1	-1.2%
2013/Q2	-3.9%
2013/Q3	-2.8%
2013/Q4	-0.9%

Period	Interest rate (%)
May 2012	8.2
June 2012	8.0
July 2012	7.9
August 2012	7.7
September 2012	7.5
October 2012	7.4
November 2012	7.2
December 2012	6
January 2013	6.8
February 2013	6.7
March 2013	6.5
April 2013	6.2
May 2013	5.0
June 2013	4.9
July 2013	4.8
August 2013	4.6
September 2013	4.4
October 2013	4.1
November 2013	3.0
December 2013	2.9

Government spending and government revenue as % of GDP		
Period	Government spending	Government revenue
2012/Q3	28%	32%
2012/Q4	29%	32%
2013/Q1	31%	30%
2013/Q2	34%	27%
2013/Q3	35%	26%
2013/Q4	36%	25%

36. Which of the following applies to the country during 2013?

    a.   The country experienced an economic recession.
    b.   It has implemented a contractionary fiscal policy
    c.   It has implemented an expansionary monetary policy.
    d.   Unemployment increased.
    e.   The budget deficit increased.

    1.   a, b, c, d and e
    2.   Only a, b, c and d
    3.   Only b, c and d
    4.   Only a, d and e
    5.   Only a, c, d and e

37. In terms of the IS-LM model the macroeconomic stabilisation policies the country has followed can be represented as follows:

    1. The IS curve shifts to the left and the LM curve shifts down.
    2. The IS curve shifts to the left and the LM curve shift up.
    3. The IS cure shifts to the right and the LM curve shifts up.
    4. The IS curve shifts to the right and the LM curve shifts down.

38. The impact of the policy mix on the budget deficit was that it …

    1. increased the budget deficit since exports decline more that imports.
    2. increased the budget deficit since government revenue decreased and government spending increased.
    3. decreased the budget deficit since government revenue increased and government spending declined.
    4. decreased the budget deficit since imports decline more than exports.

39. Comparing a **contractionary fiscal policy** with an **expansionary monetary policy** in the IS-LM model the results is best described by the following?

1.	Fiscal policy	Monetary policy
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Higher	Lower
Investment spending	Lower	Higher
Budget deficit	Lower	Unchanged

2.	Fiscal policy	Monetary policy
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Lower	Lower
Investment spending	Higher	Higher
Budget deficit	Unchanged	Unchanged

3.	Fiscal policy	Monetary policy
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Lower	Lower
Investment spending	Indeterminate	Higher
Budget deficit	Lower	Unchanged

4.	Fiscal policy	Monetary policy
The demand for goods	Higher	Lower
The level of output	Higher	Lower
The interest rate	Higher	Higher
Investment spending	Indeterminate	Lower
Budget deficit	Higher	Unchanged

Questions 40 and 41 are based on the following IS-LM model:
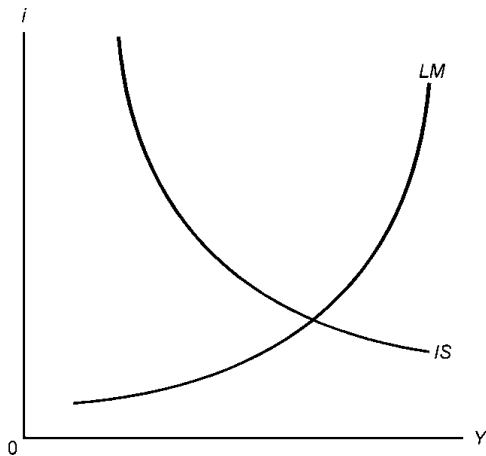
40. A decrease in the nominal money supply causes the LM curve to shift …

    1. down and the interest rate decreases. As the interest rate decreases investment
        spending increases and the IS curve shifts to the right.
    2. up and the interest rate increases. As the interest rate increases investment spending
        decreases and a movement along the IS curve takes place.
    3. up and the interest rate decreases. As the interest rate decreases the investment
        spending increases and a movement along the IS curve takes place.
    4. up and the interest rate increases. As the interest rate increases the investment
        spending decreases and the IS curve shifts to the left.

41. An increase in taxation …

    1. decreases the demand for goods and the IS curve shifts to the left. As taxation
        decreases the supply of money decreases and the LM curve shifts down.
    2. increases the demand for goods and the IS curve shifts to the right. The demand for
        money increases and the interest rises and a movement along the LM curve takes
        place.
    3. decreases the demand for goods and the IS curve shifts to the left. The demand for
        money decreases and the interest falls causing the LM curve to shift up.
    4. decreases the demand for goods and the IS curve shifts to the left. The demand for
        money decreases and the interest falls causing a movement along the LM curve.

42. Comparing the impact of an increase in government spending in the goods market model
    with the impact of an increase in government spending in the IS-LM model:

    a. In both models the level of production and income will increase.
    b. In both models consumption spending will be higher.
    c. The interest rate will be unchanged in the goods market model and lower in the IS-LM
        model.
    d. Investment spending will be unchanged in the goods market model but possibly higher
        in the IS-LM model.

    1. a, b and c
    2. b, c and d
    3. a, b and d
    4. Only a and d
    5. None of the options 1 to 4

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This assignment contributes 30% towards your semester mark.

Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

Openness in goods and financial markets

1. In the case of South Africa, a change from R1 = $0.50 to R1 = $0.55 implies…

    a. an increase in the nominal exchange rate.
    b. a decrease in the nominal exchange rate.
    c. a depreciation in the domestic currency.
    d. an appreciation in the domestic currency.
    e. more rands are now needed to buy a dollar.
    f. fewer rands are now needed to buy a dollar.

    1. Only b and c
    2. Only a and d
    3. d and e
    4. a, d and f
    5. b, c and e

2. Which of the following statements is/are correct?

    a. An appreciation in the nominal exchange rate implies that the domestic currency in terms of the foreign currency increases. In the case of South Africa it means that we must give more rand for one USA dollar.
    b. A decrease in the nominal exchange rate (E↓) implies that the domestic currency in terms of the foreign currency decreases. It means that the domestic currency depreciates.
    c. The real exchange rate plays a vital role in the choice between buying domestic goods or foreign goods.
    d. A real depreciation implies that the relative price of South African goods compared with USA goods decreases. Therefore South African goods are cheaper compared with USA goods.
    e. The factors that impact on the nominal exchange rate is the real exchange rate, the domestic price level of goods and the foreign price level of goods.

1. a, b, c, d and e
2. Only a, b and c
3. Only a, c and d
4. Only b, c and d
5. Only a, b, c and d

3. The real exchange rate between the rand and the dollar is:

$$\varepsilon = \frac{EP}{P_*}$$

Which of the following statements is/are correct?

a. Assume that the increase in P* and the increase in P are the same and the rand depreciates against the dollar. Then, the nominal exchange rate is higher, the real exchange rate increases and a real appreciation takes place. Therefore, the USA goods are relatively cheaper than before the change in the nominal exchange rate.
b. If the increase in the relative price of SA goods is greater than the increase in the price of USA goods, the real exchange rate increases and a real appreciation takes place.
c. If the increase in the relative price of SA goods is greater than the increase in the price of USA goods, the real exchange rate decreases and a real depreciation takes place.
d. USA goods are relatively more expensive if the nominal exchange rate is unchanged and the increase in the price of USA goods is greater than the increase in the price of SA goods, because a real depreciation takes place.

1. Only a
2. Only b
3. Only c
4. Only d
5. b and d

Questions 4 to 6 are based on the following information:
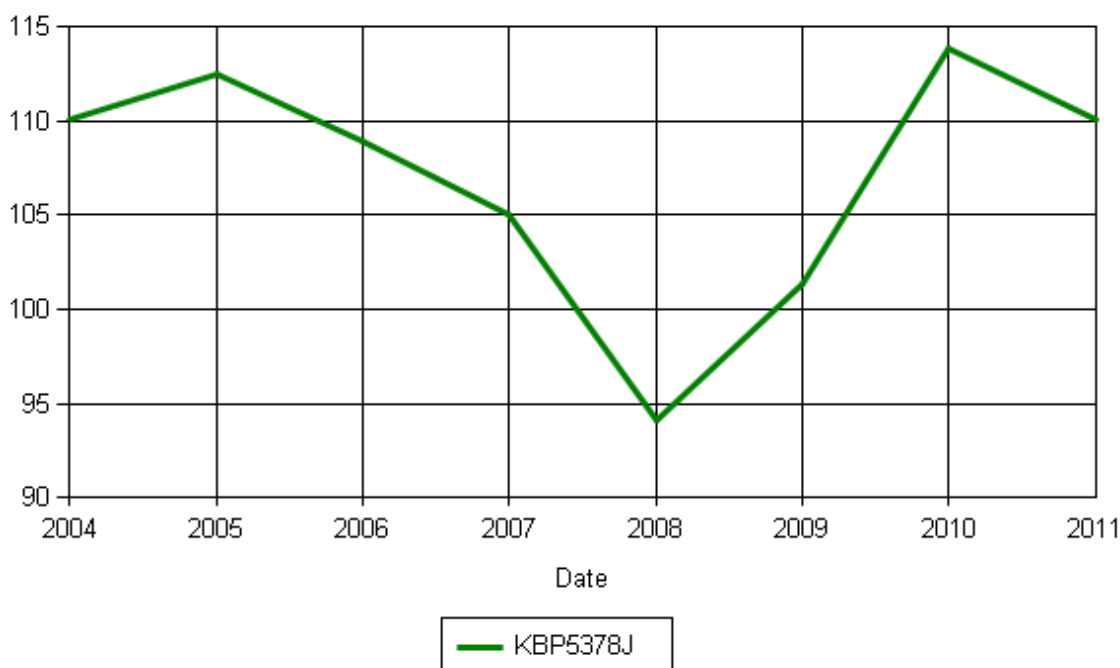
Real exchange rate for South Africa

KBP5378J

Nominal Exchange Rate (R/$)

Source: http://www.oanda.com/currency/historical-rates/
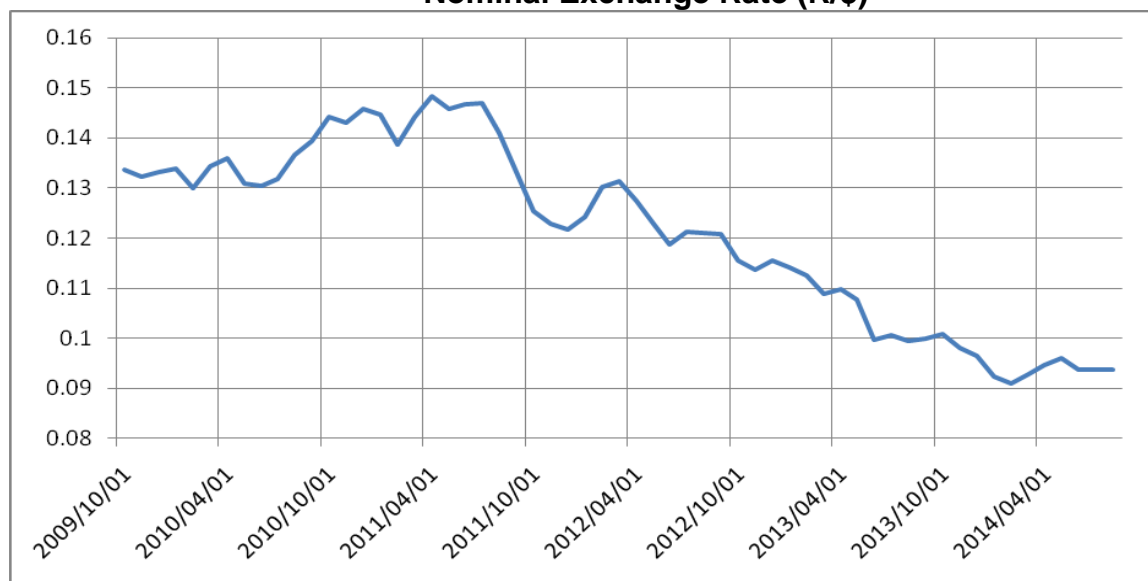
SOUTH AFRICA INFLATION RATE
Annual Change on Consumer Price Index

SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA

UNITED STATES INFLATION RATE
Annual Change on Consumer Price Index

SOURCE: WWW.TRADINGECONOMICS.COM | BUREAU OF LABOR STATISTICS

4. The real exchange rate for South Africa _____ from 2005 to 2008 and _____ from 2008 to 2010.

    1. decreased;   decreased
    2. increased;   increased
    3. increased;   decreased
    4. decreased;   increased
    5. was unchanged;   increased

5. The nominal R/$ exchange rate _____ during 2010 and _____ during 2013.

    1. appreciated;   depreciated
    2. was unchanged;   depreciated
    3. depreciated;   depreciated
    4. depreciated;   appreciated
    5. depreciated;   was unchanged

6. Compared to the United States of America the inflation rate in South Africa during 2008 to 2010 was _____

    1. higher.
    2. lower.
    3. the same.

7. Which of the following statements are correct regarding the current account of the South African balance of payments?

    a. The money spent by tourists visited South Africa is included in service receipts.
    b. A trade balance deficit indicates that exports exceeded imports.
    c. Income receipts refer to income earned by South African residents in the rest of the world, while income payments refer to income earned by non-residents in South Africa.
    d. To calculate the trade balance net gold exports is included.
    e. The rand value of net gold exports is included in the merchandise exports figure.

    1. a, b and d
    2. a, c and d
    3. b and c
    4. Only a and d
    5. b and e

Question 8 is based on the following two diagrams:

SPAIN CURRENT ACCOUNT
Current Account (EUR Million)

SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF SPAIN

BRAZIL CURRENT ACCOUNT
Current Account (USD Million)
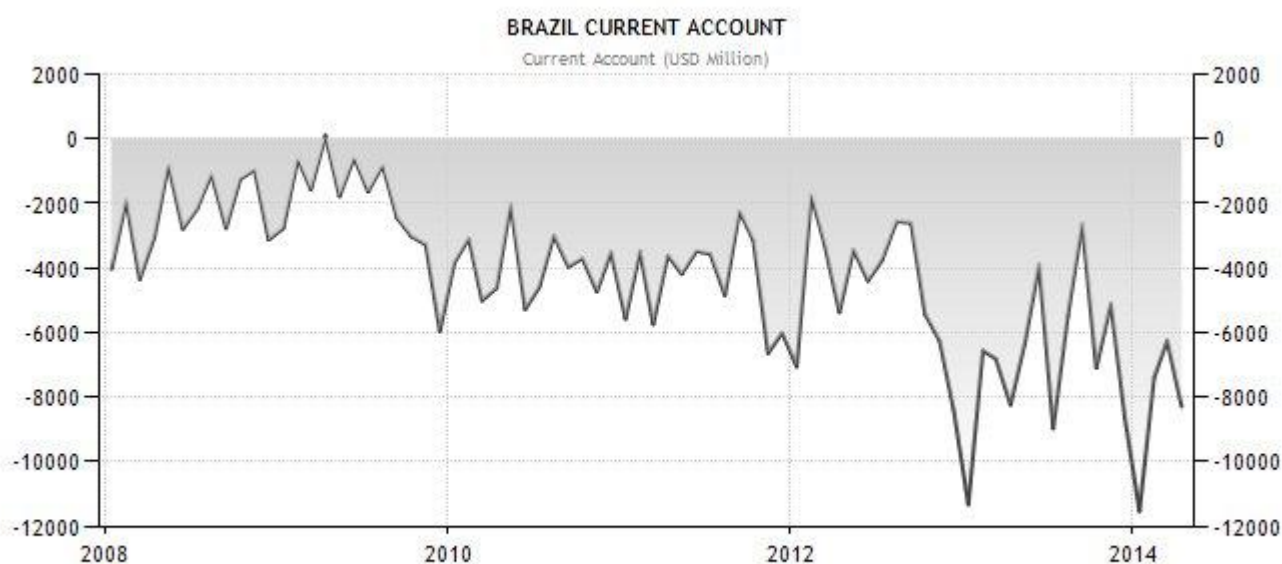
SOURCE: WWW.TRADINGECONOMICS.COM | BANCO CENTRAL DO BRASIL

8. Which of the following statements is/are correct?

   a. During 2008 to 2012 in both Spain and Brazil a deficit on the current account is experienced.
   b. Most of the time during 2013 more goods and services are exported in Spain than imported, but beginning 2014 the imports of goods and services exceeded the exports.
   c. During 2008 to 2012 a deficit on the financial account occurred in both Spain and Brazil.

   1. a, b and c
   2. Only a
   3. Only b
   4. Only c
   5. Only a and b

9. Which of the following statements are correct?

   a. When the inflow of investment from the rest of the world exceeds the outflow of investment to the rest of the world, a financial account deficit occurs.
   b. Unrecorded transactions serve to ensure that the balance of payments actually balances.
   c. To increase a country's foreign reserves, the authorities can borrow from institutions such as the International Monetary Fund.
   d. International transactions in assets and liabilities are recorded in the financial account of the South African balance of payments.
   e. The three main components of the financial account are direct investment, portfolio investment and other gold and foreign reserves investment.

   1. a, b, c and d
   2. c, d and e
   3. Only b, c and d
   4. a and e
   5. Only c and d

10. Given the following information:

    Interest rate on RSA bonds: 6%
    Interest rate on USA bonds: 4%

    Which one of the following statements is correct?

    1. If the expected depreciation of the rand is more than 2% financial market participants will buy RSA bonds.
    2. If the expected depreciation of the rand is more than 2% financial market participants will buy USA bonds.
    3. If the expected depreciation of the rand is 3% financial market participants will be indifferent between RSA and USA bonds.
    4. If the expected appreciation of the rand is 3% financial market participants will buy USA bonds.

The goods market in an open economy

11. Which of the following statements is/are correct?

    a. Exports can be regarded as exogenous because it is determined by the domestic level of output.
    b. Exports will increase if there is an increase in the output level of our trading partners.
    c. The real exchange rate will influence the level of imports as well as the level of exports, but in opposite directions.
    d. When domestic output in the economy increases, it leads to an increase in imports.
    e. When domestic output in the economy decreases, it leads to a decrease in exports.

    1. b, c and d
    2. a and e
    3. a, c and d
    4. Only c and d
    5. None of the options 1 to 4

Question 12 is based on the following diagram.
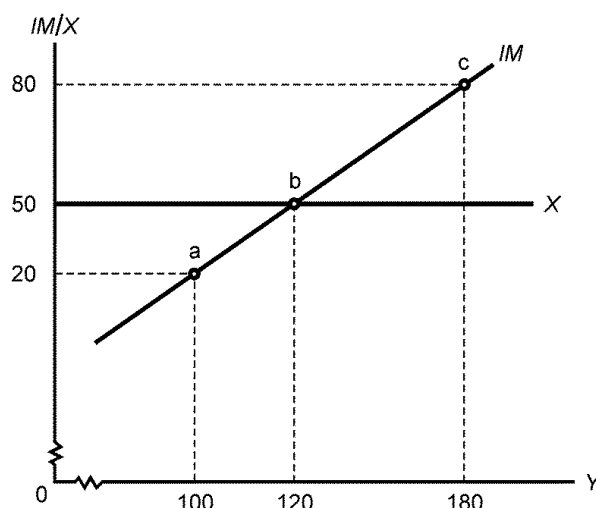
12. Which of the following statements are correct?

   a. At an income level of R180 million, imports are more than exports.
   b. At an income level of R100 million a trade deficit occurs.
   c. A trade surplus occurs at an income level of R100 million because imports are more than exports.
   d. Point b is the trade balance point because exports equal imports.
   e. At an income level higher than the income level of R120 million, a trade deficit occurs because imports are higher than exports.

   1. a, b, d and e
   2. b, c and d
   3. Only d and e
   4. a, c and d
   5. Only a, d and e

13. Which of the following statements are correct?

   a. Equilibrium output is associated with a trade deficit only.
   b. Equilibrium output is associated with a trade surplus only.
   c. Equilibrium output is associated with a trade deficit or a trade surplus.
   d. The goods market is in equilibrium when domestic output is equal to the demand for domestic goods.
   e. The goods market is in equilibrium when domestic output is equal to the domestic demand for goods.

   1. a and c
   2. b and c
   3. a and d
   4. b and d
   5. c and d

Question 14 is based on the following diagram.
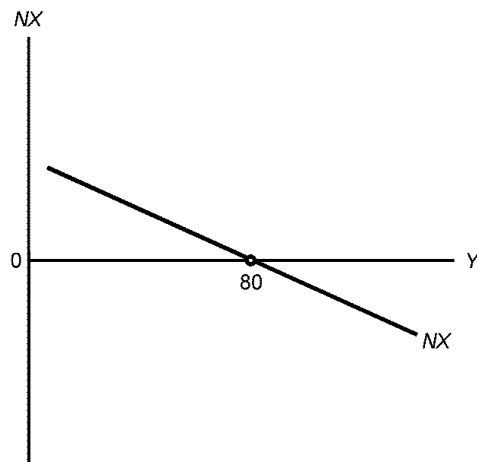
14. At any income level lower than R80 million a trade surplus occurs because if …

    1.   Y↑ → IM↑ → NX↓
    2.   Y↓ → IM↓ → NX↓
    3.   Y↑ → X↑ → NX↓
    4.   Y↓ → X↑ → NX↑
    5.   Y↓ → IM↓ → NX↑

15. A decrease in domestic demand, for instance through a decrease in government spending, can be presented by the following chain of events:

    1.   G↓ → Z↓ → Y↓ → IM↓ → NX↓
    2.   G↓ → Z↓ → Y↓ → IM↓ → NX↑
    3.   G↓ → Z↓ → Y↓ → X↓ → NX↑
    4.   G↓ → Z↓ → Y↓ → X↑ → NX↓
    5.   G↑ → Z↑ → Y↑ → IM↑ → NX↓

16. An increase in exports …

    1.   might be the result of an increase in the real exchange rate.
    2.   is recorded on the financial account of the balance of payments.
    3.   gives rise to a trade deficit.
    4.   increases the demand for domestic goods.

Question 17 is based on the following diagram.
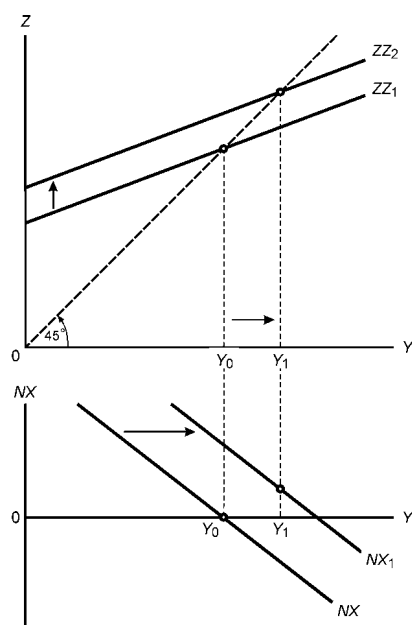
17. The above diagram illustrates the following chain of events:

   1. $G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow IM\uparrow \rightarrow NX\downarrow$
   2. $G\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow \rightarrow IM\downarrow \rightarrow NX\uparrow$
   3. $X\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow IM\uparrow \rightarrow NX\uparrow$
   4. $X\downarrow \rightarrow Z\uparrow \rightarrow Y\downarrow \rightarrow IM\downarrow \rightarrow NX\downarrow$
   5. $Y\uparrow \rightarrow G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow IM\uparrow \rightarrow NX\downarrow$

Question 18 is based on the following diagram which represents the interest rate in China:

CHINA INTEREST RATE
Benchmark Interest Rate

SOURCE: WWW.TRADINGECONOMICS.COM | THE PEOPLE'S BANK OF CHINA
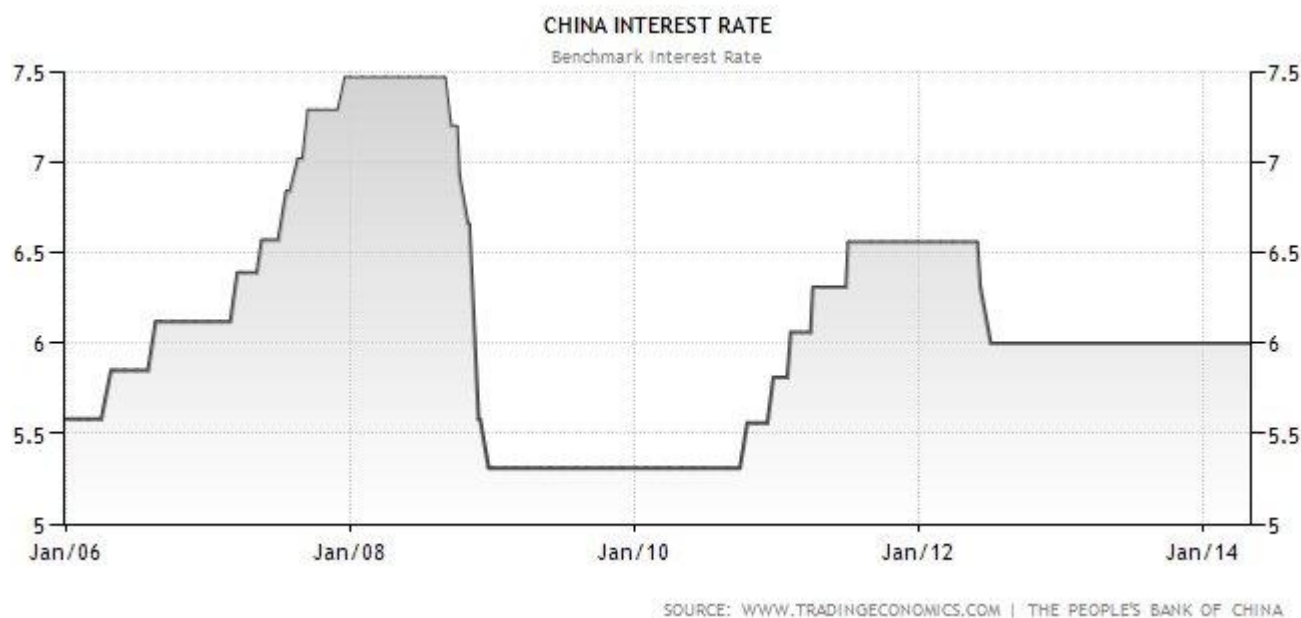
18. During January 2006 to January 2008 the interest rate _____ which implies that possibly a _____ monetary policy and/or _____ fiscal policy were applied.

