

## Learning activity 10

### ***True/False answers***

1. South African citizens would be better off economically if the country did not engage in international trade at all.

1. True
2. False

Export creates job opportunities and income to South Africans, therefore exports are beneficial to South Africans. Goods are imported that cannot be produced in South Africa. This includes capital goods that are used for production. Therefore imports are also important to the economy.

**Anna can knit four jerseys or sew eight dresses per week, while Joan can knit three jerseys or sew four dresses per week.**

2. Anna has an absolute advantage in knitting jerseys.

1. True
2. False

Anna can produce more jerseys in one week than Joan, thus Joan has an absolute advantage in the production of jerseys.

3. Anna has a comparative advantage in knitting jerseys.

1. True
2. False

To produce one jersey Anna has to give up 2 ( $8/2$ ) while Joan only has to give up 1,3 dresses ( $4/3$ ) to produce one jersey. Thus Joan has a comparative advantage in knitting jerseys.

4. Joan should specialise in knitting jerseys, while Anna should specialise in sewing dresses.

1. True
2. False

To produce one dress, Anna has to give up 0,5 ( $4/8$ ) jerseys. Joan has to give up 0,75 ( $3/4$ ) jerseys to produce one dress. Thus as Anna has to give up less jerseys to produce

one dress, she has a comparative advantage in producing dresses. In the previous question we explained that Joan has a comparative advantage in knitting jerseys. Thus Joan should specialise in knitting jerseys and Anna should specialise in sewing dresses.

5. All economic activities taking place within the borders of a country are recorded in the balance of payments.

- 1. True
- 2. False

Only transactions involving the foreign sector are recorded in the balance of payments.

6. The balance of payments is a summary record of a country's transactions with the rest of the world during a particular period.

- 1. True
- 2. False

See section 10.5.1 for a discussion of the balance of payments.

7. The flow of goods between South Africa and the rest of the world is recorded in the current account of the South African balance of payments, while the flow of services is recorded in the financial account.

- 1. True
- 2. False

The flow of services is also recorded in the current account. Financial investment (i.e. when financial assets are purchased and sold) is recorded in the financial account.