1. decreased;   contractionary;   expansionary
2. decreased;   expansionary;   contractionary
3. increased;   expansionary;   contractionary
4. increased;   contractionary;   expansionary

Questions 19 and 20 are based on the following diagram and model:

SOUTH AFRICA GOVERNMENT SPENDING

SOURCE: WWW.TRADINGECONOMICS.COM | STATISTICS SOUTH AFRICA
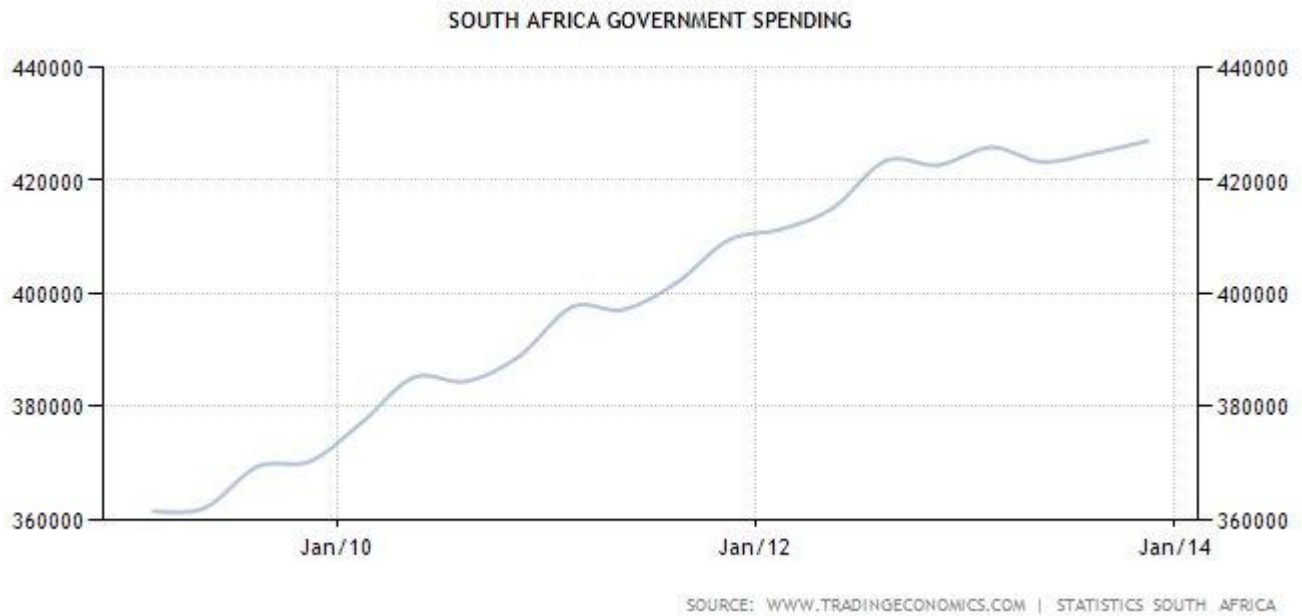
Study the diagram above and use the following model to answer what the impact of the change in government spending in South Africa is on the level of output and the current account:
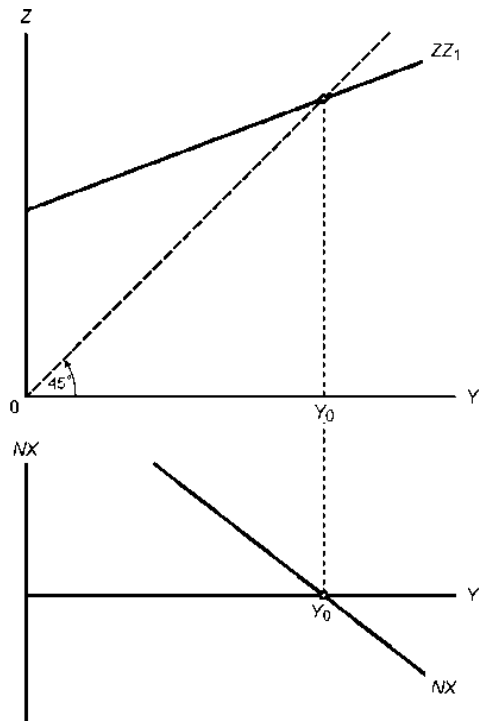
19. The possible impact on the level of output and income is that the …

    1. increase in government spending increased the demand for goods. This is indicated by an upward movement along of the demand for goods curve and the level of output and income increases.
    2. increase in government spending increased the demand for goods. This is indicated by a downward shift of the demand for goods curve and the level of output and income decreases.
    3. decrease in government spending decreased the demand for goods. This is indicated by a downward shift of the demand for goods curve and the level of output and income decreases.
    4. decrease in government spending decreased the demand for goods. This is indicated by a downward movement along the demand for goods curve and the level of output and income decreases.
    5. increase in government spending increased the demand for goods. This is indicated by an upward shift of the demand for goods and the level of output and income increases.

20. The possible impact on the NX curve of the change in government spending as indicated in the above diagram is that the …

    1. increase in the level of output and income increased imports and at the higher equilibrium level of output and income a current account deficit arises.
       This is indicated by a leftward shift of the NX curve.
    2. increase in the level of output and income increased exports and at the higher equilibrium level of output and income a current account deficit arises.
       This is indicated by a rightward shift of the NX curve.
    3. increase in the level of output and income increased imports and at the higher equilibrium level of output and income a current account deficit arises.
       This is indicated by a downward movement along the NX curve.
    4. increase in the level of output and income decreased imports and at the higher equilibrium level of output and income a current account deficit arises.
       This is indicated by an upward movement along the NX curve.
    5. decrease in the level of output and income decreased exports and at the higher equilibrium level of output and income a current account deficit arises.
       This is indicated by a downward movement along the NX curve.

21. Given that the Marshall-Lerner condition holds a(n) _____ results in a(n) _____ in the level of output and income and the trade balance.

    1. appreciation;   improvement
    2. depreciation;   deterioration
    3. appreciation;   deterioration
    4. depreciation;   improvement

22. The impact of a depreciation on the level of output and income can be illustrated by which one of the following diagrams?
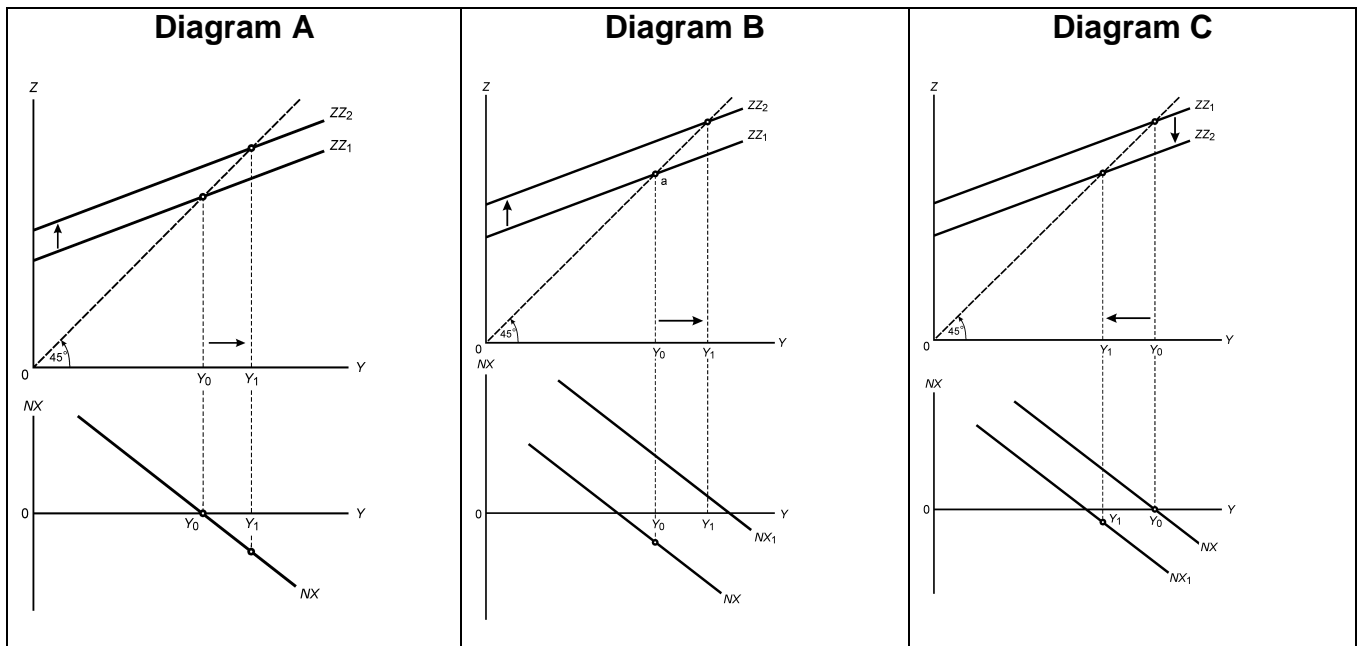
Diagram A	Diagram B	Diagram C

1. Diagram A
2. Diagram B
3. Diagram C

Output, the interest rate and the exchange rate: the IS-LM model for an open economy

23. Which of the following statements is/are correct?

a. Goods market equilibrium occurs where output and income is positively related to the nominal interest rate and negatively related to the nominal exchange rate.
b. The IS curve implies: $i\uparrow \rightarrow Y\downarrow$ and $E\uparrow \rightarrow Y\downarrow$.
c. The impact of a decrease in the nominal interest rate (i) is that it leads to an increase in investment, the demand for goods and the level of output.
d. A depreciation of the nominal exchange rate ($E\downarrow$) results in an increase in exports, the trade balance improves, an increase in the demand for goods and the level of output.

1. a, b, c and d
2. Only a, b and c
3. Only b, c and d
4. Only a, b and d
5. None of the options 1 to 4

24. A decrease in the South African interest rate relative to that of the rest of the world, leads to a(n) …

a. depreciation of the rand.
b. appreciation of the rand.
c. capital inflow and a higher demand for rands on the foreign exchange market.
d. capital outflow and a lower demand for rands on the foreign exchange market.

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1. a and c
2. b and c
3. a and d
4. b and d
5. Only a

25. If the exchange rate changes from R1 = $0.25 to R1 = $0.30 this could be the result of _____ because of a(n) _____

   a. increase in the supply of dollar;
      an increase in the South African interest rate   relative to that of the rest of the world.
   b. decrease in the supply of dollar;
      an increase in the South African interest rate relative to that of the rest of the world.
   c. increase in the demand for dollar;
      an increase in the South African interest rate relative to that of the rest of the world.
   d. decrease in the demand for dollar;
      an increase in the South African interest rate relative to that of the rest of the world.

   1. a and d
   2. a and c
   3. b and c
   4. b and d
   5. Only a

26. In the IS-LM model for an open economy, an increase in the interest rate causes a(n)…

   a. appreciation of the exchange rate and a decrease in exports.
   b. increase in both government spending and the demand for goods.
   c. decrease in investment, the demand for goods and the level of output and income.
   d. depreciation of the exchange rate and an increase in exports.
   e. capital inflow, higher demand for rands and an appreciation of the exchange rate.

   1. a, c and d
   2. c and e
   3. b and d
   4. a and e
   5. None of the options 1 to 4

Questions 27 and 28 are based on the following diagram of an IS-LM model for an open economy:
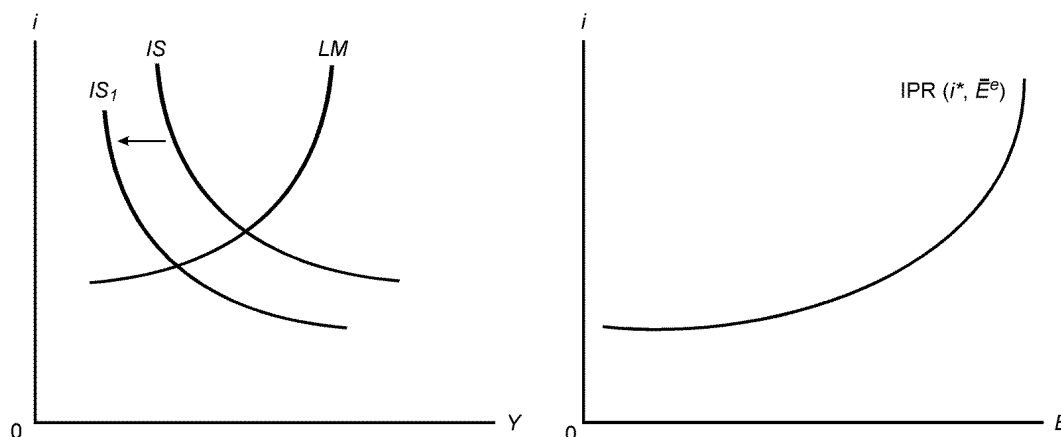
27. The above diagram illustrates a(n) ...

1. decrease in the money supply, a decrease in the interest rate and a depreciation of the exchange rate.
2. increase in the money supply, an increase in the interest rate and an appreciation of the exchange rate.
3. decrease in government spending, a decrease in the interest rate and a depreciation of the exchange rate.
4. increase in government spending, a decrease in the interest rate and a depreciation of the exchange rate.

28. The above diagram illustrates the impact of a(n) ...

1. contractionary fiscal policy on the exchange rate.
2. contractionary monetary policy on the exchange rate.
3. expansionary monetary policy on the exchange rate.
4. expansionary fiscal policy on the exchange rate.

29. An expansionary fiscal policy (e.g. G↑) causes an increase in the demand for goods and the level of output and income (Y) and consequently a(n) ...

1. increase in the demand for money and the interest rate; an appreciation of the domestic currency and the trade balance deteriorates as exports increases.
2. increase in the demand for money and the interest rate; a depreciation of the domestic currency and the trade balance improves as exports increases.
3. decrease in the demand for money and the interest rate; a depreciation of the domestic currency and the trade balance improves as exports increases.
4. increase in the demand for money and the interest rate; an appreciation of the domestic currency and the trade balance deteriorates as exports decreases.

30. In the IS-LM model for an open economy monetary contraction implies that the …

a. LM curve will shift upwards and the interest rate increases.
b. LM curve will shift downwards and the interest rate decreases.
c. nominal exchange rate decreases and a depreciation of the domestic currency take place.
d. nominal exchange rate increases and an appreciation of the domestic currency take place.

1. a and c
2. a and d
3. b and c
4. b and d

31. In the IS-LM model for an open economy a contractionary monetary policy causes a ...

1. downward shift of the LM curve, the interest rate decreases and the level of output increases.
2. upward shift of the LM curve, the interest rate increases and the level of output declines.
3. rightward shift of the IS curve, the interest rate increases and the level of output increases.
4. leftward shift of the IS curve, the interest rate decreases and the level of output declines.

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32. According to the IS-LM model for an open economy an increase in the interest rate will ...

    1.   cause an appreciation of the nominal exchange rate.
    2.   cause a depreciation of the nominal exchange rate.
    3.   leave the nominal exchange rate unchanged.

33. According to the IS-LM model for an open economy an appreciation of the exchange rate will …

    1.   increase exports and decrease imports and the current account improve.
    2.   decrease exports and increase imports and the current account worsen.
    3.   increase exports and decrease imports and the current account worsen.
    4.   decrease exports and increase imports and the current account improve.

The following questions are for information purposes and does not count any marks.

34. How do you usually access the internet for studying purposes?

    1.   Laptop
    2.   Computer
    3.   Smart phone
    4.   Tablet
    5.   I do not have access.

35. Where do you usually access the internet for studying purposes?

    1.   From work.
    2.   From home.
    3.   Some one else's home.
    4.   Unisa computer laboratory.
    5.   Other.

36. How much of you data bundle per month do you have available for studying purposes?

    1.   I have unlimited access to the internet.
    2.   Less than 500 MB.
    3.   Between 500MB and 1GB.
    4.   Between 1GB and 2GB.
    5.   More than 2GB.

37. Which one of the following best describes your experience using the CDROM?

    1.   I find it extremely helpful.
    2.   I find it fairly helpful.
    3.   I find it helpful.
    4.   I did not find it very helpful.
    5.   I did not use it at all.

38. Did you make use of the econom.co.za website to study for the module?

1. Yes.
2. No, because I did not know about it.
3. No, because I have not sufficient access to the WWW.
4. No, because the printed study material was sufficient for me to understand the work.
5. No, because I did not have the time to use it.

39. Did you make use of video clips on *You Tube*?

1. No, because I do not have access to the internet.
2. No, because I do not have sufficient broadband access to the WWW.
3. No, because I was unable to download and view the video clips.
4. Yes.

40. Did you make use of other resources on the WWW apart for *my*Unisa?

1. Yes.
2. No, because I do not have access to the internet.
3. No, because of the cost of using the internet.
4. No, because the printed study material was sufficient for me to understand the work.
5. No, because I did not have the time to do it.

41. If you have made use of the CDROM, econom.co.za website and video clips which one did you find the most useful in your studies?

1. The CDROM.
2. The econom.co.za website.
3. The video clips.
4. Not applicable since I did not use all of them.

42. Which one of the following best describes your use of the module web site on *my*Unisa?

1. I did not visit it at all.
2. I only visited it once or twice.
3. I visited it occasionally.
4. I visited it regularly.
5. I visited it extensively.

43. Which one of the following best describes your use of the e-tutor site on *my*Unisa?

1. I did not visit it at all.
2. I only visited it once or twice.
3. I visited it occasionally.
4. I visited it regularly.
5. I visited it extensively.

44. Which one of the following best describes your experience with the services of the e-tutor?

1. I find it extremely helpful.
2. I find it fairly helpful.
3. I find it helpful.
4. I did not find it very helpful.
5. I did not find it helpful at all.

45. If you compare the volume of work for this module with your other modules would you say that it is less, more or the same as you other modules?

    1.   The same
    2.   More
    3.   Less

46. Which one best describes the life cycle you are in?

    1.   Single living with my parents or other family.
    2.   Independent single living on my own or sharing with others.
    3.   Young family.
    4.   Mature family.
    5.   Single parent family.

47. How did you pay for your studies?

    1.   A loan from a bank.
    2.   An Eduloan.
    3.   My parents or other family members paid for my studies.
    4.   My employer paid from my studies.
    5.   I paid for my studies.

48. Have you studied at any other higher education institution (college or university)?

    1.   Yes
    2.   No

NOTE: Do not submit your answers. Assess or mark your answers once you have received Tutorial Letter 204.

The Labour Market

1. In our analysis of the labour market we assume the following:

   a. Labour is the only factor of production used in the production of output.
   b. Labour productivity is constant.
   c. The price of oil and other raw material stays constant.
   d. The price of products set by firms is based on cost plus a mark-up.

   1. a, b, c and d
   2. Only a, b and d
   3. Only b, c and d
   4. Only a and b
   5. Only c and d

2. Our analysis of the labour market implies the following:

   a. There is a negative relation between the targeted real wage and the unemployment rate.
   b. The higher the unemployment rate, the weaker the workers' position in bargaining.
   c. The higher the unemployment rate, the lower the targeted real wage.
   d. An improvement in the bargaining position of workers' makes it possible to bargain for higher wages.

   1. a, b, c and d
   2. Only a, b and c
   3. Only a, c and d
   4. Only b, c and e
   5. Only b and d

3. Which of the following factors will increase the bargaining position of workers?

   a. The more expensive it is to dismiss workers.
   b. A higher level of output and a lower unemployment rate.
   c. A lower level of output and a higher unemployment rate.
   d. An increase in unemployment benefits.
   e. Labour laws that protect workers from being dismissed.

1. Only factors a, d and e
2. Only factors a, b and d
3. Only factors b, d and e
4. Only factors d and e
5. Factors a, b, d and e

4. Which of the following statements are correct?

   a. Higher unemployment is associated with both a lower chance of finding a job and a higher chance of losing your job.
   b. An increase in the nominal wage for a given general price level will decrease the real wage.
   c. For a given nominal wage, an increase in the general price level will decrease the real wage.
   d. The real wage is the quantity of goods and services that can be purchased with the nominal wage.

   1. a, b, c and d
   2. Only b, c and d
   3. Only a, c and d
   4. Only b and d
   5. Only a and d

5. Institutional factors play an important role in the way wages are determined in a country. Which of the following are institutional factors that are common in most countries?

   a. Most workers are paid a high enough wage that they prefer being employed to being unemployed.
   b. The lower the unemployment rate, the higher the wages.
   c. Wages depend on labour market conditions.
   d. The expected price level, the unemployment rate and institutional factors will influence the behaviour of workers when negotiating for wages.

   1. a, b, c and d
   2. Only a, c and d
   3. Only b, c and d
   4. Only a, b and d
   5. Only a, b and c

6. Which one of the following, according to the wage-setting relationship, is **not** an institutional factor that may affect the outcome of wage setting?

   1. Minimum wages.
   2. Unemployment benefits.
   3. Labour law protection.
   4. Unemployment rate.
   5. Collective bargaining.

7. Which of the following statements are correct?

    a. Workers are able to determine the real wage through nominal wage bargaining.
    b. Through an increase in their nominal wages workers are able to increase their real wages.
    c. An increase in the mark-up by firms causes a decrease in real wages.
    d. A positive relationship exists between the mark-up and the price per unit.

    1. a, b, c and d
    2. Only a, c and d
    3. Only b, c and d
    4. Only a and d
    5. Only c and d

8. Which of the following influences price-setting by firms in an imperfectly competitive market?

    a. The nature of the production function.
    b. The relation between the inputs used in production and the quantity of output produced.
    c. The prices of the inputs.
    d. The nominal wage per unit of output.
    e. The mark-up of the firm.

    1. Only a, b, d and e
    2. Only b, c and d
    3. Only a, c, d and e
    4. a, b, c, d and e
    5. Only c and e

9. Which of the following statements are correct?

    a. The price level in the economy is partly the outcome of nominal wage bargaining and the price setting behaviour of firms in the economy.
    b. An increase in the nominal wage is enough to ensure an increase in the real wage.
    c. A decrease in the mark-up by firms causes an increase in feasible real wages.
    d. The PS curve will shift upwards if the mark-up by firms decreases.

    1. a, b, c and d
    2. Only c and d
    3. Only a, c and d
    4. Only b, c and d
    5. Only a and d

10. Which of the following statements are correct?

    A positive relationship exists between the …

    a. expected price level and the bargained nominal wage.
    b. unemployment rate and the bargained nominal wage.
    c. mark-up and the price per unit.
    d. nominal wage and the price per unit.
    e. better unemployment benefits and the nominal wage.

1. a, b, c, d and e
2. Only b, c and d
3. Only c, d and e
4. Only a, c, d and e
5. Only a, c and d

Question 11 is based on the following diagram:

11. Which factors will shift the WS curve to WS^1?

a. A higher unemployment rate.
b. A higher level of output.
c. An increase in unemployment benefits.
d. Labour laws that protect workers from being dismissed.
e. A better bargaining position of workers.

1. b, c, d and e
2. a, b, d and e
3. Only c, d and e
4. Only a and b
5. a, c, d and e

12. Which of the following statements is/are correct?

The WS curve will shift down because of …

a. a lower mark-up.
b. a lower unemployment rate.
c. lower nominal wages.
d. labour laws that provide workers with less protection against layoffs.
e. better unemployment benefits.

1. a and c
2. b and d
3. Only b
4. Only c
5. Only d

Question 13 is based on the following diagram:

13. The diagram illustrates a(n)…

    a.   higher mark-up.
    b.   lower mark-up.
    c.   decrease in the price determined real wage accompanied by an increase in the natural rate of unemployment.
    d.   increase in the workers' bargaining position.
    e.   increase in the actual price level.

    1.   Only a and c
    2.   b and c
    3.   a, d and e
    4.   a, c and e
    5.   b, d and e

14. The PS curve will shift downwards because of a …

    a.   lower mark-up.
    b.   higher mark-up.
    c.   lower unemployment rate.
    d.   higher unemployment rate.

    1.   a and c
    2.   a and d
    3.   b and c
    4.   b and d
    5.   Only b

Question 15 is based on the following wage-setting and price-setting relationships:

15. Which of the following statements is/are correct?

    At point C the …

    a. unemployment rate is higher which decreases the bargaining position of workers and the nominal wage they can bargain for decreases.
    b. unemployment rate is lower which increases the bargaining position of workers and the real wage implied by price setting increases.
    c. targeted real wage is lower than the implied real wage.
    d. targeted real wage is higher than the implied real wage.

    1. b, c and d
    2. a, b and c
    3. Only a and c
    4. Only b and c
    5. Only a

16. A decrease in the level of output will cause the following events on the labour market:

    1. The level of unemployment decreases causing an increase in the bargaining position of workers which enables them to bargain for a nominal wage increase.
    2. The level of unemployment increases which causes a decline in the bargaining position of workers resulting in a lower bargained nominal wage.
    3. The natural level of unemployment decreases causing an increase in the bargained real wage.
    4. The natural level of unemployment increases causing a decrease in the bargained real wage.

17. Which one of the following chain of events describes the impact of an increase in output on the labour market?

    1. $Y\uparrow \rightarrow u\uparrow \rightarrow N\downarrow \rightarrow W\uparrow$
    2. $Y\uparrow \rightarrow N\uparrow \rightarrow u_n\downarrow \rightarrow W\uparrow$
    3. $Y\uparrow \rightarrow N\uparrow \rightarrow u\downarrow \rightarrow W\uparrow$
    4. $Y\downarrow \rightarrow N\downarrow \rightarrow u\uparrow \rightarrow W\downarrow$
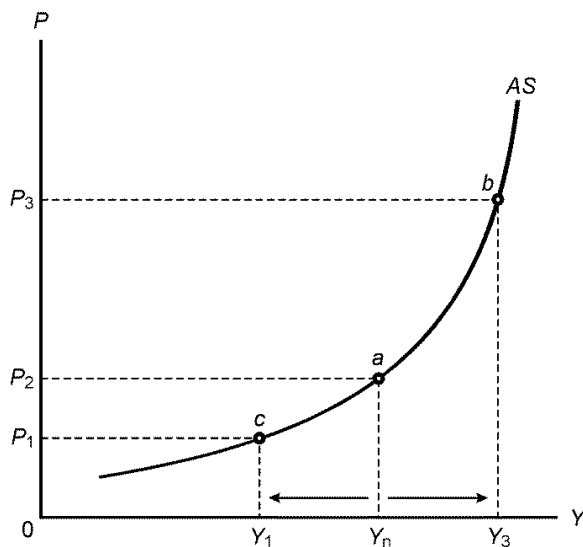   5. $W\uparrow \rightarrow N\downarrow \rightarrow u\uparrow$

AS-AD model

18.   Which of the following events is/are represented by the AS curve?

    a. $Y\uparrow \to u\uparrow \to N\downarrow \to W\uparrow \to P\downarrow$
    b. $Y\uparrow \to N\uparrow \to u_n\downarrow \to W\uparrow \to P\downarrow$
    c. $Y\downarrow \to N\downarrow \to u\uparrow \to W\downarrow \to P\downarrow$
    d. $Y\downarrow \to u\downarrow \to N\uparrow \to W\downarrow \to P\uparrow$
    e. $W\uparrow \to N\downarrow \to u\uparrow \to P\uparrow$

    1.   Only a
    2.   Only b
    3.   Only c
    4.   Only d
    5.   b and c

19.   The AS curve has a positive slope because of which the following chain of events?

    1. $Y\uparrow \to u\uparrow \to N\downarrow \to W\uparrow \to P\downarrow$
    2. $Y\uparrow \to N\uparrow \to u_n\downarrow \to W\uparrow \to P\uparrow$
    3. $W\uparrow \to N\downarrow \to u\uparrow \to P\uparrow$
    4. $Y\downarrow \to u\downarrow \to N\uparrow \to W\downarrow \to P\uparrow$
    5. $Y\uparrow \to N\uparrow \to u\downarrow \to W\uparrow \to P\uparrow$

Question 20 is based on the following diagram.

20.   Which of the following statements are correct?

    a.   At point c the actual price level is lower than the expected price level.
    b.   At point b the output level is higher than the natural level of output.
    c.   The real wage is the same at point a and point b.
    d.   As the level of output increases the price level rises.
    e.   The AS curve will shift up when the expected price level increases.

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1. a, b, c, d and e
2. Only a, b, d and e
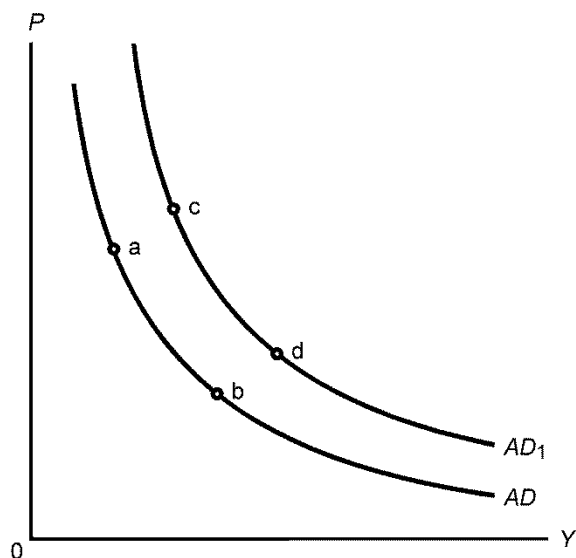3. Only b, c, d and e
4. Only a, d and e
5. Only a, b, c and d

Questions 21 and 22 are based on the following AS curve:

21. At point B compared to point A the expected price level is …

   1. lower than the actual price level.
   2. higher than the actual price level.
   3. the same as the actual price level.

22. Which one of the following events describes the adjustment from the short to the medium to long run if the economy is at point B?

   1. The expected price level is lower than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts down.
   2. The expected price level is higher than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts up.
   3. The expected price level is lower than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts up.
   4. The expected price level is higher than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts down.

23. Which of the following factors will cause an upwards shift of the AS curve?

   a. An increase in real wages.
   b. An increase in the expected price level.
   c. An increase in the actual price level.
   d. A decrease in the nominal money supply.
   e. A decrease in government spending.

   1. Only factor b
   2. Factors a and b
   3. Factors c, d and e
   4. Factors b, d and e
   5. Only factor c

24. Which one of the following applies when the aggregate demand curve (AD-curve) is derived?

1. A decrease in the nominal money supply causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
2. A decrease in the price level decreases the real money supply which causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
3. An increase in the price level decreases the real money supply which causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
4. An increase in government spending causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.

25. Which of the following events is represented by the AD curve?

a. $P\downarrow \rightarrow M/P\uparrow \rightarrow i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$
b. $M^{S}\downarrow \rightarrow M/P\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$
c. $M^{S}\uparrow \rightarrow M/P\uparrow \rightarrow i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$
d. $P\uparrow \rightarrow M/P\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$

1. Only a
2. Only b
3. Only c
4. Only d
5. a and d

26. Which of the following factors cause a shift in the AD curve?

a. A change in wages.
b. A change in the price level.
c. A change in the nominal money supply.
d. A change in government spending.

1. Factors a, b and c
2. Only factors b and d
3. Only factors a and c
4. Factors b, c and d
5. Only factors c and d

Questions 27 and 28 are based on the following diagram:

27. Which of the following statements is/are correct?

Comparing point a with point b on curve AD the …

a. real money supply is higher at point b.
b. interest rate is lower at point b.
c. investment spending is higher at point b.
d. government spending is higher at point b.
e. demand for goods is higher at point b.

1. a, b, c, d and e
2. Only a, b, c and e
3. Only b, c and d
4. Only b, c and e
5. Not one of the options 1 to 4

28. Which of the following statements are correct?

Assume that the rightward shift of the AD is due to an expansionary fiscal policy. Comparing point b on curve AD with point d on curve AD_1 the …

a. level of government spending is higher at point d.
b. level of taxation is higher at point d.
c. demand for goods is higher at point d.
d. interest rate is higher at point d.
e. nominal money supply is higher at point d.

1. a, b, c and d
2. a, c and e
3. Only b, c and d
4. Only a, c and d
5. b and e

29. Which one of the following events describes the adjustment from the short to the medium to long run in the case of an expansionary monetary policy?

	Labour market	Financial market	Goods market
1.	$P^e < P$: $W\uparrow \to P\uparrow$	$M^s\downarrow \to$ $M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
2.	$P^e < P$: $W\downarrow \to P\downarrow$	$M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
3.	$P^e > P$: $W\downarrow \to P\downarrow$	$M/P\uparrow \to i\downarrow$	$I\uparrow \to Z\uparrow \to Y\uparrow$
4.	$P^e > P$: $W\uparrow \to P\uparrow$	$M/P\uparrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
5.	$P^e < P$: $W\uparrow \to P\uparrow$	$M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$

30. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the labour market?

1. $P^e > P$: $W\uparrow \to P\downarrow$
2. $P^e < P$: $W\uparrow \to P\uparrow$
3. $P^e < P$: $W\downarrow \to P\downarrow$
4. $P^e > P$: $W\downarrow \to P\downarrow$
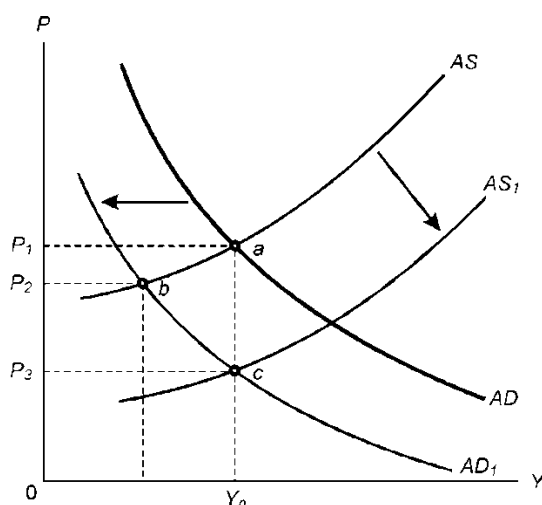5. $P^e > P$: $W\uparrow \to P\uparrow$

31. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the financial market?

1. $M/P\uparrow \to i\uparrow$
2. $M^s\downarrow \to M/P\downarrow \to i\uparrow$
3. $M/P\downarrow \to i\uparrow$
4. $M/P\uparrow \to i\downarrow$
5. $M/P\downarrow \to i\downarrow$

32. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the goods market?

1. $I\downarrow \to Z\downarrow \to Y\downarrow$
2. $I\uparrow \to Z\downarrow \to Y\downarrow$
3. $I\uparrow \to Z\downarrow \to Y\uparrow$
4. $I\uparrow \to Z\uparrow \to Y\downarrow$
5. $I\uparrow \to Z\uparrow \to Y\uparrow$

Question 33 is based on the following diagram which represents the impact of a contractionary fiscal policy:

33. Which of the following statements is/are correct?

a. In the short run: the increase in the interest rate in the financial market will lead to a decrease in investment in the goods market, a decrease in the demand for goods and a decrease in the level of output and income. This is represented by a shift from AD to AD_1.

b. The movement along the AD curve from point b to point c is the result of the events in the labour market in the short run.

c. In the medium run, the AS curve will shift from AS to AS_1 because of the following chain of events: $P^e\downarrow \rightarrow W\downarrow \rightarrow P\downarrow$.

d. At point c the level of output is at the natural level of output and all the real values are equal to their original values.

1. a, b, c and d
2. Only b, c and d
3. Only b, c, d and e
4. Only c and d
5. Only c

SECOND SEMESTER ASSIGNMENTS

This assignment contributes 30% towards your semester mark.

Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

1. Which of the following statements are correct?

   a. Economic growth and unemployment are areas on which macroeconomics focus in contrast with the aggregate output level and employment level on which microeconomics focus.
   b. An increase in nominal GDP can be the result of an increase in the quantity produced of goods and services and/or the increase in the prices of goods and services produced.
   c. Stabilisation policies refer to fiscal policy and monetary policy.
   d. An increase of 20% in the price of lamb meat is an example of inflation.
   e. If the population in South Africa grows at 5% per year and the economic growth rate is 3% per year, a decline in the real GDP per capita occurs.

   1. a, b and c
   2. b, c and d
   3. b, c, d and e
   4. Only b and c
   5. b, c and e

2. Which of the following statements are correct?

   a. Real output and income and real GDP means the same in our goods market model.
   b. Using the consumption function $C = c_0 + cY_D$; if the government decreases taxes with R20 million, consumer spending will increase with more than R20 million.
   c. Using the goods market model; if the government decreases taxes with R20 million, consumer spending will increase with more than R20 million.
   d. In the equation $C = c_0 + cY_D$, c_0 represents that part of consumption that is not influenced by income.

   1. a, b, c and d
   2. Only a, b and d
   3. Only c and d
   4. Only a, c and d
   5. Only a and d

3. Which of the following statements is/are correct with regards to the following consumption function $C = c_0 + cY_D$?

    a. If income is zero, consumption will be equal to autonomous consumption.
    b. If autonomous consumption is zero consumption will be equal to cY_D.
    c. If disposable income is 2 000 million and the marginal propensity to consume is 0.95 consumption should be at least 1 900 million.

    1. a, b and c
    2. Only a and b
    3. Only a and c
    4. Only b and c
    5. Only a

Questions 4 to 8 are based on the following goods market model:
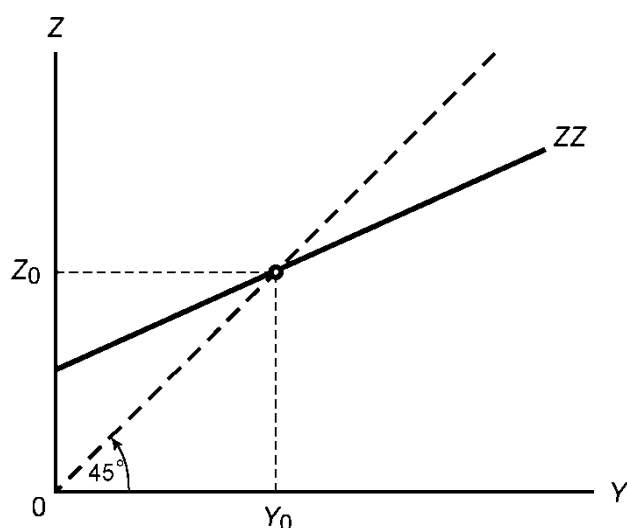
4. In the goods market model an increase in government spending will result in …

    a. an increase in autonomous consumption.
    b. an increase in disposable income.
    c. an increase in income.
    d. an increase in autonomous spending.

    1. Only a, b and c
    2. Only a, b and d
    3. Only b, c and d
    4. Only a, c and d
    5. a, b, c and d

5. Which of the following events chains is/are correct regarding the goods market model?

    a. $Y\uparrow \rightarrow G\uparrow$
    b. $Y\uparrow \rightarrow I\uparrow$
    c. $Y\downarrow \rightarrow T\downarrow$
    d. $Y\downarrow \rightarrow C\downarrow$

1. Only a
2. Only b
3. Only c
4. Only d
5. a and d

6. Goods market equilibrium exists in a situation …..

   a. that will be maintained if existing forces does not change.
   b. where the demand for goods is equal to the level of output and income.
   c. where the money supply equals the demand for liquid balances.

   1. a, b and c
   2. Only a
   3. Only b
   4. Only c
   5. Only a and b

7. Which of the following statements is/are correct?

   a. An increase in the marginal propensity to consume will cause in increase in the multiplier.
   b. An increase in the marginal propensity to consume will cause in increase in aggregate demand.
   c. An increase in the marginal propensity to consume will cause in increase in output and income.

   1. a, b and c
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. Only c

8. Which of the following statements is/are correct regarding the goods market model?

   a. An increase in autonomous consumption of 200 will cause an increase in output and income of more than 200.
   b. An increase in investment of 500 will cause an increase in output and income of more than 500.
   c. An increase in government spending of 800 will cause an increase in output and income of more than 800.

   1. a, b and c
   2. Only a and b
   3. Only a and c
   4. Only b and c
   5. None of the options 1 to 4

Questions 9, 10 and 11 are based on the following data for the country GOOD HOPE for 2013.

Marginal propensity to consume	= 0.2
Total autonomous spending	= R1 000 million
Government spending	= R440 million
Government revenue (taxes)	= R500 million

9. Which of the following statements is/are correct?

   a. The value of the multiplier is equal to 1.25.
   b. The budget surplus is R60 million.
   c. The equilibrium level of output and income is R1 675 million.
   d. Total consumption at equilibrium cannot be calculated with the information available.

   1. a, b and c
   2. a, c and d
   3. b, c and d
   4. a, b and d
   5. None of the options 1 to 4

Study the following three goods market models and answer question 10.
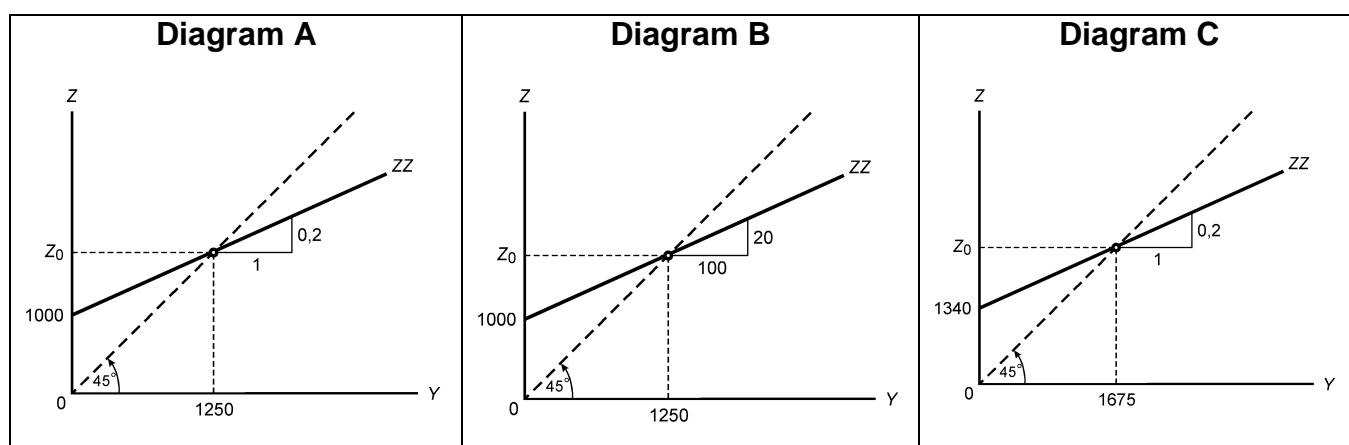
10. The data given can be graphically illustrated in …

    1. Diagram A
    2. Diagram B
   3. Diagram C
    4. Diagrams A and B

11. An economist Dr Von Steinburg calculated that for the country Good Hope the gap between the current level of output and income and the full employment level of income is R110 million.
    Which of the following will ensure that full employment is reached?

    a. An increase in government spending of R88 million which will result in a budget deficit of R28 million.
    b. A decrease in taxation of R440 million which will result in a budget deficit of R380 million.
    c. An increase in government spending of R84 million and a decrease in taxation of R20 million which will result in a budget deficit of R44 million.

1. a, b and c
2. Only a and b
3. Only a and c
4. Only b and c
5. None of the options 1 to 4

Questions 12 and 13 are based on the following diagram:
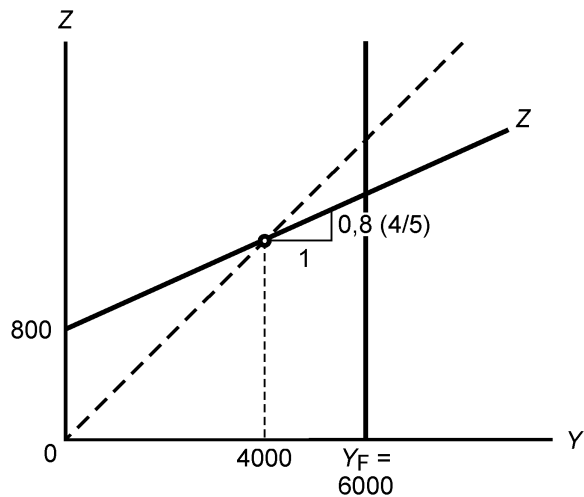
12. The value of the multiplier is equal to…

1. 0.8
2. 4/5
3. 5
4. 1.25
5. It is not possible to calculate the multiplier.

13. By how much must government spending increases to reach full employment?

1. 2 000
2. 4 000
3. 1 600
4. 2 500
5. 400

14. By how much must taxes decrease to reach full employment?

1. 400
2. 2 000
3. 320
4. 80
5. 500

Questions 15 to 25 are based on the following approximate figures for the South African economy in 2010:

Investment spending	= R358 000 million
Government spending	= R383 000 million
Real GDP	= R1 835 000 million
Estimated population	= 50 million
Labour force	= 20 million
Unemployment rate	= 25%
Government deficit	= R142 000 million
Government debt	= R822 400 million
Marginal propensity to consume	= 0.4
Multiplier	= 1.6

15. Which one of the following good market models represent the data given for the South African economy in 2010?

Diagram A, Diagram B, Diagram C
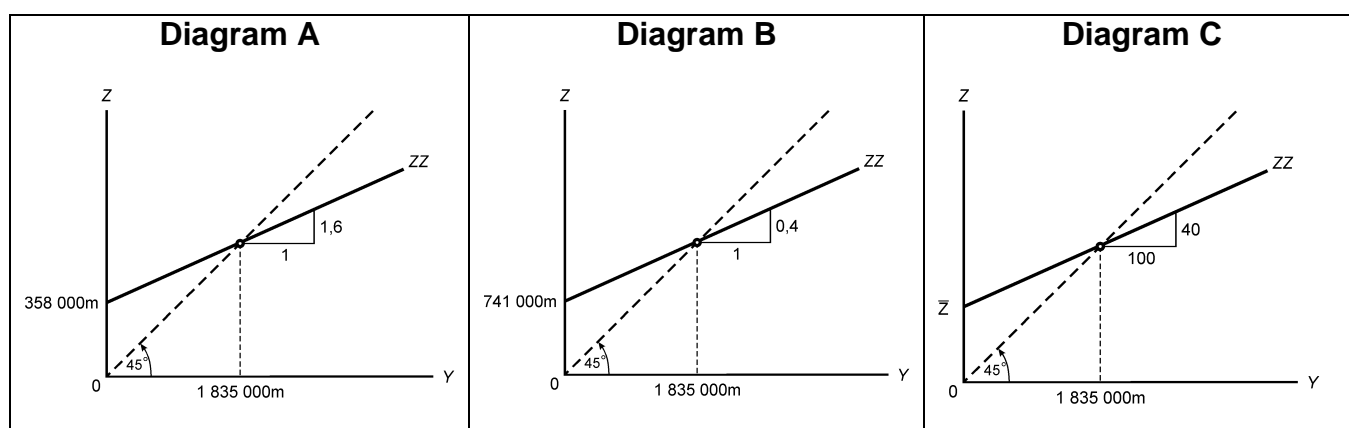
1. Diagram A
2. Diagram B
3. Diagram C

16. Given the structural constraints of the South African economy the South African Reserve Bank and the World Bank estimated that the potential growth rate for South Africa is 3.5%. Given a real GDP for South Africa of R1 835 000 million in 2010 by how much should real GDP have to increase to achieve economic growth rate of 3.5%?

1. R64 225 000 million.
2. R1 835 000 million.
3. R64 225 million.
4. R1 899 225 million.
5. R524 285 million.

17. Assuming a multiplier of 1.6 by how much should autonomous spending in the South African economy increase to achieve a growth rate of 3.5%?

1. R102 760 million.
2. R64 225 million.
3. R42 817 million.
4. R40 141 million.
5. R1 223 333 million.

18. If this growth of 3.5% is to be achieved through an increase in government spending by how much should government spending increase?

    1. R64 225 million.
    2. R42 817 million.
    3. R40 141 million.
    4. R524 285 million.
    5. R1 835 000 million.

Questions 19 to 21 are based on the following additional information:
Assuming that the tax revenue stays the same and government spending increases to achieve a 3.5% growth rate.

19. What impact will it have on the budget deficit?

    1. It will increase the budget deficit by R40 141million.
    2. It will increase the budget deficit by R42 817 million.
    3. It will increase the budget deficit by R524 285 million.
    4. It will decrease the budget deficit by R64 225 million.
    5. It will decrease the budget deficit by R42 817 million.

20. What is the percentage change in the budget deficit?

    1. It will increase the budget deficit by 45%.
    2. It will increase the budget deficit by 30%.
    3. It will increase the budget deficit by 28%.
    4. It will decrease the budget deficit by 45%.
    5. It will decrease the budget deficit by 30%.

21. The government debt will...

    1. be unchanged at R822 400 million.
    2. increase to R865 217 million.
    3. decline with R42 817 million.
    4. increase to R862 541 million.

22. If the 3.5% growth rate is to be achieved by a change in taxation what should happen to taxation?

    1. Taxes should be cut by R64 225 million.
    2. Taxes should be cut by R100 353 million.
    3. Taxes should be cut by R129 747 million.
    4. Taxes should be increased by R64 225 million.
    5. Taxes should be cut by R42 817 million.

23. If the change in the budget deficit is unacceptable which other component of expenditure might cause an increase in output and income?

    a. Autonomous consumption expenditure.
    b. Investment expenditure.
    c. Imports.
    d. Exports

84

1. a, b and d
2. Only a and b
3. Only b and d
4. Only b and c
5. Not a, b or c

24. How many people were unemployed in South Africa in 2010?

1. 30 million.
2. 12.5 million.
3. 5 million.
4. 20 million.

25. Assuming that the output per worker is R122 000 and for every additional worker employed output will increase with R122 000 (in other words constant returns to scale apply) by how much will employment increase if the economy grows at 3.5%.

1. 950 555
2. 526 434
3. 250 643
4. 380 656

26. Which of the following statements is/are correct?

a. It is possible to solve the unemployment problem is South Africa through an increase in government spending and/or a decrease in taxation.
b. An increase in the growth rate of 3.5% is sufficient to decrease the number of unemployed people by 50%.
c. The only way to achieve a growth rate of 3.5% is through fiscal policy actions.

1. a, b and c
2. Only a and b
3. Only a and c
4. Only b and c
5. None of the options 1 to 4

27. Which of the following statements is/are correct?

a. The demand for money consists of the demand for active and the demand for passive balances.
b. The demand for passive balances is a function of the interest rate. This is a positive relationship.
c. The demand for active balances is a function of income. This is a negative relationship.

1. Not a, b or c
2. Only a
3. Only b
4. Only c
5. None of the options 1 to 4

28. Which of the following statements is/are correct?

   a.   The balance on the cheque account, cash, bonds, shares and the value of his/her house and paintings form part of the financial wealth of an individual.
   b.   The demand for money is a function of income and the interest rate.
   c.   The supply of money is a function of income and fiscal policy.

   1.   a, b and c
   2.   Only a and b
   3.   Only a and c
   4.   Only b and c
   5.   None of the options 1 to 4

29. Which of the following statements is/are correct?

   a.   The liquidity preference theory of money refers to the demand for passive balances which are determined by the need to do transactions.
   b.   If bonds were to pay 25% interest, people would want to hold as much money as possible.
   c.   If the interest rate drops from 25% to 5 % people will tend to buy bonds.

   1.   Not a, b or c
   2.   Only a
   3.   Only b
   4.   Only c
   5.   None of the options 1 to 4

Questions 30 to 32 are based on the following financial market diagram:
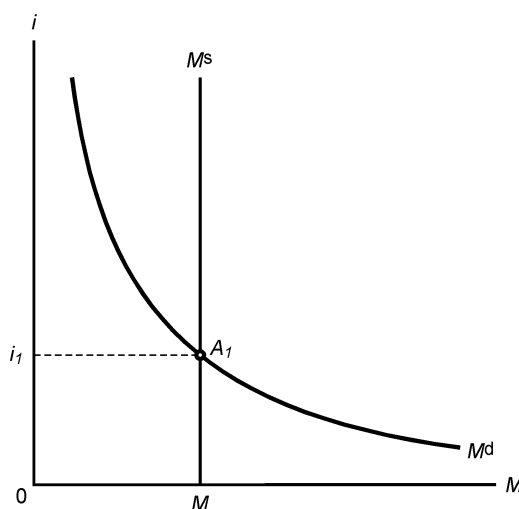
30. Which of the following is/are correct in terms of the financial market?

   a.   A decrease in income shifts the money supply curve to the left.
   b.   To increase the money supply the central bank can make use of open market operations.
   c.   To increase the money supply the central bank sells treasury bills.

1. Not a, b or c
2. Only a
3. Only b
4. Only c
5. None of the options 1 to 4

31. Which of the following is/are correct in terms of the financial market?

    a. An increase in uncertain conditions will cause the price of treasury bills to decrease because of the increase in the interest rate.
    b. A rising interest rate can be offset by an increase in the money supply.
    c. A rising interest rate can be offset by expansionary monetary policy.

    1. a, b and c
    2. Only a
    3. Only b
    4. Only c
    5. Only b and c

32. Which of the following is/are correct regarding the financial market?

    a. A high economic growth rate will not affect the money supply while the demand for money is higher and the interest rate increases.
    b. The impact of a high economic growth rate on the interest rate can be offset by increasing the money supply.
    c. The price paid for treasury bills determines the interest rate in the market.

    1. Only a and b
    2. Only b and c
    3. Only a and c
    4. Only c
    5. a, b or c

33. Which of the following are correct in terms of the events chain: $D_B\uparrow \rightarrow P_B\uparrow \rightarrow i\downarrow$?

    a. The events chain shows what happens if the central bank wants to increase the money supply: $M^s\uparrow$.
    b. The events chain illustrates what happens if the central bank wants to stimulate the economy.
    c. Part of the events chain illustrates the inverse relationship between the price of treasury bills and the interest rate.

    1. a, b and c
    2. Only a and b
    3. Only a and c
    4. Only b and c
    5. None of the options 1 to 4

34. Assuming that the face value of the treasury bill is R250 000 and the date to maturity is one year. Which of the following statements is/are correct?

    a.   If the price paid for the treasury bill is R241 500 the rate of return is 3.5%.
    b.   If the price paid for the treasury bill is R240 500 the rate of return is 3.95%.
    c.   If the price paid for the treasury bill is R239 250 the rate of return is 4.6%.
   d.   If the price paid for the treasury bill is R207 500 the rate of return is 20.48%.

    1.   Only a, b and c
    2.   Only a, b and d
    3.   Only b, c and d
    4.   Only a, c and d
    5.   a, b, c and d

35. Which of the following statements is/are correct?

    a.   A decrease in income will shift the money supply curve to the left. The equilibrium interest rate is higher.
    b.   An increase in income with simultaneous selling of treasury bills by the central bank shifts the demand for money curve to the right and the money supply curve to the left. The equilibrium interest rate is higher.
    c.   An increase in income with simultaneous expansionary open market operations by the central bank shifts both the demand for money curve and the money supply curve to the right. The equilibrium interest rate will depend on the relative shifts on the curves.

    1.   Not a, b or c
    2.   Only a
    3.   Only b
    4.   Only c
    5.   None of the options 1 to 4

36. Which one of the following statements represents the following diagram?
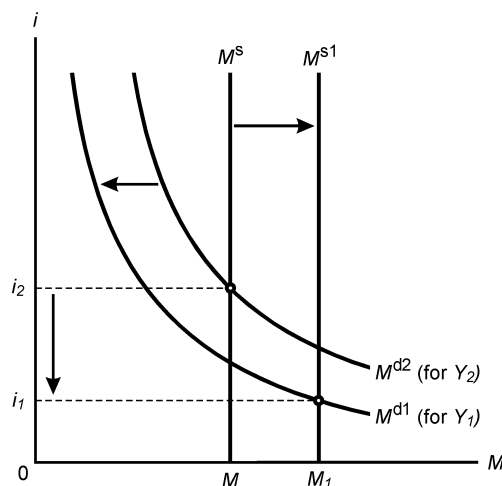
1. A decrease in income with simultaneous contractionary open market operations by the central bank.
2. An increase in income with simultaneous contractionary open market operations by the central bank.
3. An increase in income with simultaneous expansionary open market operations by the central bank.
4. A decrease in income with simultaneous expansionary open market operations by the central bank.

37. If the financial market is in a liquidity trap it implies that …

a. financial market participants do not wish to hold money
b. financial participants do only want to hold bonds
c. an increase in the money supply will cause financial market participants to buy bonds.
d. by decreasing the money supply the interest rate will decrease.

1. Only a
2. Only b
3. Only c
4. Only d
5. None of the options 1 to 4

38. In a liquidity trap …

a. it is not possible for monetary policy to decrease the interest rate
b. it is not possible for monetary policy to increase the opportunity cost to hold money.
c. an increase in the money supply will cause financial market participants to buy bonds with the money.

1. a and c
2. b and c
3. a and b
4. Only a
5. Only b

The following questions are for information purposes and does not count any marks.

39. How do you usually access the internet for studying purposes?

1. Laptop
2. Computer
3. Smart phone
4. Tablet
5. I do not have access.

40. Where do you usually access the internet for studying purposes?

1. From work.
2. From home.
3. Some one else's home.
4. Unisa computer laboratory.
5. Other.

41. How much of you data bundle per month do you have available for studying purposes?

    1. I have unlimited access to the internet.
    2. Less than 500 MB.
    3. Between 500MB and 1GB.
    4. Between 1GB and 2GB.
    5. More than 2GB.

42. Which one of the following best describes your experience using the CDROM?

    1. I find it extremely helpful.
    2. I find it fairly helpful.
    3. I find it helpful.
    4. I did not find it very helpful.
    5. I did not use it at all.

43. Did you make use of the econom.co.za website to study for the module?

    1. Yes.
    2. No, because I did not know about it.
    3. No, because I have not sufficient access to the WWW.
    4. No, because the printed study material was sufficient for me to understand the work.
    5. No, because I did not have the time to use it.

44. Did you make use of video clips on *You Tube*?

    1. No, because I do not have access to the internet.
    2. No, because I do not have sufficient broadband access to the WWW.
    3. No, because I was unable to download and view the video clips.
    4. Yes.

45. Did you make use of other resources on the WWW apart for *my*Unisa?

    1. Yes.
    2. No, because I do not have access to the internet.
    3. No, because of the cost of using the internet.
    4. No, because the printed study material was sufficient for me to understand the work.
    5. No, because I did not have the time to do it.

46. If you have made use of the CDROM, econom.co.za website and video clips which one did you find the most useful in your studies?

    1. The CDROM.
    2. The econom.co.za website.
    3. The video clips.
    4. Not applicable since I did not use all of them.

47. Which one of the following best describes your use of the module web site on *my*Unisa?

    1. I did not visit it at all.
    2. I only visited it once or twice.
    3. I visited it occasionally.
    4. I visited it regularly.
    5. I visited it extensively.

48.   Which one of the following best describes your use of the e-tutor site on *my*Unisa?

   1.   I did not visit it at all.
   2.   I only visited it once or twice.
   3.   I visited it occasionally.
   4.   I visited it regularly.
   5.   I visited it extensively.

49.   Which one of the following best describes your experience with the services of the e-tutor?

   1.   I find it extremely helpful.
   2.   I find it fairly helpful.
   3.   I find it helpful.
   4.   I did not find it very helpful.
   5.   I did not find it helpful at all.

50.   If you compare the volume of work for this module with your other modules would you say that it is less, more or the same as you other modules?

   1.   The same
   2.   More
   3.   Less

51.   Which one best describes the life cycle you are in?

   1.   Single living with my parents or other family.
   2.   Independent single living on my own or sharing with others.
   3.   Young family.
   4.   Mature family.
   5.   Single parent family.

52.   How did you pay for your studies?

   1.   A loan from a bank.
   2.   An Eduloan.
   3.   My parents or other family members paid for my studies.
   4.   My employer paid from my studies.
   5.   I paid for my studies.

53.   Have you studied at any other higher education institution (college or university)?

   1.   Yes
   2.   No

HINT: Align the length of your answers to the marks indicated. Do not submit your answers. Assess or mark your answers once you have received Tutorial Letter 202.

Question 1 (5 marks)
The IS-LM model is a simplification of the interrelationship between selected economic variables. The model consists of a number of endogenous variables (those variables whose values are determined inside the model) and a number of exogenous variables (those variables whose values are determined outside the model).

List the various endogenous and exogenous variables in the IS-LM model.

Question 2 (6 marks)
Explain why investment spending is a negative function of the interest rate and a positive function of the level of output and income and name two determinants of autonomous investment in South Africa.

Question 3 (6 marks)
Use the following information to derive an IS curve:
● A decrease in the interest rate from 6% to 4% increases investment spending by 200.
● Autonomous spending before the decrease in the interest rate is 800.
● The multiplier is 5.

Question 4 (6 marks)
Derive the LM curve by assuming that the level of output and income decreases.

Question 5 (6 marks)
Critically discuss the following statement:

The more sensitive investment spending is for a change in the interest rate and the less sensitive it is for a change in the level of output and income the greater the impact of an expansionary fiscal policy on the level of output and income.

Question 6 (8 marks)
Use the IS-LM model to identify the variables that will have an impact on the effectiveness of an expansionary fiscal policy to increase the level of output and income and explain how these variables influence the effectiveness of fiscal policy.

Question 7 (8 marks)

Use the IS-LM model to identify the variables that will have an impact on the effectiveness of an expansionary monetary policy to increase the level of output and income and explain how these variables influence the effectiveness of monetary policy.
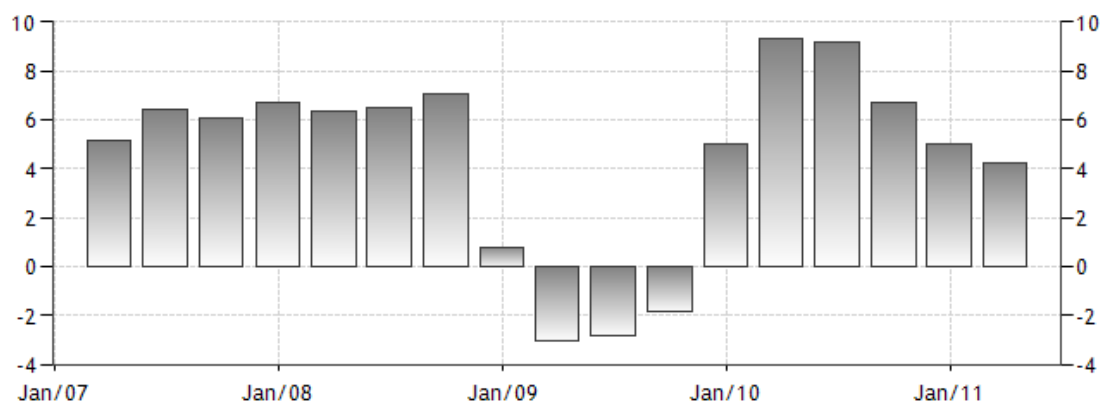
Question 8 (10 marks)

This question is based on the following text and information about the Brazilian economy.

The Great Recession

The Great Recession originated in the financial markets of the United States of America in 2007. It was triggered by falling house prices which led to the so-called "subprime mortgage" crisis. Preceding the crisis there was a rapid increase in mortgages to less creditworthy borrowers. A combination of falling house prices and default mortgage payments led to the failure and near failure of major financial institutions in America. This sent shockwaves across the financial markets of the world and resulted in a loss of confidence in financial markets and institutions, with the result that share prices fell sharply, investor confidence plunged and the availability of credit to firms and households was severely curtailed. This had the result that consumption spending by households and investment spending by firms declined which had a major impact on the level of output and income.

In response to the world wide economic crisis many countries used monetary and fiscal policies in an attempt to deal with the impact of the recession on the level of output and income.
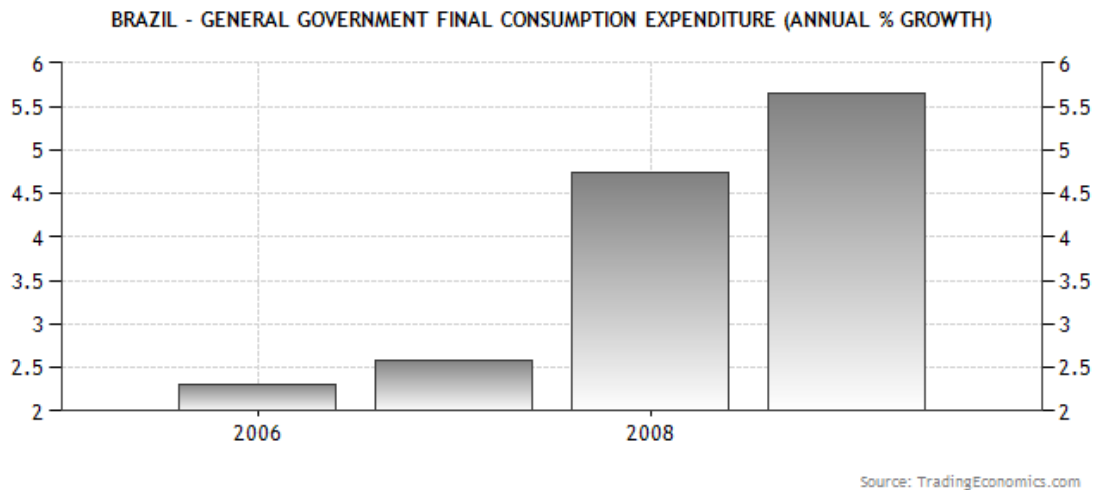

BRAZIL GDP ANNUAL GROWTH RATE

source: TradingEconomics.com; IBGE

BRAZIL INTEREST RATE
Benchmark Interest Rate

source: TradingEconomics.com; Banco Central do Brasil

BRAZIL - GENERAL GOVERNMENT FINAL CONSUMPTION EXPENDITURE (ANNUAL % GROWTH)

Source: TradingEconomics.com

a.   During which year did Brazil experienced an economic recession?
b.   Based on the above information use the IS-LM model to explain how Brazil made use of monetary and fiscal policies to deal with the economic recession they experienced.

Question 9 (4 marks)
The impact of an expansionary fiscal policy differs in the goods market model compared to the impact in the IS-LM model. What are the similarities and differences between the impact in the goods market model and the IS-LM model?

Question 10 (6 marks)
Use the IS-LM model to compare the impact of an expansionary fiscal policy with that of a contractionary monetary policy.

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This assignment contributes 40% towards your semester mark.

Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

1.   Which one of the following statements is **not** a macroeconomic issue?

    1.   The unemployment rate in South Africa, according to the strict definition, was approximately 26% in 2014.
    2.   The drought in the Lowveld reduced the total banana crop and caused the price of bananas to rise.
    3.   The annual inflation in South Africa declines from 7.1% in 2009 to 4.3% in 2010.
    4.   The fluctuations in the South African business cycle can be smoothed by using fiscal and/or monetary policies.
    5.   A positive annual percentage change in real GDP implies a positive economic growth rate.

2.   Which of the following would be **included** in the calculation of gross domestic product (GDP) of South Africa?

    a.   A citizen from Zimbabwe (foreign country) earns a wage at a gold mine in South Africa.
    b.   A farmer from Gauteng (South Africa - SA) buys his neighbour's tractor.
    c.   Ford Motor Company of America builds an assembly plant in the Eastern Cape (SA).
    d.   Exports of agricultural products to Britain.
    e.   Imports of motorcars from Japan to South Africa.

    1.   a, b, c, d and e
    2.   Only a, c and d
    3.   Only b, c and e
    4.   Only a and c
    5.   Only b and e

3.   The difference between induced consumption and autonomous consumption is that …

    1.   induced consumption is influenced by the level of disposable income while autonomous consumption changes with a change in income.
    2.   induced consumption is influenced by the level of disposable income while autonomous consumption is not influenced by the level of income.
    3.   induced consumption reflects the influence of non-income determinants of consumption spending while autonomous consumption can be regarded as consumption that is financed from sources other than income.
    4.   induced consumption is not influenced by the level of disposable income while autonomous consumption is influenced by the level of income.

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4. Which of the following statements is/are correct?
    An autonomous (exogenous) variable in our goods market model means that the variable …

    a. is not determined by the level of output and income in the economy.
    b. is determined by exogenous factors such as business confidence, regulations and political influences.
    c. is determined by the level of output and income in the economy.
   d. increases or decreases if income in the economy increases or decreases.

    1. Only a
    2. Only b
    3. Only c
    4. Only d
    5. a and b

Given the following information, answer question 5.

Autonomous consumption	= R100 million
Investment spending	= R300 million
Government spending	= R200 million
Taxes	= R60 million
Marginal propensity to consume	= ¾

5. Which of the following statements is/are correct?

    a. Autonomous spending = R660.
    b. The multiplier = 4.
    c. Consumer spending will decrease by R7.5 million if the government increases taxes from R60 to R80 million.
    d. The marginal propensity to consume of ¾ means that if $\Delta Y = 100$, $\Delta C = 75$.
    e. The equilibrium level of income and output is R2 220 million.
    f. The given data can be illustrated graphically as follows:
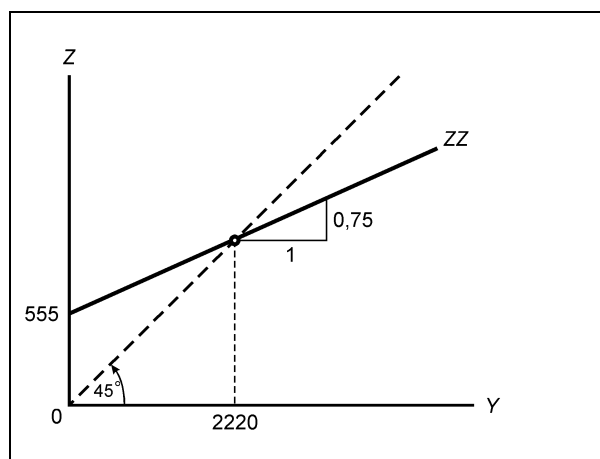
    1. a, b, c and d
    2. Only b, c and d
    3. b, d, e and f
   4. Only a, d and f
    5. Not options 1, 2, 3 or 4

6. If the current level of income (Y_0) is less than the full-employment level of income (Y_F) in a goods market model of a closed economy a(n) …

    a. increase in investment will move the economy to full employment.
    b. increase in the marginal propensity to consume will move the economy to full employment.
    c. increase in government spending will move the economy to full employment.
    d. decrease in taxes will move the economy to full employment.
    e. increase in any autonomous spending component will move the economy to full employment.

    1. Only a, b, c and e
    2. Only b, c and d
    3. Only a, c and d
    4. Only b, d and e
    5. a, b, c, d and e

7. Given a marginal propensity to consume of 0.8, an increase of 100 in government spending and an increase of 80 in taxes will cause the level of output and income to ...

    1. increase by 180.
    2. be unchanged.
    3. increase by 100.
    4. increase by 80.
    5. decrease by 80.

Questions 8 and 9 are based on the following data for the country WELLNESS for 2012.

Marginal propensity to consume = 0.9
Autonomous consumption = R50 million
Investment spending = R30 million
Government spending = R40 million
Taxes = R20 million

8. Which of the following statements is/are correct?

    a. The value of the multiplier is equal to 20.
    b. The budget balances.
    c. The equilibrium level of output and income is R1 000 million.
    d. Total consumption is R950 million at the equilibrium level of output and income.
    e. An increase in government spending of R10 million and a decrease in taxation of R10 million will increase output and income with R190 million and will result in a budget surplus of R40 million.
    f. An increase in government spending of R10 million and increase in taxation of R10 million will still have an expansionary effect on the output and income level.

    1. a, c and d
    2. b, c, d and e
    3. d, e and f
    4. c, d, e and f
    5. None of the options 1 to 4

9. Which one of the following good market models represents the data given in question 8 above?

Diagram A	Diagram B	Diagram C
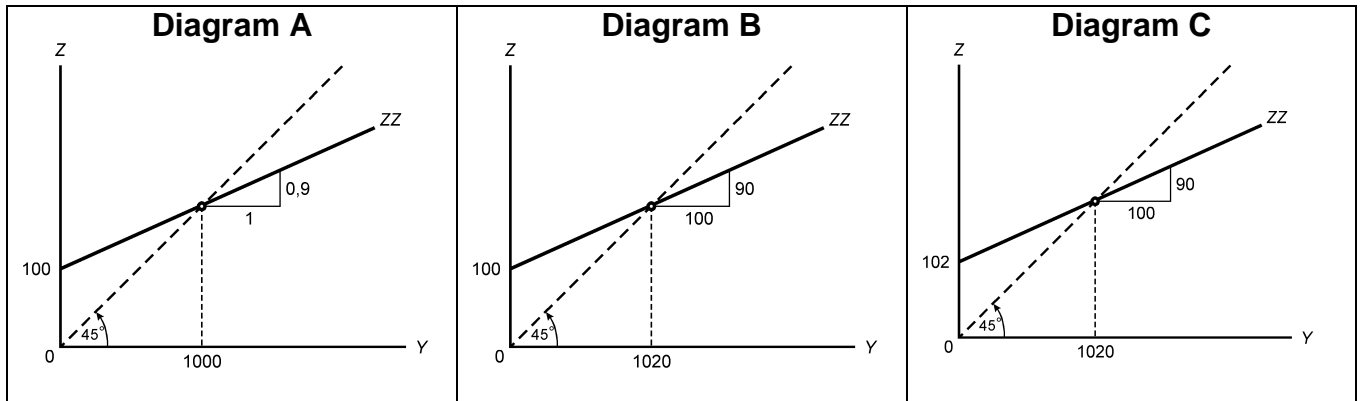
1. Diagram A
2. Diagram B
3. Diagram C

Questions 10 to 15 are based on the following approximate figures for the South African economy in 2010:

Real GDP	= R1 895 000 million
Estimated population	= 50 million
Estimated labour force	= 20 million
Multiplier	= 1.4
Unemployment rate	= 25%

10. How many people were unemployed in South Africa in 2010?

1. 5 million.
2. 12.5 million.
3. 30 million.
4. 20 million.

11. If government increases its expenditure by R100 million by how much will real GDP increase?

1. R100 million.
2. R40 million.
3. R140 million.
4. R240 million.
5. R71 million.

12. The answer to question 12 above can be illustrated as follows:

| Diagram A | Diagram B | Diagram C |
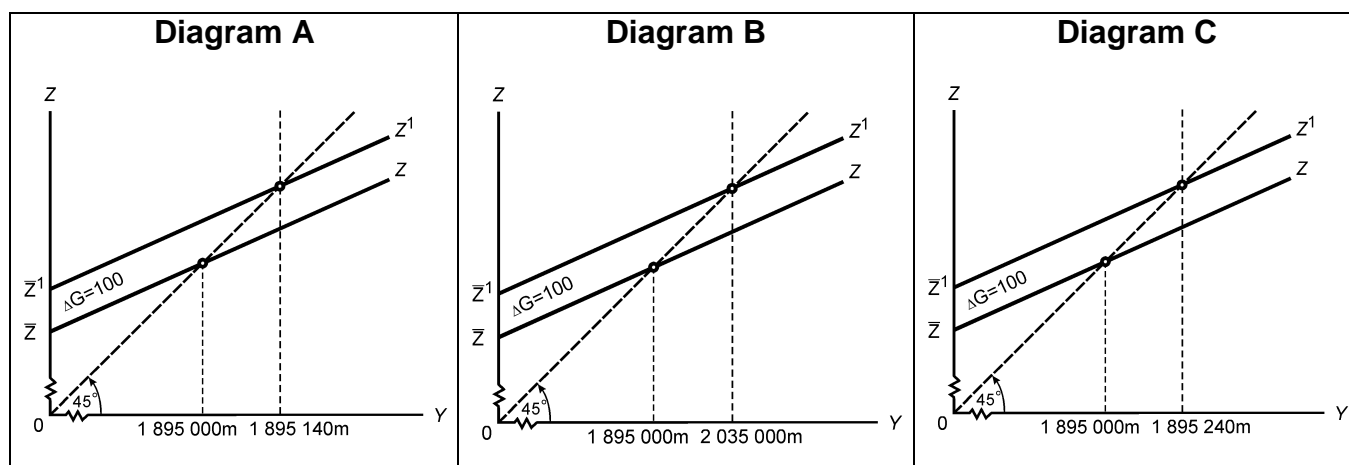
1. Diagram A
2. Diagram B
3. Diagram C

Read the following and answer questions 13 to 15:

A positive relationship exists between economic growth and employment creation. The larger the employment intensity of economic growth the more jobs are created for a given economic growth rate. An employment intensity of 0.2 indicates that for a 1% economic growth rate employment increases by 0.2% while an employment intensity of 0.4 indicates that for a 1% economic growth rate employment increases by 0.4%. Assuming an employment intensity of growth of 0.4 the % increase in real GDP must be approximately 8% to create 500 000 new jobs.

13. By how much should real GDP increase to create 500 000 new jobs?

1. R113 700 million.
2. R189 500 million
3. R75 800 million.
4. R151 600 million.
5. R227 400 million.

14. If this increase in GDP is to be achieved through an increase in government spending on infrastructure by how much should government increases its spending?

1. R54 143 million.
2. R812 214 million.
3. R108 286 million.
4. R135 357 million.
5. R94 750 million.

15. If the creation of 500 000 new jobs is to be achieved by a decrease in taxes by how much should taxes, given a marginal propensity to consume of 0.29, decreases?

1. R108 286 million.
2. R373 400 million.
3. R113 700 million.
4. R157 917 million.
5. R54 143 million.

16. Assuming that the face value of the treasury bill is R150 000, the price paid for the bill is R140 000 and the date to maturity is one year, the rate of return is …

    1.   7.14% and it will decrease if the price paid for it decreases to R135 000.
    2.   7.14% and it will increase if the price paid for it decreases to R135 000.
    3.   6.67% and it will decrease if the price paid for it increases to R145 000.
    4.   6.67% and it will increase if the price paid for it increases to R145 000.

Questions 17 and 18 are based on the diagram below which represents changes in the supply of money:
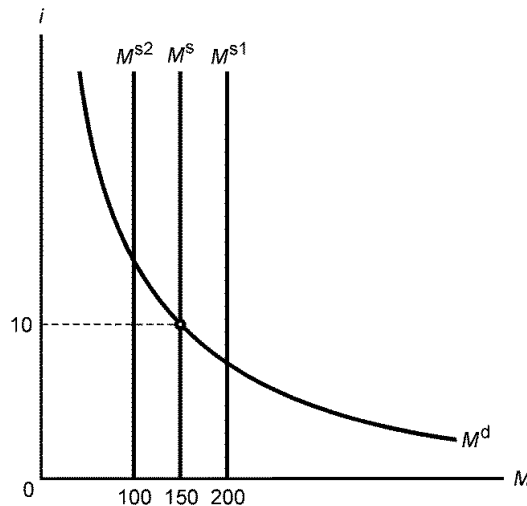
17. Which of the following statements are correct?

    a.   At the initial interest rate of 10% an increase in the supply of money from M^S to M^{S1} results in a surplus of money of 50.
    b.   At the initial interest rate of 10% an increase in the supply of money from M^S to M^{S1} results in a shortage of money of 50.
    c.   At the initial interest rate of 10% a decrease in the supply of money from M^S to M^{S2} results in a surplus of money of 50.
    d.   At the initial interest rate of 10% a decrease in the supply of money from M^S to M^{S2} results in a shortage of money of 50.

    1.   a and c
    2.   a and d
    3.   b and c
    4.   b and d
    5.   Only d

18. Which of the following statements are correct?

    a.   A shift from M^S to M^{S2} represents the impact of a contractionary monetary policy where the central bank sells treasury bills on the open market and consequently the interest rate increases.
    b.   A shift from M^S to M^{S1} represents the impact of an expansionary monetary policy where the central bank buys treasury bills on the open market and consequently the interest rate decreases.
    c.   Any change in the interest rate or income will shift the M^d curve.
    d.   At the initial interest rate of 10% an increase in income will shift the M^d curve to the right and consequently the interest rate will increase.

1. a, b, c and d
2. Only a, c and d
3. Only a, b and d
4. Only b and d
5. Only a and b

19. A decrease in income with simultaneous expansionary open market operations by the central bank shifts the …

   1. demand for money curve to the left and the money supply curve to the right. The equilibrium interest rate is higher.
   2. demand for money curve to the right and the money supply curve to the left. The equilibrium interest rate is higher.
   3. demand for money curve to the left and the money supply curve to the right. The equilibrium interest rate is lower.
   4. demand for money curve to the right and the money supply curve to the left. The equilibrium interest rate is lower.

20. Which of the following factors are regarded as exogenous variables in the goods market model?

   a. Government spending.
   b. Level of output and income.
   c. Interest rate.
   d. Investment spending.

   1. a, b and d
   2. b, c and d
   3. Only c and d
   4. Only a and d
   5. a, c and d

21. Which of the following factors are regarded as endogenous variables in the financial market?

   a. Government spending.
   b. Interest rate.
   c. Investment spending.
   d. Money supply.

   1. a, c and d
   2. Only a and c
   3. b and d
   4. Only b
   5. Only d

22. Which of the following factors are regarded as exogenous variables in the IS-LM model?

   a. Government spending.
   b. Level of output and income.
   c. Interest rate.
   d. Investment spending.
   e. Money supply.

1. a, b and d
2. b, c and e
3. Only b and c
4. a and e
5. a, d and e

23. A negative relationship exists between the interest rate and investment spending since a(n) …

   1. increase in the interest rate increases the return on savings and it is worthwhile for households to increase their savings.
   2. decrease in the interest rate decreases the cost of borrowing and households are able to borrow more money from banks.
   3. increase in the interest rate increases the cost of borrowing money and firms will find that there are fewer profitable investment opportunities.
   4. increase in autonomous investment increases the interest rate.
   5. decrease in investment spending causes a decrease in the level of output.

24. In the event of a rise in the interest rate a(n) _____ an investment curve takes place while an increase in output will cause a(n) _____ an investment curve.

   1. rightward shift of;   downward movement of
   2. downward movement along;   rightward shift of
   3. upward movement along;   leftward shift of
   4. upward movement along;   rightward shift of
   5. downward movement along;   upward movement along

25. Which of the following explains what happens on the goods market if the interest rate increases?

   a. Investment spending increases which causes an increase in the demand for goods and the equilibrium level of income rises.
   b. Disposable income of households increases which increases the demand for goods and the equilibrium level of income rises.
   c. Investment spending decreases which causes a decrease in the demand for goods and the equilibrium level of income declines.
   d. Government spending decreases and the demand for goods decreases and the equilibrium level of income declines.
   e. $i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$.
   f. $i\uparrow \rightarrow T\uparrow \rightarrow Y_D\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$.

   1. a, b and e
   2. b, c, e and f
   3. b, c, d and e
   4. Only c and e
   5. c, d and e

Questions 26 to 30 deals with the derivation of the IS curve and are based on the following information and diagram:

The autonomous spending at an interest rate of 10% is 3 000.
A decrease in the interest rate from 10% to 8% increases investment spending by 1 000.
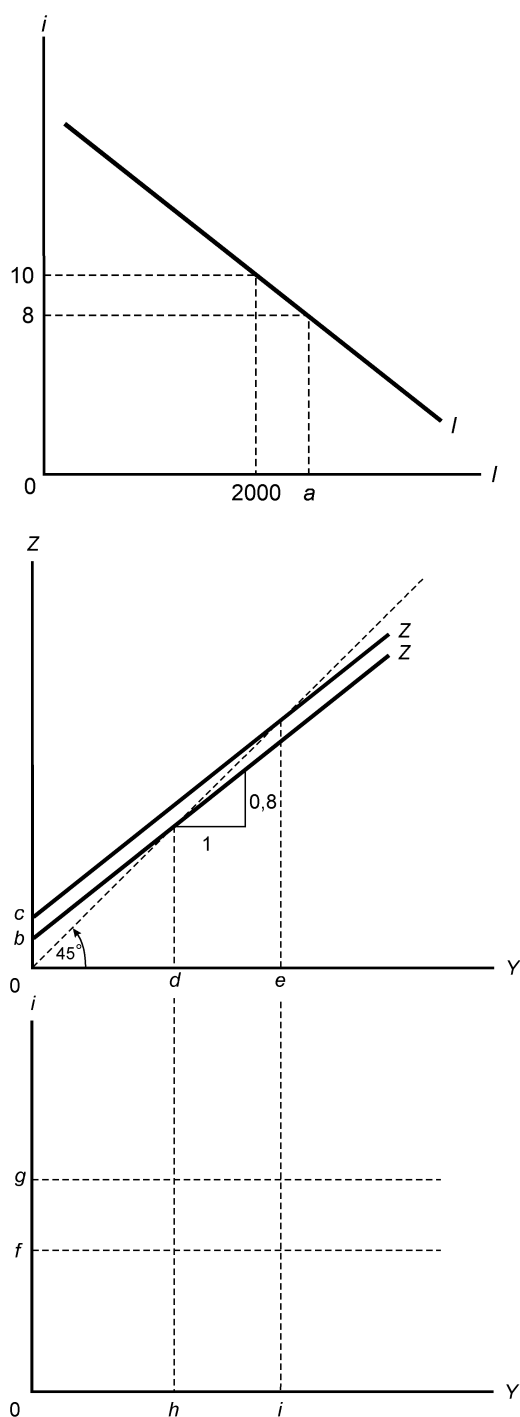
26.   The value for a is:

1.   1 000
2.   2 000
3.   3 000
4.   4 000

27. The values for b and c are:

1.   b = 1 000   c = 2 000
2.   b = 4 000   c = 3 000
3.   b = 2 000   c = 3 000
4.   b = 3 000   c = 4 000
5.   b = 3 000   c = 6 000

28. The values for d and e are:

1.   d = 12 000   e = 16 000
2.   d = 10 000   e = 20 000
3.   d = 15 000   e = 20 000
4.   d = 15 000   e = 16 000
5.   d = 5 000   e = 10 000

29. The values for f and g are:

1.   f = 3 000   g = 4 000
2.   f = 1 000   g = 5 000
3.   f = 2000   g = 3 000
4.   f = 10%   g = 8%
5.   f = 8%   g = 10%

30. The values for h and i are:

1.   h = 12 000 i = 16 000
2.   h = 10 000 i = 20 000
3.   h = 15 000 i = 20 000
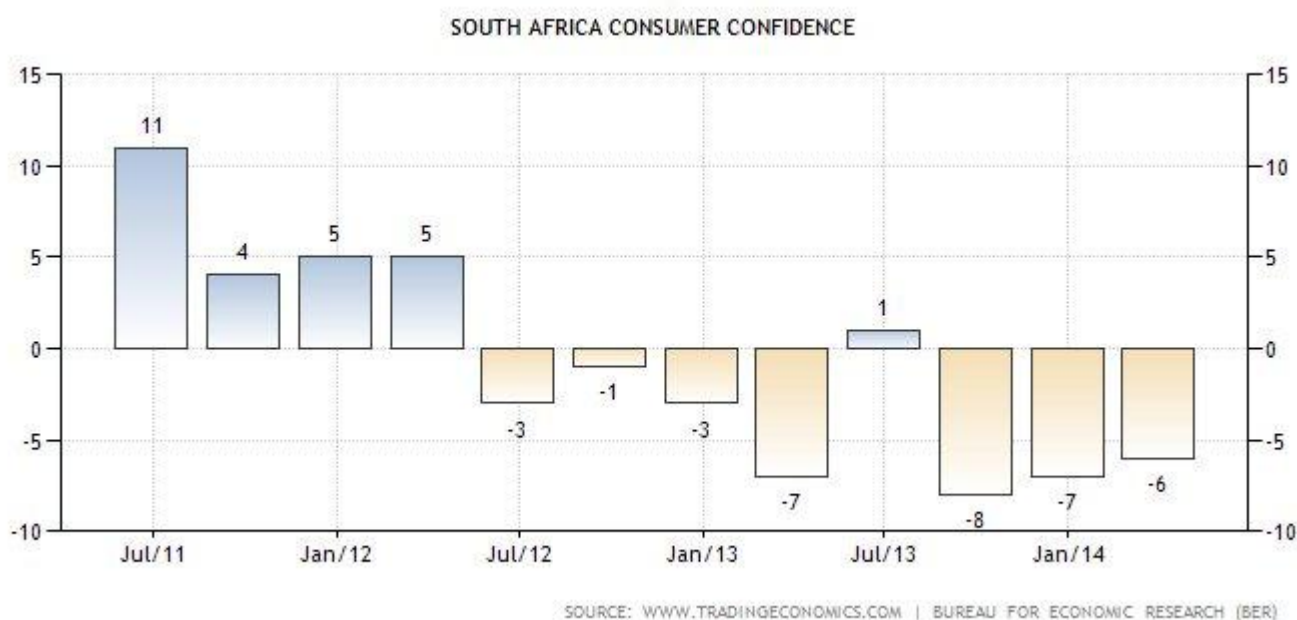4.   h = 15 000 i = 16 000
5.   h = 5 000   i = 10 000

Question 31 is based on the following diagram:
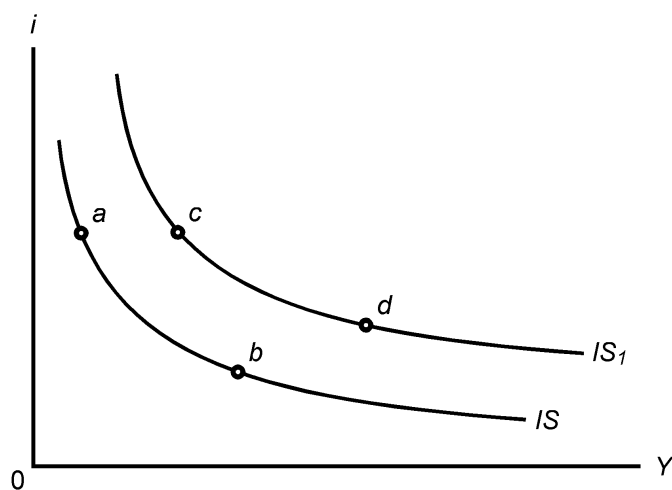
31. Which of the following statements are correct?

    a. The IS curve may shift from IS to IS$_1$ because of an increase in the tax rate.
    b. The IS curve may shift from IS to IS$_1$ because of an increase in consumer confidence.
    c. The movement from point c on curve IS$_1$ to point a on curve IS is caused by a change in any of the autonomous factors that decrease the demand for goods.
    d. The movement from point a to point b on curve IS is caused by a decrease in the interest rate.
    e. The IS curve may shift from IS$_1$ to IS because of an increase in the interest rate.

    1. a, b and d
    2. b, c and e
    3. Only b and c
   4. b, c and e
    5. b, c and d

Study the following diagram and answer 32.

SOUTH AFRICA CONSUMER CONFIDENCE

SOURCE: WWW.TRADINGECONOMICS.COM | BUREAU FOR ECONOMIC RESEARCH (BER)

32. In the IS-LM model the change in consumer confidence between July 2012 and until approximately May 2013 causes a …

    1. downward shift of the LM curve.
    2. upward shift of the LM curve.
    3. rightward shift of the IS curve.
    4. leftward shift of the IS curve.
    5. downward movement along the IS curve.

Question 33 is based on the following diagram:
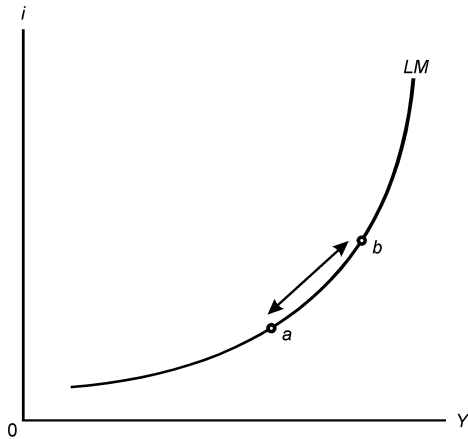
33. The LM curve is upward sloping since an increase in …

    1. the interest rate decreases the demand for money.
    2. the interest rate increases the money supply.
    3. income increases the demand for money and the interest rate.
    4. the interest rate increases the income level.
    5. income increases the money supply.

34. The derivation of the IS curve is described by the following chain of events _____
    while the derivation of the LM curve is described by _____ chain of events.

    1. IS: $i\uparrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$ LM: $Y\downarrow \rightarrow M^d\downarrow \rightarrow i\downarrow$
    2. IS: $i\uparrow \rightarrow G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$ LM: $Y\uparrow \rightarrow M^s\uparrow \rightarrow i\downarrow$
    3. IS: $i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$ LM: $Y\uparrow \rightarrow M^d\uparrow \rightarrow i\uparrow$
    4. IS: $i\uparrow \rightarrow T\downarrow \rightarrow Y_D\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$ LM: $M^s\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$
    5. IS: $i\downarrow \rightarrow I\downarrow \rightarrow Z\uparrow \rightarrow Y\uparrow$ LM: $Y\uparrow \rightarrow M^s\uparrow \rightarrow i\downarrow$

35. In the IS-LM model an increase in the nominal money supply causes the LM curve to shift to
    the …

    1. down and the interest rate decreases. As the interest rate decreases investment
        spending increases and the IS curve shifts to the right.
    2. up and the interest rate increases. As the interest increases investment spending
        decreases and the IS curve shifts to the left.
    3. down and the interest rate decreases. As the interest decreases the investment
        spending increases and a movement along the IS curve takes place.

36. In the IS-LM model an increase in government spending increases the demand for goods
    and the …

    1. IS curve shifts to the right. As government spending increases the supply of money
        increases and the LM curve shifts down.
    2. IS curve shifts to the right. The demand for money increases and the interest rises and
        a movement along the LM curve takes place.
    3. IS curve shifts to the left. The demand for money increases and the interest rises
        causing the LM curve to shift up.

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37. Which of the following policy actions will bring about an increase in the level of output and an increase in the interest rate?

    a. An increase in the money supply.
    b. An increase in government spending.
    c. A decrease in the money supply.
    d. A decrease in government spending.
    e. An increase in the budget deficit.

    1. a, b and d
    2. b, c and e
    3. Only b and c
    4. Only b and e
    5. a, b and e

Read through the following and answer the questions 38 to 41.

In 1999, the South African economy embarked on its longest expansion phase. It lasted for 99 months and come to an end in November 2007 and in the fourth quarter of 2008 the South African economy experienced an economic recession. (See figure 2).
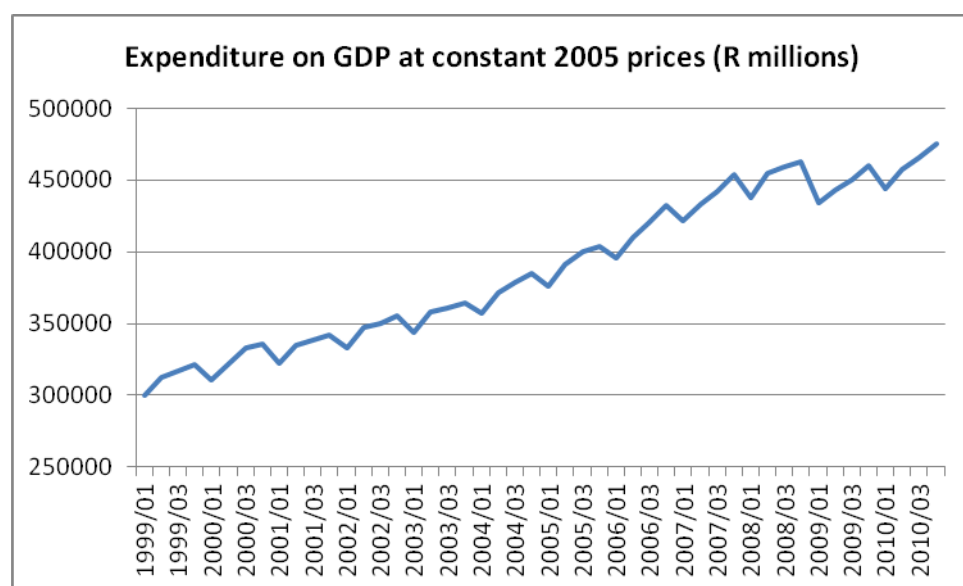

Figure 1

What triggered the end of the expansion phase and the economic recession in South Africa was falling house prices in the United States of America which led to the so-called "subprime mortgage" crisis. Preceding the crisis there was a rapid increase in mortgages to less creditworthy borrowers in America. A combination of falling house prices and default mortgage payments led to the failure and near failure of major financial institutions in America. This sent shockwaves across the financial markets of the world and resulted in a loss of confidence in financial markets and institutions, with the result that share prices fell sharply, investor confidence plunged and the availability of credit to firms and households were severely curtailed. This had the result that consumption spending by households and investment spending by firms declined worldwide which had a major impact on the level of output and income in the major economies of the world. Today this is referred to as the Great Recession.
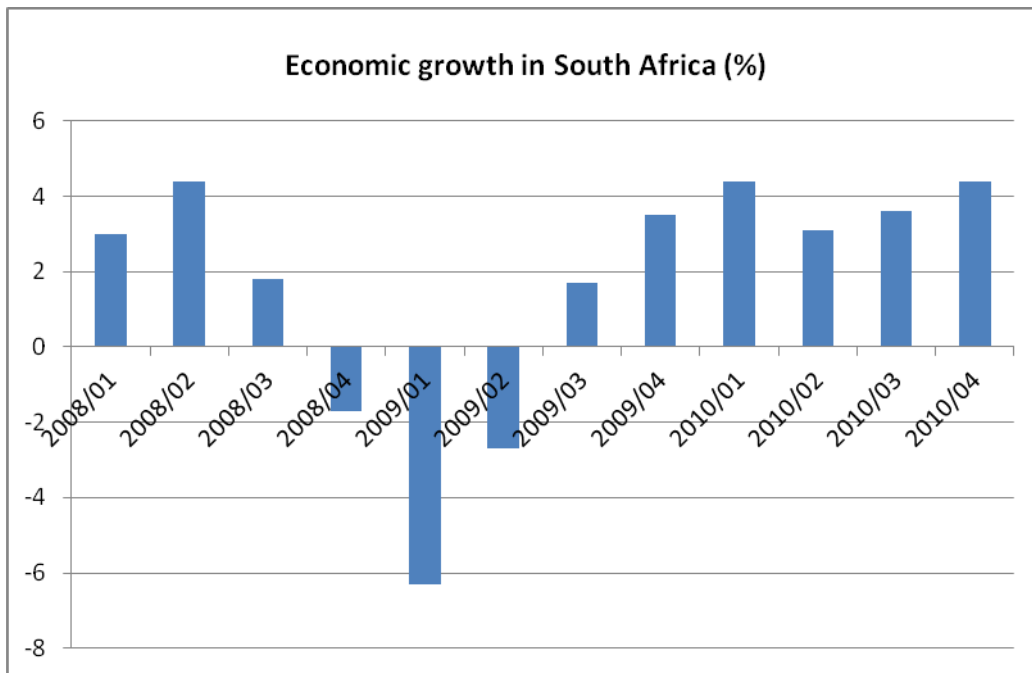
Figure 2

Due to the recession experienced by the major trading partners of South Africa there was a dramatic drop in our exports. In 2009 exports declined by 20% as shown in figure 3. The impact on the economy was worsened by a decline of both consumption spending and investment spending.
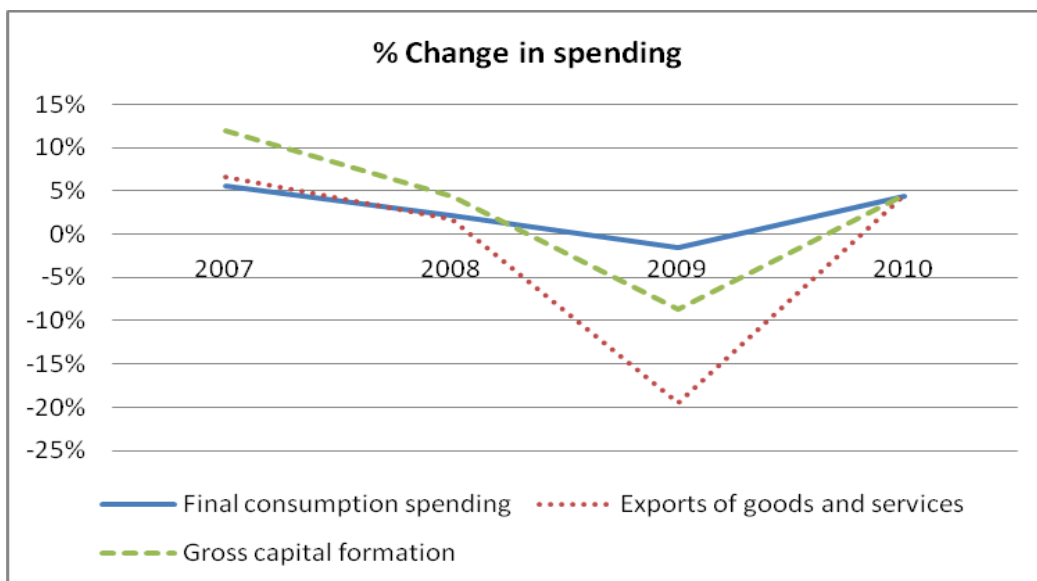

Figure 3

The recession could have been much worse. But it was met by a strong macroeconomic response, which certainly limited the dept and the length of the recession.

Take monetary policy first. In response to the economic slowdown the South African Reserve Bank started to decrease the repurchase rate. (Figure 4 shows the decline in the repurchase rate for the period 2008 to 2009.) In April 2008 the repurchase rate was 11.5% while at the end of 2009 it was 7%.
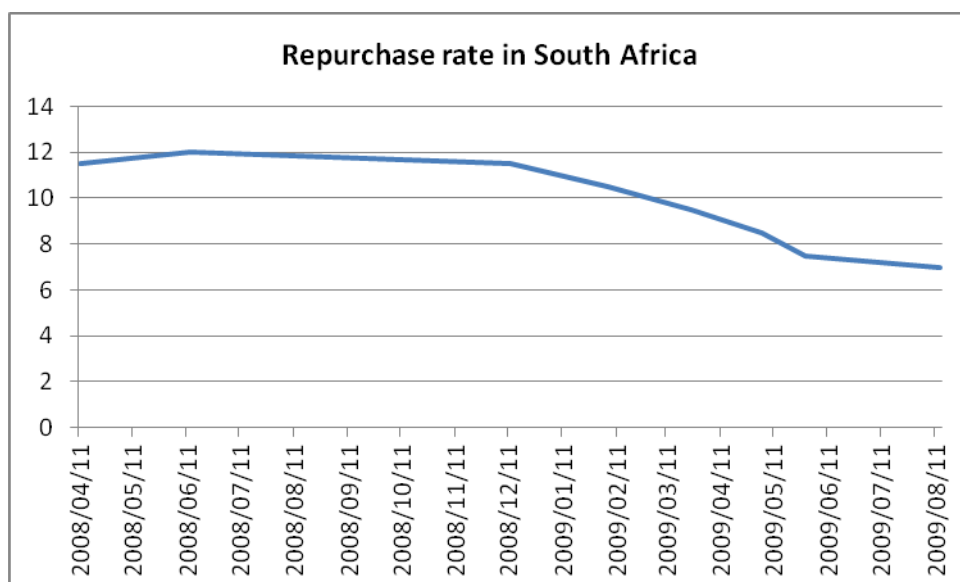
Figure 4

Turning to fiscal policy. Figure 5 shows the evolution of government spending and revenue during 2008 and 2009, both as expressed as a ratio of GDP.
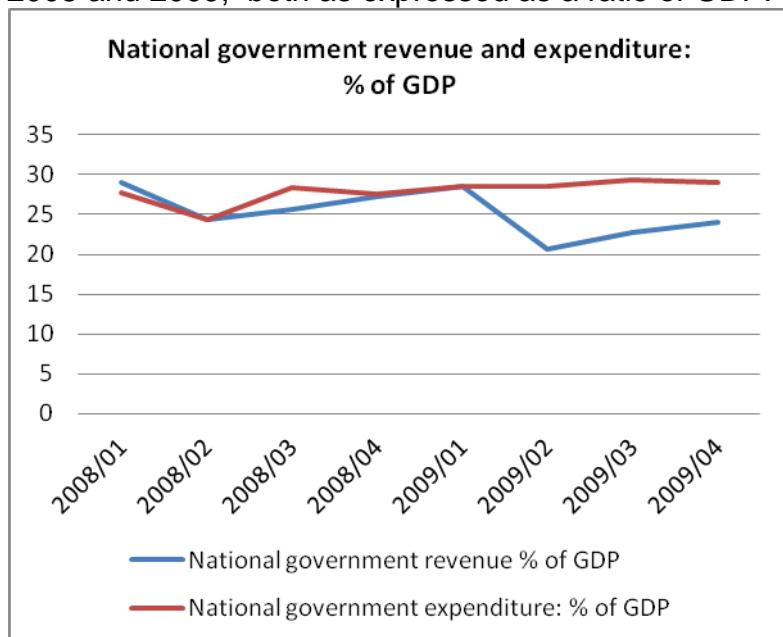

Figure 5

Note the very sharp decline in government revenue in 2009. This was due to the two things namely the decline in output and income which decreases the tax revenue of government and a decline in income tax rates (as part of the expansionary fiscal policy measures). Due to the decline in income tax rates the decrease in tax revenue was much larger than can be explained by the recession. Also note the steady increase in government spending since the fourth quarter of 2008 which continued during the 2009 period. As a result, the budget surplus that was experienced before the start of the recession then turned negative.

38. In the goods market model the impact of the decline in the demand for goods due to the decline in consumption spending and investment spending can be represented by a(n)…

    1. steeper demand for goods curve.
    2. flatter demand for goods curve.
    3. upward shift of the demand for goods curve.
    4. downward shift to the demand for goods curve.

39. In the IS-LM model the impact of the decline in the demand for goods due to the decline in autonomous consumption spending can be represented by a …

    1. upward shift of the LM curve.
    2. downward shift of the LM curve.
    3. leftward shift of the IS curve.
    4. rightward shift of the IS curve.

40. The policy mix that was used to limit the impact of the recession consists of:

    1. An expansionary monetary policy and a contractionary fiscal policy and the IS curve shifts to the left and the LM curve shifts down.
    2. A contractionary monetary and fiscal policy and the IS curve shifts to the left and the LM curve shifts up.
    3. An expansionary fiscal and monetary policy and the IS curve shifts to the right and LM curve shifts down.
    4. A contractionary monetary policy and an expansionary fiscal policy and the IS curve shifts to the right and the LM curve shifts up.

41. The impact of the policy mix on the budget deficit was that it …

    1. increased the budget deficit since exports decline more that imports.
    2. increased the budget deficit since government revenue decreased and government spending increased.
    3. decreased the budget deficit since government revenue increased and government spending declined.
    4. decreased the budget deficit since imports decline more than exports.

42. Comparing a **contractionary fiscal policy** with an **expansionary monetary policy** in the IS-LM model the results are best described by the following?

1.	FISCAL POLICY	MONETARY POLICY
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Higher	Lower
Investment spending	Lower	Higher
Budget deficit	Lower	Unchanged

2.	FISCAL POLICY	MONETARY POLICY
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Lower	Lower
Investment spending	Higher	Higher
Budget deficit	Unchanged	Unchanged

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3.	FISCAL POLICY	MONETARY POLICY
The demand for goods	Lower	Higher
The level of output	Lower	Higher
The interest rate	Lower	Lower
Investment spending	Indeterminate	Higher
Budget deficit	Lower	Unchanged

4.	FISCAL POLICY	MONETARY POLICY
The demand for goods	Higher	Lower
The level of output	Higher	Lower
The interest rate	Higher	Higher
Investment spending	Indeterminate	Lower
Budget deficit	Higher	Unchanged

5.	FISCAL POLICY	MONETARY POLICY
The demand for goods	Lower	Higher
The level of output	Lower	Lower
The interest rate	Lower	Lower
Investment spending	Indeterminate	Higher
Budget deficit	Lower	Unchanged

43. Which one of the following policy actions is appropriate if the objective is to decrease the budget deficit without decreasing the level of output?

1. An expansionary fiscal policy coupled with an expansionary monetary policy.
2. A contractionary fiscal policy coupled with a contractionary monetary policy.
3. An expansionary fiscal policy coupled with a contractionary monetary policy.
4. A contractionary fiscal policy coupled with an expansionary monetary policy.

This assignment contributes 30% towards your semester mark.

Please ensure that this assignment reaches the university before the due date.

Answer all questions on a mark-reading sheet.

Openness in goods and financial markets

1. Which of the following statements are correct?

   a. The nominal exchange rate is the relative price of domestic goods in terms of foreign goods.
   b. The real exchange rate is the price of the domestic currency in terms of foreign currency.
   c. The most popular way of measuring the openness of the goods market, is to express imports and exports as a percentage of GDP.
   d. Openness in goods markets is the ability of consumers and firms to choose between domestic goods and foreign goods.
   e. Openness in financial markets is the ability of financial investors to choose between domestic financial assets and foreign financial assets.

   1. a, b, c, d and e
   2. Only a and b
   3. Only b, c and d
   4. Only a, b and e
   5. Only c, d and e

2. Which of the following refers to an appreciation of the rand?

   a. R1 = $0.35 to R1 = $0.30
   b. R1 = $0.30 to R1 = $0.35
   c. R1 = $0.55 to R1 = $0.60
   d. $1 = R10 to $1 = R9
   e. $1 = R9 to $1 = R10

   1. a and c
   2. Only b and c
   3. a and e
   4. b, c and d
   5. b and e

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3.   The real exchange rate between the rand and the dollar is:

$$\varepsilon = \frac{EP}{P_*}$$

Which of the following statements is/are correct?

a.   If the increase in the relative price of SA goods is greater than the increase in the price of USA goods, the real exchange rate increases and a real appreciation takes place.

b.   If the increase in the relative price of SA goods is greater than the increase in the price of USA goods, the real exchange rate decreases and a real depreciation takes place.

c.   USA goods are relatively more expensive if the nominal exchange rate is unchanged and the increase in the price of USA goods is greater than the increase in the price of SA goods, because a real depreciation takes place.

d.   Assume that the increase in P* and the increase in P are the same and the rand depreciates against the dollar. Then, the nominal exchange rate is higher, the real exchange rate increases and a real appreciation takes place. Therefore, the USA goods are relatively cheaper than before the change in the nominal exchange rate.
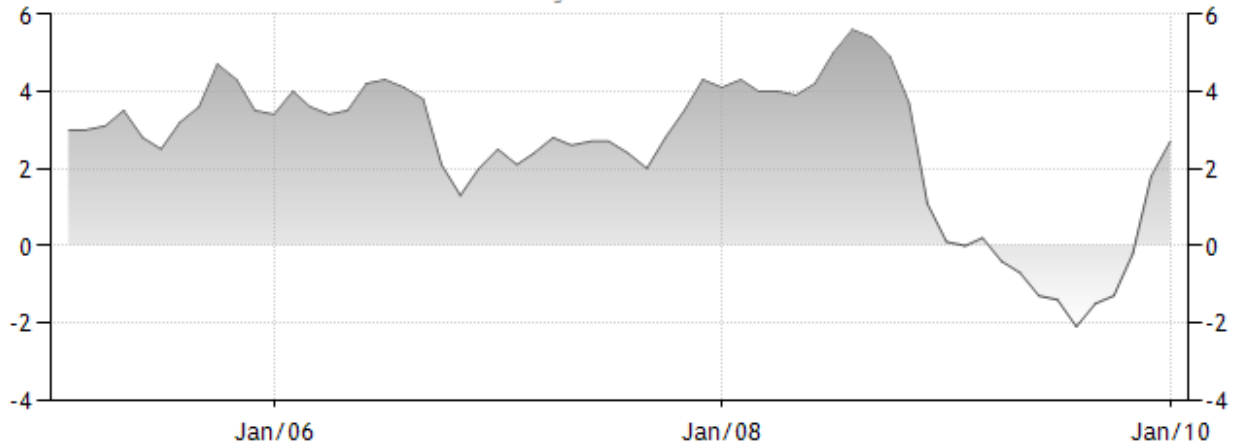
1.   a and c
2.   Only a
3.   Only b
4.   Only c
5.   Only d

Questions 4 to 7 are based on the following information:
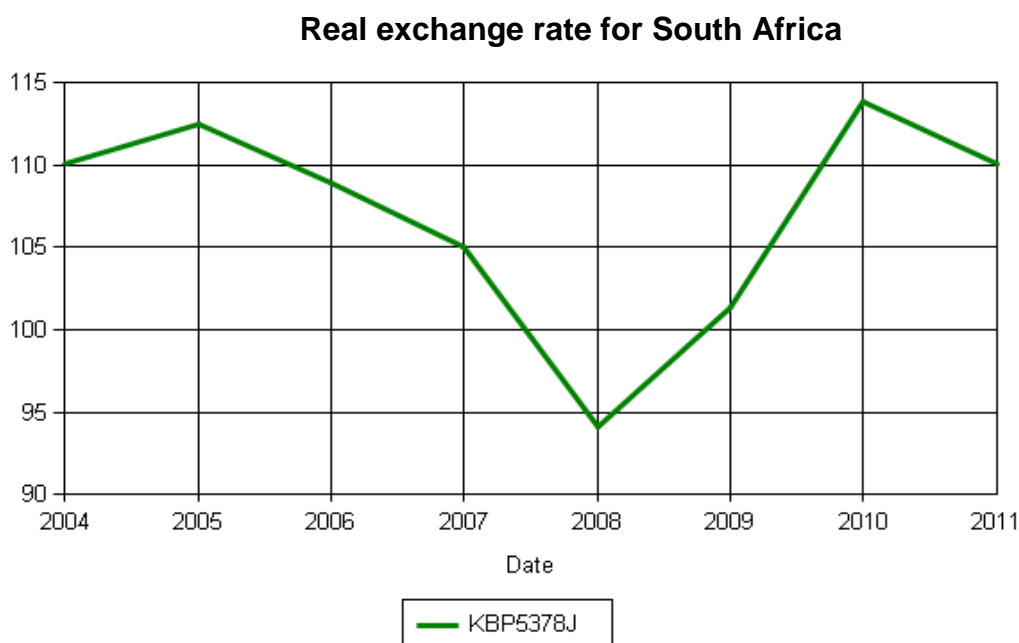
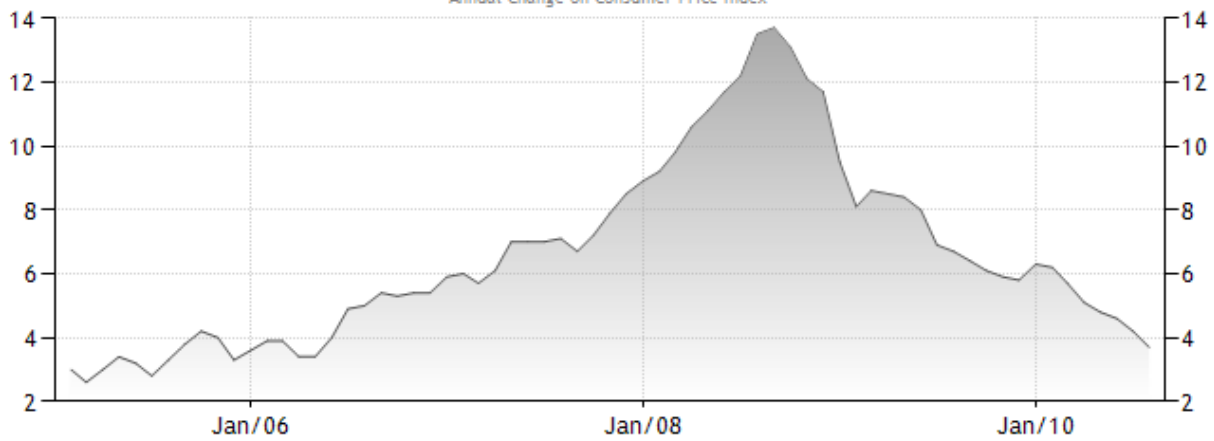**Real exchange rate for South Africa**

KBP5378J

UNITED STATES INFLATION RATE
Annual Change on Consumer Price Index

SOUTH AFRICA INFLATION RATE
Annual Change on Consumer Price Index

Nominal Exchange rate (R/$)

Source: http://www.oanda.com/currency/historical-rates/

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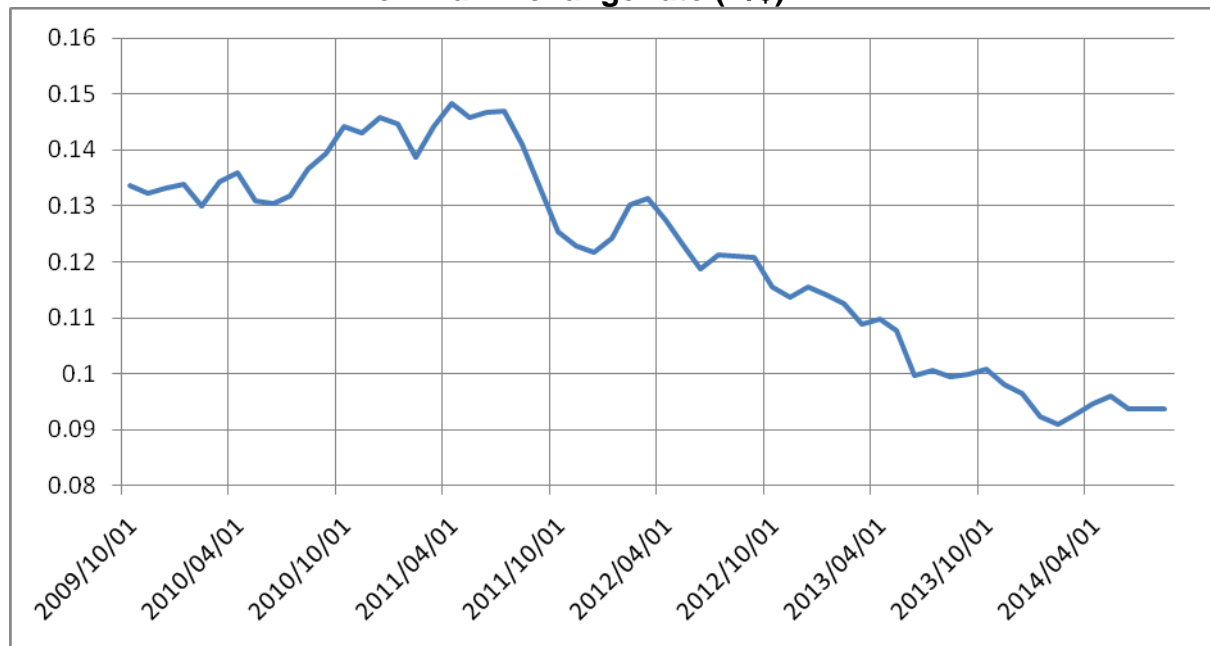
4. Compared to the United States of America the inflation rate in South Africa during 2006 to 2008 was _____

    1. higher.
    2. lower.
    3. the same.

5. Which of the following statement(s) is/are correct with regards to the real exchange rate for the rand?

    a. For the period 2010 to 2011 the real exchange rate decreased.
    b. For the period 2005 to 2008 the real exchange rate decreased.
    c. During the period 2004 to 2005 the real exchange rate decreased.

    1. Only a and b
    2. Only a and c
    3. Only b and c
    4. Not a, b or c
    5. a, b and c

6. Which one of the following statements is correct?
    The nominal R/$ exchange rate _____ during 2010 and from 2012 it _____.

    1. depreciated;   appreciated
    2. was unchanged;   depreciated
    3. depreciated;   depreciated
    4. appreciated;   depreciated
    5. depreciated;   was unchanged

7. Which of the following statements are correct?

    a. A budget balance refers to the difference between merchandise exports and merchandise imports.
    b. A trade balance can be regarded as the difference between merchandise exports and merchandise imports.
    c. If merchandise imports exceed merchandise exports a trade balance deficit occurs.
    d. When a country earns more on exports of goods and services than it spends on imports of goods and services a current account deficit exists.
    e. A financial account surplus occurs when the inflow of investment from the rest of the world exceeds the outflow of investments to the rest of the world.

    1. a, c and e
    2. b, c and d
    3. b, c and e
    4. Only a and e
    5. Only b and c

8. A maize farmer from Limpopo province imports a new tractor and a plough to use on his farm. From a South African perspective this would represent an _____ of funds and would be recorded under _____ in the balance of payments.

   1. inflow; merchandise exports
   2. outflow; merchandise imports
   3. inflow; service exports
   4. outflow; payment for services
   5. inflow; current transfers

9. A trade balance surplus indicates that a country earns more on _____ than it spends on _____ and this would be reflected as a _____ on the trade balance.

   1. imports; exports;   improvement
   2. exports; imports;   deterioration
   3. exports; imports;   improvement
   4. imports; exports;   deterioration

10. The interest parity condition indicates to the investor that when he/she have to decide between domestic or foreign financial investment he/she should consider the difference in the _____ and the _____.

   1. expected changes in the exchange rate;   inflation rate
   2. interest rate;   expected economic growth
   3. level of output and income;   expected changes in the exchange rate
   4. expected changes in the exchange rate;   balance of payments
   5. interest rate;   expected changes in the exchange rate.

11. Given the following information:
    Interest rate on RSA bonds: 9%
    Interest rate on USA bonds: 6%

    Which one of the following statements is correct?

    1. If the expected depreciation of the rand is 4% financial market participants will be indifferent between RSA and USA bonds.
    2. If the expected appreciation of the rand is 4% financial market participants will buy USA bonds.
    3. If the expected depreciation of the rand is 4% financial market participants will buy USA bonds.
    4. If the expected depreciation of the rand is 4% financial market participants will buy RSA bonds.

The goods market in an open economy

12. Which of the following statements are correct?

    a. Foreign demand for domestic goods is also known as exports.
    b. Domestic demand for foreign goods is also known as imports.
    c. Part of domestic demand falls on foreign/imported goods.
    d. The "domestic demand for goods" and the "demand for domestic goods" are the same.

1. a, b, c and d
2. Only a, b and c
3. Only b and d
4. Only c and d
5. Only b, c and d

13. An increase in the real exchange rate implies that …

   a. SA goods are relatively cheaper than the goods produced in the rest of the world.
   b. SA goods are relatively more expensive than the goods produced in the rest of the world.
   c. exports will increase.
   d. exports will decrease.

   1. a and c
   2. b and c
   3. a and d
   4. b and d
   5. Only d

14. Which of the following statements are correct?

   A positive relationship exists between the …

   a. real exchange rate and exports.
   b. domestic level of output and imports.
   c. real exchange rate and imports.
   d. domestic level of output and exports.
   e. level of foreign output and exports.

   1. a, b, c and d
   2. a, b, c and e
   3. Only b, c and e
   4. Only a and d
   5. c, d and e

15. Suppose the economy is in a recession, and the government decides to increase government spending in order to increase domestic demand and output.

   If the original equilibrium level of output corresponds with a trade balance equilibrium position (Y_{TB}), what will be the effect on the level of output and on the trade balance?

   1. The domestic level of output will decrease and there will be a trade deficit.
   2. The domestic level of output will decrease and there will be a trade surplus.
   3. The domestic level of output will increase and there will be a trade deficit.
   4. The domestic level of output will be unchanged and there will be a trade surplus.
   5. The domestic level of output will increase and there will be a trade surplus.

16. Which of the following factors will shift the NX curve to the left?

   a. A decrease in imports.
   b. A decrease in exports.
   c. A decrease in government spending.
   d. An increase in domestic demand for foreign goods.
   e. A decrease in foreign demand for domestic goods.

   1. a, b, c and d
   2. b, c and e
   3. Only a, c and d
   4. Only b and e
   5. Only d

Questions 17 and 18 are based on the following diagram.

Given the goods market equilibrium in the following diagram, what would the likely impact of a depreciation of the domestic currency be?
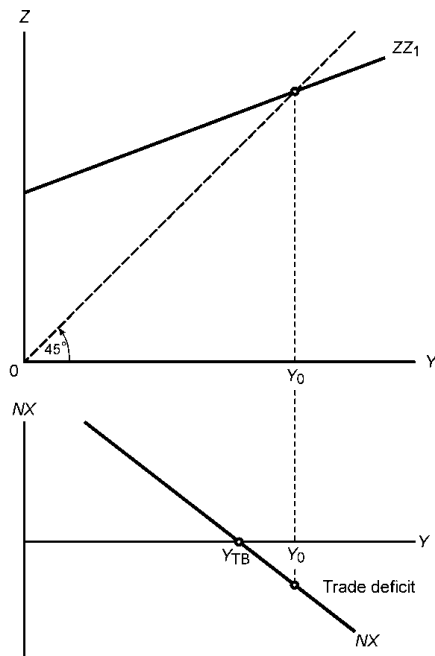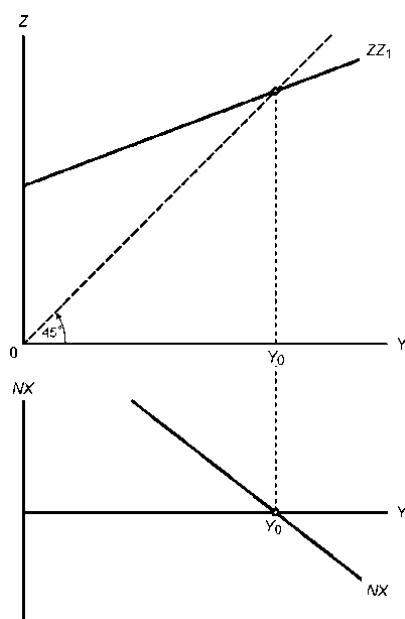

17. Which one of the following statements is correct?

   1. The ZZ_1 curve will shift upwards.
   2. The ZZ_1 curve will shift downwards.
   3. The ZZ_1 curve will stay constant
   4. The ZZ_1 curve will shift upwards and then downwards.

18. Which one of the following statements is correct?

   1. The domestic level of output will increase and there will be a higher trade deficit.
   2. The domestic level of output will decrease and there will be a lower trade deficit.
   3. The domestic level of output will decrease and there will be a trade surplus.
   4. The domestic level of output will be unchanged and there will be a trade surplus.
   5. The domestic level of output will increase and there will be a lower trade deficit.

To answer questions 19 and 20, use the following model:

19. Which one of the following statements is correct?

    1. A depreciation of the exchange rate causes a decrease in exports and in the level of output and income. This is indicated by a downward shift of demand for goods curve.
    2. An appreciation of the exchange rate causes an increase in exports and in the level of output and income. This is indicated by an upward shift of the demand for goods curve.
    3. An appreciation of the exchange rate causes a decrease in imports and in the level of output and income. This is indicated by a downward shift of the demand for goods curve.
    4. A depreciation of the exchange rate causes an increase in exports and in the level of output and income. This is indicated by an upward shift of the demand for goods curve.

20. If the rand depreciates the impact on the NX curve is that …

    1. the NX curve shifts to the left.
    2. the NX curve shifts to the right.
    3. an upward movement along the NX curve takes place.
    4. a downward movement along the NX curve takes place.

21. For the Marshall-Lerner condition to hold a(an) …

    1. depreciation must eventually lead to an increase in exports and an improvement in the trade balance.
    2. appreciation must eventually lead to an increase in exports and an improvement in the trade balance.
    3. depreciation must eventually lead to an increase in imports and a deterioration in the trade balance.
    4. appreciation must eventually lead to an increase in imports and an improvement in the trade balance.

22. Which one of the following diagrams illustrates the impact of a depreciation in the exchange rate on the level of output and income and the trade balance?
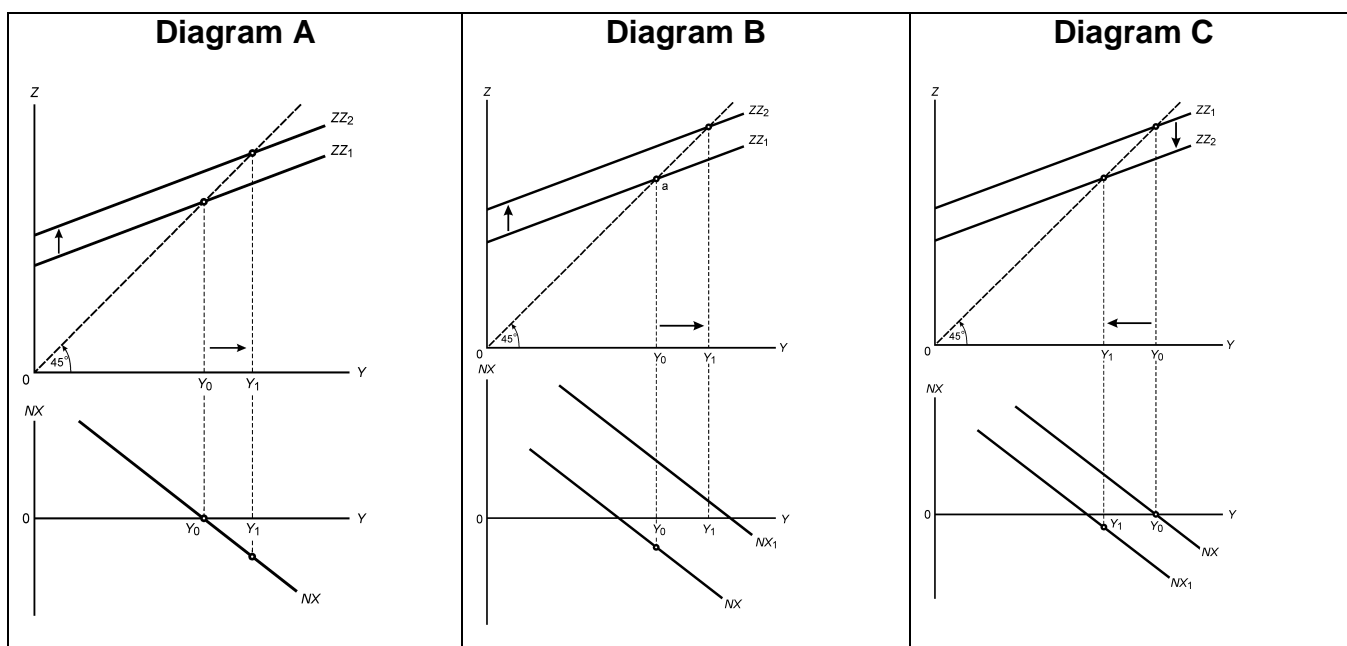
Diagram A	Diagram B	Diagram C

1. Diagram A
2. Diagram B
3. Diagram C

Output, the interest rate and the exchange rate: the IS-LM model for an open economy

23. Which of the following statements is/are correct?

a. The equilibrium condition in the financial market is $M^d = M^s$.
b. Financial investors, domestic or foreign, go for the highest expected rate of return.
c. By using the interest parity equation and by assuming that the expected exchange rate changes, a relationship between the domestic interest rate and the nominal exchange rate can be derived.
d. A positive relationship occurs between the domestic interest rate and the nominal exchange rate.

1. a, b, c and d
2. Only a, b and c
3. Only b, c and d
4. Only a, b and d
5. None of the options 1 to 4

24. Which one of the following statements is **incorrect** regarding the IS and LM relations in an open economy?

    1. An increase in the interest rate has a negative impact on the exchange rate.
    2. The LM relation is exactly the same in an open as in a closed economy and is upward sloping.
    3. Given the domestic interest rate and the interest parity relation, the equilibrium interest rate determines the equilibrium exchange rate.
    4. The LM curve is upward sloping, because given the real money supply, an increase in output increases the interest rate.
    5. The interest parity relations shows (given i^*, $\bar{E}^e$) the following relationship:
        $i\uparrow \rightarrow E\uparrow$ and $i\downarrow \rightarrow E\downarrow$.

Questions 25 to 30 are based on the following diagram of an IS-LM model for an open economy:
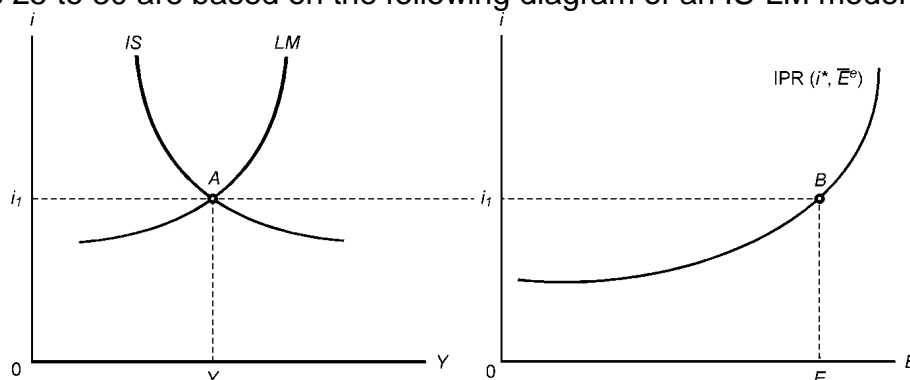
25. Which of the following statements is/are correct?

    a. A decrease in government spending is part of contractionary fiscal policy and will shift the IS curve.
    b. Monetary policy refers to changes in the money supply and will shift the LM curve.
    c. A decrease in government spending will shift the LM curve downwards.
    d. An increase in taxation will shift the IS curve to the left.
    e. A change in the interest rate will shift the LM curve downwards or upwards.

    1. Only a, b and d
    2. a, b and c
    3. b, c, d and e
    4. a, b, d and e
    5. None of the options 1 to 4

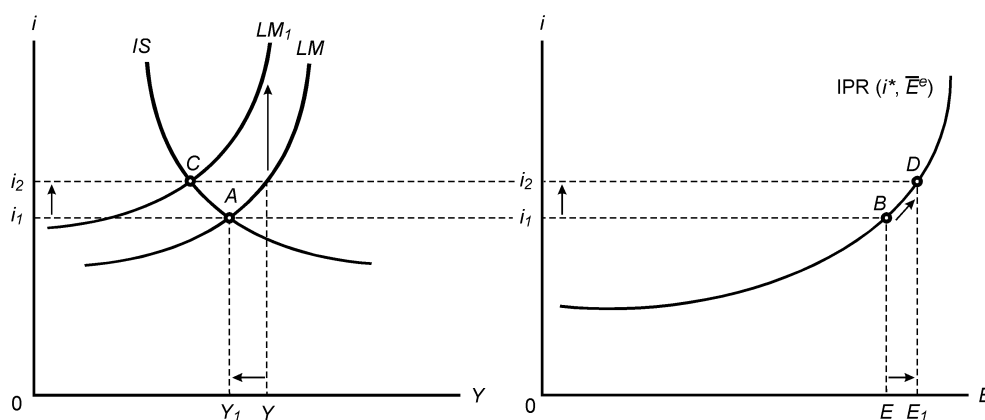Study the following diagram and answer question 26.

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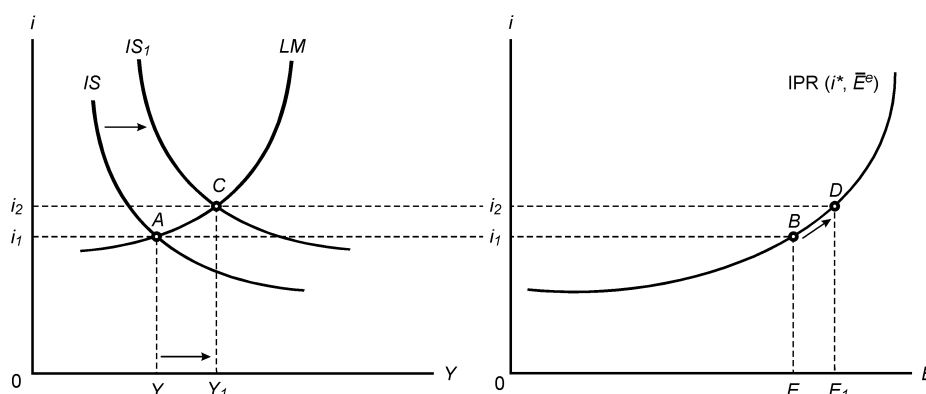
26. Which of the following factors will cause a shift from IS to IS$_1$?

    a.   An increase in investment spending.
    b.   A decrease in taxes.
    c.   An increase in the money supply.
    d.   An appreciation of the exchange rate.
    e.   An increase in government spending.
    f.   An increase in consumer confidence.

    1.   a, b, c, e and f
    2.   c, d, e and f
    3.   a, b and e
    4.   a, b, e and f
    5   c and d

Study the following diagram and answer question 27.

27. Which of the following factors will cause a shift from LM to LM$_1$?

    a.   A decrease in investment spending.
    b.   An increase in taxes.
    c.   An increase in the money supply.
    d.   A decrease in the money supply.
    e.   A depreciation of the exchange rate.
    f.   A decrease in consumer confidence.

    1.   a, d and e
    2.   d, e and f
    3.   Only c
    4.   Only d
    5.   Not options 1 to 4

28. A decrease in government spending causes a ...

   1. decrease in the demand for goods and the level of output; a decrease in the demand for money and the interest rate; a depreciation of the domestic currency and the trade balance improves as exports increase.
   2. decrease in the demand for goods and the level of output; a decrease in the demand for money and an increase in the interest rate; an appreciation of the domestic currency and the trade balance improves as exports increase.
   3. decrease in the demand for goods and the level of output; an increase in the demand for money and the interest rate; a depreciation of the domestic currency and the trade balance improves as exports increase.
   4. decrease in the demand for goods and the level of output; a decrease in the demand for money and the interest rate; a depreciation of the domestic currency and the trade balance deteriorates as exports increase.
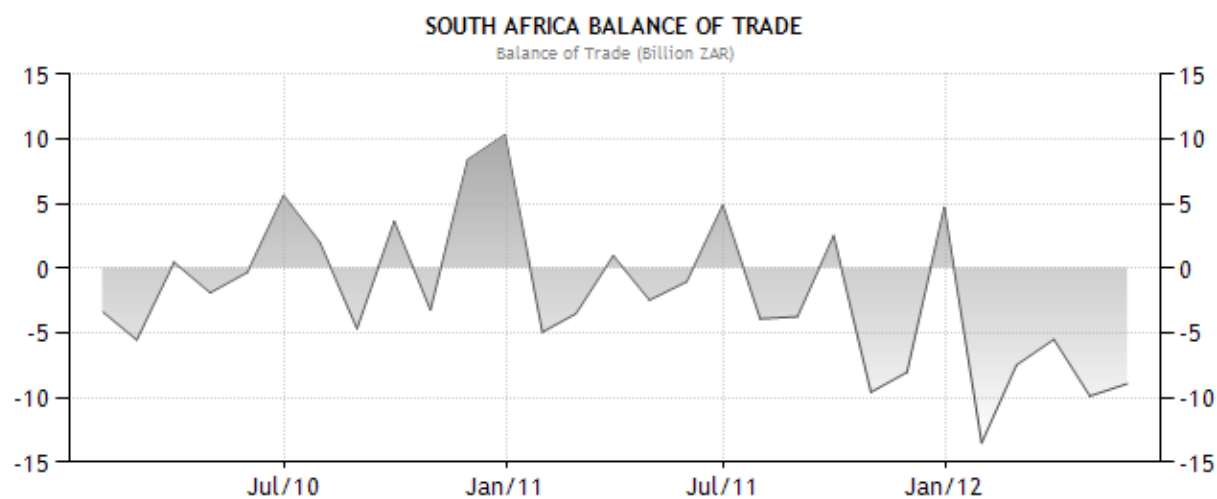
29. An increase in the money supply causes a ...

   1. higher interest rate, a capital inflow, an appreciation of the exchange rate and a deterioration of the trade balance.
   2. lower interest rate, a capital outflow, a depreciation of the exchange rate and an improvement of the trade balance.
   3. lower interest rate, a capital outflow, an appreciation of the exchange rate and an improvement of the trade balance.
   4. higher interest rate, a capital inflow, a depreciation of the exchange rate and an improvement of the trade balance.

30. In the IS-LM model for an open economy fiscal contraction implies that the …

   a. IS curve will shift to the left and the interest rate decreases.
   b. IS curve will shift to the right and the interest rate increases.
   c. nominal exchange rate decreases and a depreciation of the domestic currency takes place.
   d. nominal exchange rate increases and an appreciation of the domestic currency takes place.

   1. a and d
   2. b and d
   3. a and c
   4. b and c

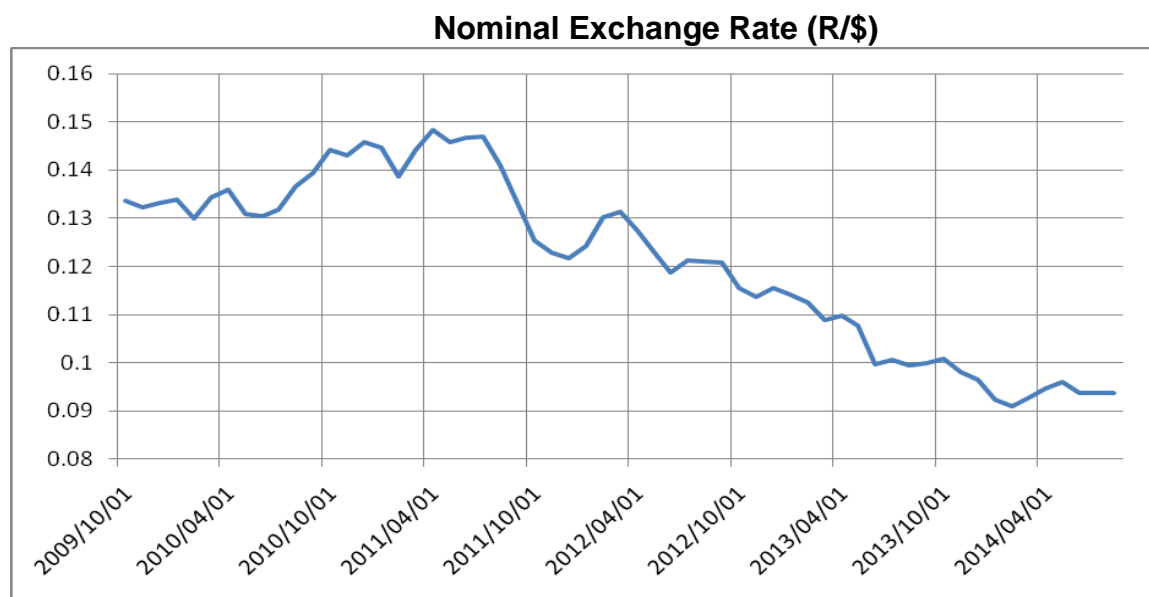Questions 31 to 33 are based on the following information.

SOUTH AFRICA BALANCE OF TRADE
Balance of Trade (Billion ZAR)

SOUTH AFRICA GDP GROWTH RATE
Percent Change in Gross Domestic Product

SOUTH AFRICA EXPORTS
Exports by month (Million ZAR)

Nominal Exchange Rate (R/$)

Source: http://www.oanda.com/currency/historical-rates/

31. For the period July 2011 to January 2012 South Africa experienced mostly ...

    a.   a trade surplus.
    b.   a trade deficit.
    c.   that exports exceeded imports.
    d.   that imports exceeded exports.

    1.   a and c
    2.   b and d
    3.   a and d
    4.   b and c
    5.   a and b

32. From 2012 the R/$ exchange rate mostly ...

    1.   appreciated.
    2.   depreciated.
    3.   was unchanged.

33. For the period July 2011 to January 2012 South African exports ...

    1.   increased.
    2.   decreased.
    3.   were unchanged.

Question 34 is based on the following information.

During the first quarter of 2012 the interest rate in South Africa was higher than the interest rates of our major trading partners.

34. Using the IS-LM model for an open economy which one of the following correctly describes the impact of the relatively higher interest rate on the R/$ exchange rate and the trade balance?

 1. It caused a depreciation of the R/$ exchange rate, exports increased and the deficit on the trade balance declined.
 2. It caused an appreciation of the R/$ exchange rate, exports decreased and the deficit on the trade balance increased.
 3. It caused a depreciation of the R/$ exchange rate, exports decreased and the deficit on the trade balance increased.
 4. It caused an appreciation of the R/$ exchange rate, exports decreased and the deficit on the trade balance decreased.

35. The impact of an increase in government spending on the exchange rate and the trade balance can be represented by the following chain of events:

 1. $G\uparrow : i\uparrow \rightarrow E\uparrow \rightarrow X\downarrow \rightarrow NX\uparrow$
 2. $G\uparrow : i\uparrow \rightarrow E\uparrow \rightarrow X\downarrow \rightarrow NX\downarrow$
 3. $G\uparrow : i\downarrow \rightarrow E\downarrow \rightarrow X\uparrow \rightarrow NX\downarrow$
 4. $G\uparrow : i\downarrow \rightarrow E\downarrow \rightarrow X\uparrow \rightarrow NX\uparrow$

The following questions are for information purposes and does not count any marks.

36. How do you usually access the internet for studying purposes?

 1. Laptop
 2. Computer
 3. Smart phone
 4. Tablet
 5. I do not have access.

37. Where do you usually access the internet for studying purposes?

 1. From work.
 2. From home.
 3. Some one else's home.
 4. Unisa computer laboratory.
 5. Other.

38. How much of you data bundle per month do you have available for studying purposes?

 1. I have unlimited access to the internet.
 2. Less than 500 MB.
 3. Between 500MB and 1GB.
 4. Between 1GB and 2GB.
 5. More than 2GB.

39. Which one of the following best describes your experience using the CDROM?

    1. I find it extremely helpful.
    2. I find it fairly helpful.
    3. I find it helpful.
    4. I did not find it very helpful.
    5. I did not use it at all.

40. Did you make use of the econom.co.za website to study for the module?

    1. Yes.
    2. No, because I did not know about it.
    3. No, because I have not sufficient access to the WWW.
    4. No, because the printed study material was sufficient for me to understand the work.
    5. No, because I did not have the time to use it.

41. Did you make use of video clips on *You Tube*?

    1. No, because I do not have access to the internet.
    2. No, because I do not have sufficient broadband access to the WWW.
    3. No, because I was unable to download and view the video clips.
    4. Yes.

42. Did you make use of other resources on the WWW apart for *my*Unisa?

    1. Yes.
    2. No, because I do not have access to the internet.
    3. No, because of the cost of using the internet.
    4. No, because the printed study material was sufficient for me to understand the work.
    5. No, because I did not have the time to do it.

43. If you have made use of the CDROM, econom.co.za website and video clips which one did you find the most useful in your studies?

    1. The CDROM.
    2. The econom.co.za website.
    3. The video clips.
    4. Not applicable since I did not use all of them.

44. Which one of the following best describes your use of the module web site on *my*Unisa?

    1. I did not visit it at all.
    2. I only visited it once or twice.
    3. I visited it occasionally.
    4. I visited it regularly.
    5. I visited it extensively.

45. Which one of the following best describes your use of the e-tutor site on *my*Unisa?

    1. I did not visit it at all.
    2. I only visited it once or twice.
    3. I visited it occasionally.
    4. I visited it regularly.
    5. I visited it extensively.

46. Which one of the following best describes your experience with the services of the e-tutor?

    1. I find it extremely helpful.
    2. I find it fairly helpful.
    3. I find it helpful.
    4. I did not find it very helpful.
    5. I did not find it helpful at all.

47. If you compare the volume of work for this module with your other modules would you say that it is less, more or the same as you other modules?

    1. The same
    2. More
    3. Less

48. Which one best describes the life cycle you are in?

    1. Single living with my parents or other family.
    2. Independent single living on my own or sharing with others.
    3. Young family.
    4. Mature family.
    5. Single parent family.

49. How did you pay for your studies?

    1. A loan from a bank.
    2. An Eduloan.
    3. My parents or other family members paid for my studies.
    4. My employer paid from my studies.
    5. I paid for my studies.

50. Have you studied at any other higher education institution (college or university)?

    1. Yes
    2. No

SEMESTER 2
ASSIGNMENT 05
LEARNING UNITS 8 TO 9
SELF-ASSESSMENT ASSIGNMENT
DO NOT SUBMIT THIS ASSIGNMENT

NOTE: Do not submit your answers. Assess or mark your answers once you have received Tutorial Letter 204.

The Labour Market

1. In our analysis of the labour market we assume the following:

    a. Labour is the only factor of production used in the production of output.
    b. Labour productivity is constant.
    c. The price of oil and other raw material stays constant.
    d. The price of products set by firms is based on cost plus a mark-up.

    1. a, b, c and d
    2. Only a, b and d
    3. Only b, c and d
    4. Only a and b
    5. Only c and d

2. Our analysis of the labour market implies the following:

    a. There is a negative relation between the targeted real wage and the unemployment rate.
    b. The higher the unemployment rate, the weaker the workers' position in bargaining.
    c. The higher the unemployment rate, the lower the targeted real wage.
    d. An improvement in the bargaining position of workers' makes it possible to bargain for higher wages.

    1. a, b, c and d
    2. Only a, b and c
    3. Only a, c and d
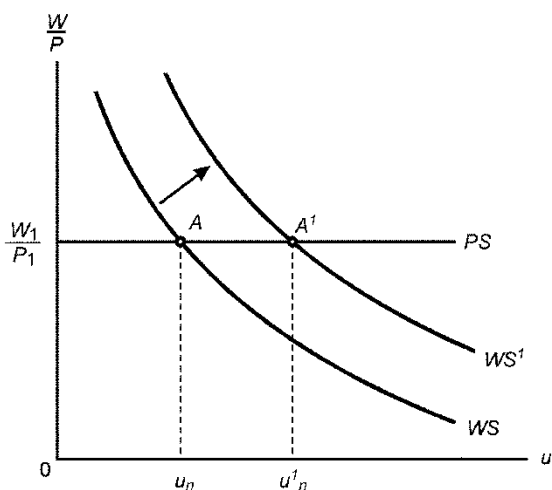   4. Only b, c and e
    5. Only b and d

3. Which of the following factors will increase the bargaining position of workers?

    a. The more expensive it is to dismiss workers.
    b. A higher level of output and a lower unemployment rate.
    c. A lower level of output and a higher unemployment rate.
    d. An increase in unemployment benefits.
    e. Labour laws that protect workers from being dismissed.

1. Only factors a, d and e
2. Only factors a, b and d
3. Only factors b, d and e
4. Only factors d and e
5. Factors a, b, d and e

4. Which of the following statements are correct?

   a. Higher unemployment is associated with both a lower chance of finding a job and a higher chance of losing your job.
   b. An increase in the nominal wage for a given general price level will decrease the real wage.
   c. For a given nominal wage, an increase in the general price level will decrease the real wage.
   d. The real wage is the quantity of goods and services that can be purchased with the nominal wage.

   1. a, b, c and d
   2. Only b, c and d
   3. Only a, c and d
   4. Only b and d
   5. Only a and d

5. Institutional factors play an important role in the way wages are determined in a country. Which of the following are institutional factors that are common in most countries?

   a. Most workers are paid a high enough wage that they prefer being employed to being unemployed.
   b. The lower the unemployment rate, the higher the wages.
   c. Wages depend on labour market conditions.
   d. The expected price level, the unemployment rate and institutional factors will influence the behaviour of workers when negotiating for wages.

   1. a, b, c and d
   2. Only a, c and d
   3. Only b, c and d
   4. Only a, b and d
   5. Only a, b and c

6. Which one of the following, according to the wage-setting relationship, is **not** an institutional factor that may affect the outcome of wage setting?

   1. Minimum wages.
   2. Unemployment benefits.
   3. Labour law protection.
   4. Unemployment rate.
   5. Collective bargaining.

7.   Which of the following statements are correct?

a.   Workers are able to determine the real wage through nominal wage bargaining.
b.   Through an increase in their nominal wages workers are able to increase their real wages.
c.   An increase in the mark-up by firms causes a decrease in real wages.
d.   A positive relationship exists between the mark-up and the price per unit.

1.   a, b, c and d
2.   Only a, c and d
3.   Only b, c and d
4.   Only a and d
5.   Only c and d

8.   Which of the following influences price-setting by firms in an imperfectly competitive market?

a.   The nature of the production function.
b.   The relation between the inputs used in production and the quantity of output produced.
c.   The prices of the inputs.
d.   The nominal wage per unit of output.
e.   The mark-up of the firm.

1.   Only a, b, d and e
2.   Only b, c and d
3.   Only a, c, d and e
4.   a, b, c, d and e
5.   Only c and e

9.   Which of the following statements are correct?

a.   The price level in the economy is partly the outcome of nominal wage bargaining and the price setting behaviour of firms in the economy.
b.   An increase in the nominal wage is enough to ensure an increase in the real wage.
c.   A decrease in the mark-up by firms causes an increase in feasible real wages.
d.   The PS curve will shift upwards if the mark-up by firms decreases.

1.   a, b, c and d
2.   Only c and d
3.   Only a, c and d
4.   Only b, c and d
5.   Only a and d

10.   Which of the following statements are correct?

A positive relationship exists between the …

a.   expected price level and the bargained nominal wage.
b.   unemployment rate and the bargained nominal wage.
c.   mark-up and the price per unit.
d.   nominal wage and the price per unit.
e.   better unemployment benefits and the nominal wage.

1. a, b, c, d and e
2. Only b, c and d
3. Only c, d and e
4. Only a, c, d and e
5. Only a, c and d

Question 11 is based on the following diagram:

11. Which factors will shift the WS curve to WS^1?

   a. A higher unemployment rate.
   b. A higher level of output.
   c. An increase in unemployment benefits.
   d. Labour laws that protect workers from being dismissed.
   e. A better bargaining position of workers.

   1. b, c, d and e
   2. a, b, d and e
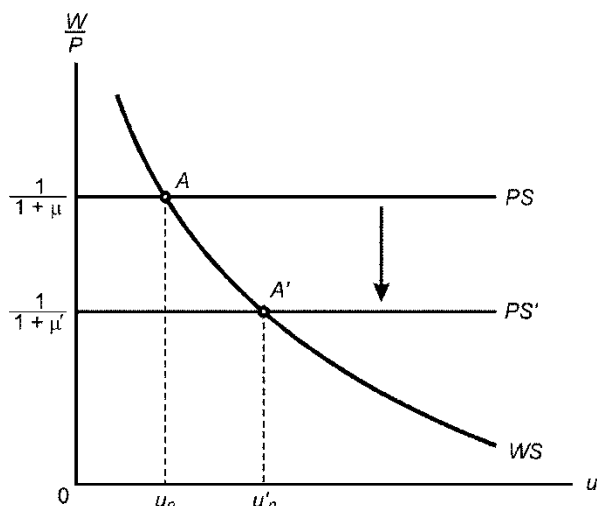   3. Only c, d and e
   4. Only a and b
   5. a, c, d and e

12. Which of the following statements is/are correct?

   The WS curve will shift down because of …

   a. a lower mark-up.
   b. a lower unemployment rate.
   c. lower nominal wages.
   d. labour laws that provide workers with less protection against layoffs.
   e. better unemployment benefits.

   1. a and c
   2. b and d
   3. Only b
   4. Only c
   5. Only d

Question 13 is based on the following diagram:

13. The diagram illustrates a(n)…

    a. higher mark-up.
    b. lower mark-up.
    c. decrease in the price determined real wage accompanied by an increase in the natural rate of unemployment.
    d. increase in the workers' bargaining position.
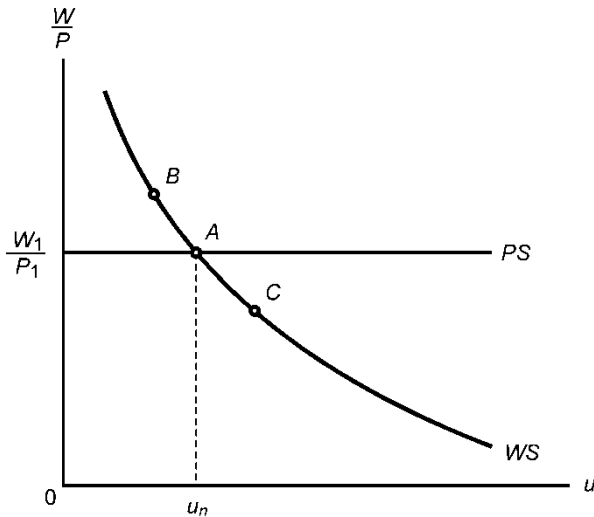   e. increase in the actual price level.

    1. Only a and c
    2. b and c
    3. a, d and e
    4. a, c and e
    5. b, d and e

14. The PS curve will shift downwards because of a …

    a. lower mark-up.
    b. higher mark-up.
    c. lower unemployment rate.
    d. higher unemployment rate.

    1. a and c
    2. a and d
    3. b and c
    4. b and d
    5. Only b

Question 15 is based on the following wage-setting and price-setting relationships:

15. Which of the following statements is/are correct?
    At point C the …

    a.   unemployment rate is higher which decreases the bargaining position of workers and the nominal wage they can bargain for decreases.
    b.   unemployment rate is lower which increases the bargaining position of workers and the real wage implied by price setting increases.
    c.   targeted real wage is lower than the implied real wage.
    d.   targeted real wage is higher than the implied real wage.

    1.   b, c and d
    2.   a, b and c
    3.   Only a and c
    4.   Only b and c
    5.   Only a

16. A decrease in the level of output will cause the following events on the labour market:

    1.   The level of unemployment decreases causing an increase in the bargaining position of workers which enables them to bargain for a nominal wage increase.
    2.   The level of unemployment increases which causes a decline in the bargaining position of workers resulting in a lower bargained nominal wage.
    3.   The natural level of unemployment decreases causing an increase in the bargained real wage.
    4.   The natural level of unemployment increases causing a decrease in the bargained real wage.

17. Which one of the following chain of events describes the impact of an increase in output on the labour market?

    1. $Y\uparrow \rightarrow u\uparrow \rightarrow N\downarrow \rightarrow W\uparrow$
    2. $Y\uparrow \rightarrow N\uparrow \rightarrow u_n\downarrow \rightarrow W\uparrow$
    3. $Y\uparrow \rightarrow N\uparrow \rightarrow u\downarrow \rightarrow W\uparrow$
    4. $Y\downarrow \rightarrow N\downarrow \rightarrow u\uparrow \rightarrow W\downarrow$
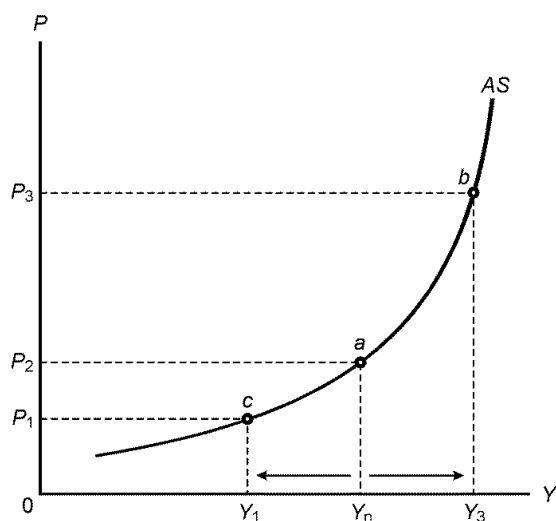   5. $W\uparrow \rightarrow N\downarrow \rightarrow u\uparrow$

AS-AD model
18. Which of the following events is/are represented by the AS curve?

    a. $Y\uparrow \rightarrow u\uparrow \rightarrow N\downarrow \rightarrow W\uparrow \rightarrow P\downarrow$
    b. $Y\uparrow \rightarrow N\uparrow \rightarrow u_n\downarrow \rightarrow W\uparrow \rightarrow P\downarrow$
    c. $Y\downarrow \rightarrow N\downarrow \rightarrow u\uparrow \rightarrow W\downarrow \rightarrow P\downarrow$
    d. $Y\downarrow \rightarrow u\downarrow \rightarrow N\uparrow \rightarrow W\downarrow \rightarrow P\uparrow$
    e. $W\uparrow \rightarrow N\downarrow \rightarrow u\uparrow \rightarrow P\uparrow$

    1. Only a
    2. Only b
    3. Only c
    4. Only d
    5. b and c

19. The AS curve has a positive slope because of which the following chain of events?

    1. $Y\uparrow \rightarrow u\uparrow \rightarrow N\downarrow \rightarrow W\uparrow \rightarrow P\downarrow$
    2. $Y\uparrow \rightarrow N\uparrow \rightarrow u_n\downarrow \rightarrow W\uparrow \rightarrow P\uparrow$
    3. $W\uparrow \rightarrow N\downarrow \rightarrow u\uparrow \rightarrow P\uparrow$
    4. $Y\downarrow \rightarrow u\downarrow \rightarrow N\uparrow \rightarrow W\downarrow \rightarrow P\uparrow$
    5. $Y\uparrow \rightarrow N\uparrow \rightarrow u\downarrow \rightarrow W\uparrow \rightarrow P\uparrow$
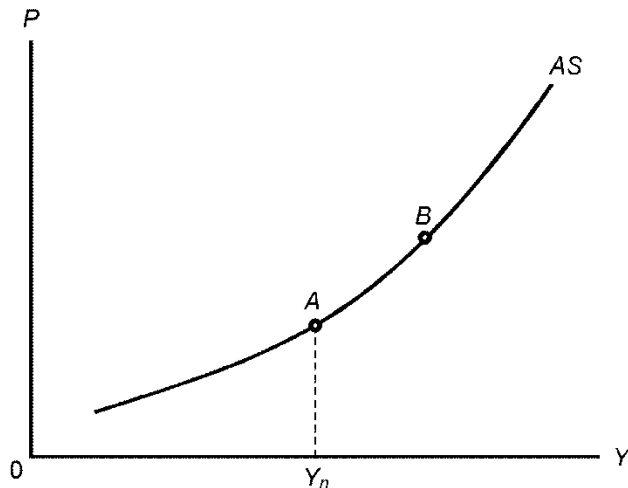
Question 20 is based on the following diagram.

20. Which of the following statements are correct?

    a. At point c the actual price level is lower than the expected price level.
    b. At point b the output level is higher than the natural level of output.
    c. The real wage is the same at point a and point b.
    d. As the level of output increases the price level rises.
    e. The AS curve will shift up when the expected price level increases.

    1. a, b, c, d and e
    2. Only a, b, d and e
    3. Only b, c, d and e
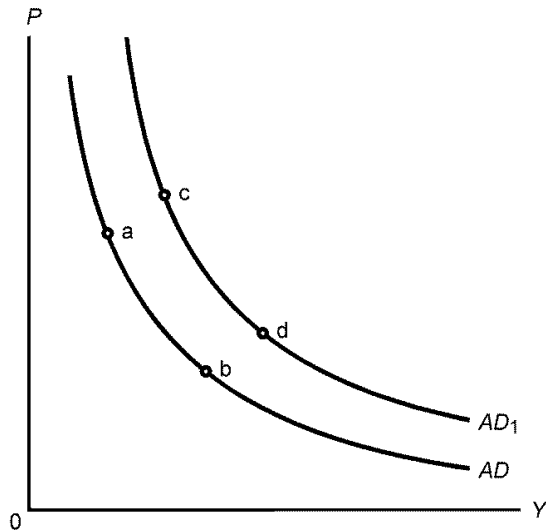   4. Only a, d and e
    5. Only a, b, c and d

Questions 21 and 22 are based on the following AS curve:

21. At point B compared to point A the expected price level is …

   1. lower than the actual price level.
   2. higher than the actual price level.
   3. the same as the actual price level.

22. Which one of the following events describes the adjustment from the short to the medium to long run if the economy is at point B?

   1. The expected price level is lower than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts down.
   2. The expected price level is higher than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts up.
   3. The expected price level is lower than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts up.
   4. The expected price level is higher than the actual price level. Workers respond to this by increasing their nominal wage demands and the AS curve shifts down.

23. Which of the following factors will cause an upwards shift of the AS curve?

   a. An increase in real wages.
   b. An increase in the expected price level.
   c. An increase in the actual price level.
   d. A decrease in the nominal money supply.
   e. A decrease in government spending.

   1. Only factor b
   2. Factors a and b
   3. Factors c, d and e
   4. Factors b, d and e
   5. Only factor c

24. Which one of the following applies when the aggregate demand curve (AD-curve) is derived?

    1. A decrease in the nominal money supply causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
    2. A decrease in the price level decreases the real money supply which causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
    3. An increase in the price level decreases the real money supply which causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.
    4. An increase in government spending causes an increase in the interest rate which in return causes a decrease in investment spending, the demand for goods and the level of output.

25. Which of the following events is represented by the AD curve?

    a. $P\downarrow \rightarrow M/P\uparrow \rightarrow i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$
    b. $M^S\downarrow \rightarrow M/P\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$
    c. $M^S\uparrow \rightarrow M/P\uparrow \rightarrow i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$
    d. $P\uparrow \rightarrow M/P\downarrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow \rightarrow Y\downarrow$

    1. Only a
    2. Only b
    3. Only c
    4. Only d
    5. a and d

26. Which of the following factors cause a shift in the AD curve?

    a. A change in wages.
    b. A change in the price level.
    c. A change in the nominal money supply.
    d. A change in government spending.

    1. Factors a, b and c
    2. Only factors b and d
    3. Only factors a and c
    4. Factors b, c and d
    5. Only factors c and d

Questions 27 and 28 are based on the following diagram:

27. Which of the following statements is/are correct?

    Comparing point a with point b on curve AD the …

    a. real money supply is higher at point b.
    b. interest rate is lower at point b.
    c. investment spending is higher at point b.
    d. government spending is higher at point b.
    e. demand for goods is higher at point b.

    1. a, b, c, d and e
    2. Only a, b, c and e
    3. Only b, c and d
    4. Only b, c and e
    5. Not one of the options 1 to 4

28. Which of the following statements are correct?

    Assume that the rightward shift of the AD is due to an expansionary fiscal policy. Comparing point b on curve AD with point d on curve AD_1 the …

    a. level of government spending is higher at point d.
    b. level of taxation is higher at point d.
    c. demand for goods is higher at point d.
    d. interest rate is higher at point d.
    e. nominal money supply is higher at point d.

    1. a, b, c and d
    2. a, c and e
    3. Only b, c and d
    4. Only a, c and d
    5. b and e

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29. Which one of the following events describes the adjustment from the short to the medium to long run in the case of an expansionary monetary policy?

	Labour market	Financial market	Goods market
1.	$P^e< P$: $W\uparrow \to P\uparrow$	$M^s\downarrow \to M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
2.	$P^e< P$: $W\downarrow \to P\downarrow$	$M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
3.	$P^e> P$: $W\downarrow \to P\downarrow$	$M/P\uparrow \to i\downarrow$	$I\uparrow \to Z\uparrow \to Y\uparrow$
4.	$P^e> P$: $W\uparrow \to P\uparrow$	$M/P\uparrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$
5.	$P^e< P$: $W\uparrow \to P\uparrow$	$M/P\downarrow \to i\uparrow$	$I\downarrow \to Z\downarrow \to Y\downarrow$

30. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the labour market?

   1. $P^e> P$: $W\uparrow \to P\downarrow$
   2. $P^e< P$: $W\uparrow \to P\uparrow$
   3. $P^e< P$: $W\downarrow \to P\downarrow$
   4. $P^e> P$: $W\downarrow \to P\downarrow$
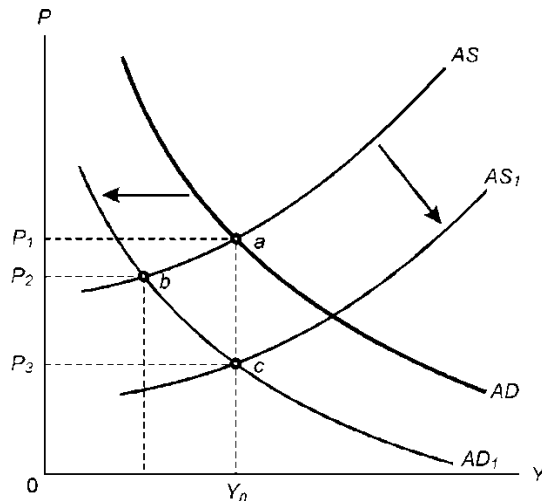   5. $P^e> P$: $W\uparrow \to P\uparrow$

31. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the financial market?

   1. $M/P\uparrow \to i\uparrow$
   2. $M^s\downarrow \to M/P\downarrow \to i\uparrow$
   3. $M/P\downarrow \to i\uparrow$
   4. $M/P\uparrow \to i\downarrow$
   5. $M/P\downarrow \to i\downarrow$

32. Which one of the following events applies in the medium to long run in the case of an expansionary monetary policy in the goods market?

   1. $I\downarrow \to Z\downarrow \to Y\downarrow$
   2. $I\uparrow \to Z\downarrow \to Y\downarrow$
   3. $I\uparrow \to Z\downarrow \to Y\uparrow$
   4. $I\uparrow \to Z\uparrow \to Y\downarrow$
   5. $I\uparrow \to Z\uparrow \to Y\uparrow$

Question 33 is based on the following diagram which represents the impact of a contractionary fiscal policy:

33. Which of the following statements is/are correct?

a. In the short run: the increase in the interest rate in the financial market will lead to a decrease in investment in the goods market, a decrease in the demand for goods and a decrease in the level of output and income. This is represented by a shift from AD to AD_1.

b. The movement along the AD curve from point b to point c is the result of the events in the labour market in the short run.

c. In the medium run, the AS curve will shift from AS to AS_1 because of the following chain of events: $P^e\downarrow \rightarrow W\downarrow \rightarrow P\downarrow$.

d. At point c the level of output is at the natural level of output and all the real values are equal to their original values.

1. a, b, c and d
2. Only b, c and d
3. Only b, c, d and e
4. Only c and d
5. Only c

9   OTHER ASSESSMENT METHODS

My *Studies @ Unisa* brochure contains important information on the final year concession procedure (FI) to assist students with one or two modules outstanding. The Department of Examination Administration (DEA) will inform all students who qualify for a final year concession per sms/email.

See TL301/2015 for more information on the alternative method of assessment for the Department of Economics.

10   EXAMINATIONS

For general examination guidelines and examination preparation guidelines, please refer to the *my Studies @ Unisa* brochure.

10.1   Examination period

This module is offered in a semester period of approximately 15 weeks. This means that if you are registered for the first semester, you will write the examination in May/June 2015 and the supplementary examination will be written in October/November 2015. If you are registered for the second semester you will write the examination in October/November 2015 and the supplementary examination will be written in May/June 2016.

During the semester, the Examination Section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

10.2   Examination paper

The format of the examination paper and guidelines how to answer examination questions are discussed in detail in Tutorial Letter 103 which you will receive during the semester.

10.3   Previous examination papers

Some previous examination papers are available to students on *my*Unisa under the "official study material" folder and one example of a recent examination paper will be provided in Tutorial Letter 103. Should you make use of previous examination papers, we advise you not to focus on such old papers only as the content of modules and, therefore, examination papers may change from year to year. **To concentrate only on previous examination papers will not guarantee a pass**. You must be able to answer questions on all the prescribed work and study outcomes as indicated in the Study guide.

Please revise all the learning units before trying to complete the examination papers. If you complete the papers do it under the same conditions as in the examination room. Therefore do not consult the study guide or any other help.

10.4 Tutorial letter with information on the examination

To help you in your preparation for the examination, you will receive Tutorial Letter 103 that will explain the format of the examination paper, give you examples of questions that you may expect and set out clearly what material you have to study for examination purposes.

11 FREQUENTLY ASKED QUESTIONS

The *my Studies @ Unisa* brochure contains an A-Z guide of the most relevant study information.

12 SOURCES CONSULTED

None.

13 CONCLUSION

Distance education is very tough on a student. It requires a lot of self discipline, sacrifice and hard work. But it can be done!

Start early and work consistently throughout the semester. Do not leave it for the last two weeks before the examination. It is not possible to master the module in two weeks. You should at least spend a minimum of 8 hours per week on this module.

Work actively (with pen and paper) and make use of the activities in the workbook (TL102).

Do all the assignments. Starts early by answering the questions as you finish the study units.

Tell your family, friends and other students what you have learned in this module. Even if they don't understand it or are not interested.

Read and read and keep on reading (not only economics but other stuff as well).

We hope that you will enjoy this module and wish you all the best!