8. Exports create a supply of foreign exchange, while imports constitute a demand for foreign exchange.

- 1. True
- 2. False

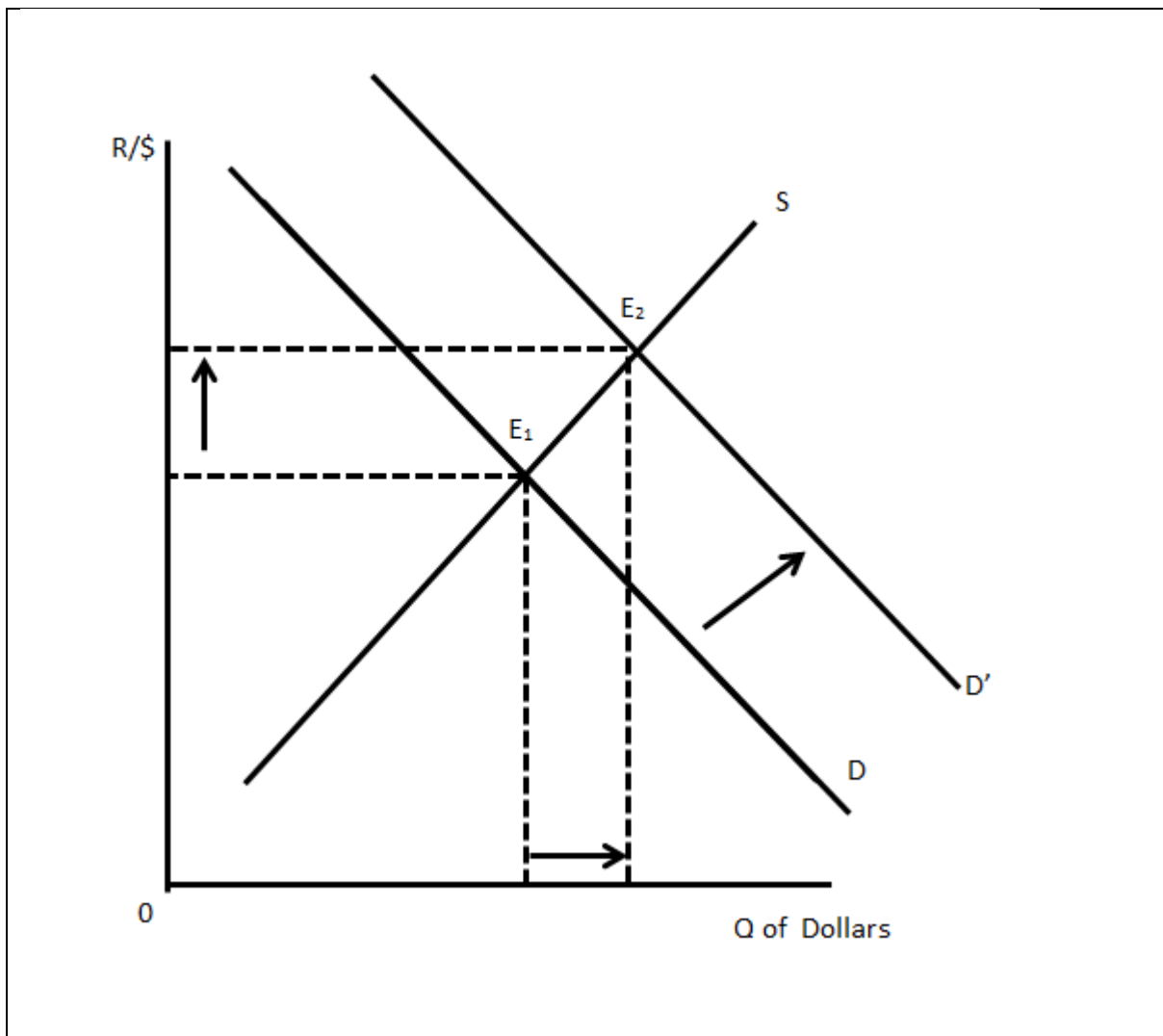
When foreigners buy our goods, they pay using their own currency, therefore exports result in an inflow of foreign capital into South Africa, thus an increase in the supply of foreign currency. When South African import from other countries our citizens have to use rand to purchase foreign currency to pay for the imports, therefore imports create a demand for foreign currency.

9. An increase in South African imports from the United States will give rise to an appreciation of the rand against the US dollar.

1. True
2. False

When imports from the US increase, the demand for dollars will increase (illustrated by a rightward shift of the demand for dollars curve to D' in Figure 1) to pay for the imports, thus the rand will depreciate against the dollar (pay more rand per dollar).

Figure 1



10. A fall in the value of the rand against the Japanese yen is described as a depreciation of the rand against the yen.

1. True
2. False

A depreciation of the rand against the yen means that you will now have to pay more rand for a Japanese yen.

**Review answers**

1. An increase in exports increases the **supply** for foreign exchange and the **supply** curve for foreign exchange shifts to the **right**.
2. An increase in imports increases the **demand** for foreign exchange and the **demand** curve for foreign exchange shifts to the **right**.
3. An increase in the demand for foreign exchange leads to a **(rise)** in the rand exchange rate and the rand **(depreciates)**.
4. An increase in the supply of foreign exchange leads to a **(fall)** in the rand exchange rate and the rand **(appreciates)**.
5. Consider the rand/dollar exchange rate. Assume that the exchange rate is currently quoted as R11.50 to the US dollar.

- 5.1 How many US cents would be required to buy R1.00?
- 5.2 If you bought an economic textbook for \$45 over the internet, how much would you have to pay in rand terms? (Ignore shipping costs, etc.)
- 5.3 If the exchange rate were to change to R11.80 to the dollar, which currency has appreciated and which has depreciated?
- 5.4 How much will the textbook (still \$45) cost you now in rand terms?
- 5.5 Explain how a change in the exchange rate results in 'winners' and 'losers'.

5.1  $1/11.50 = 0.087$  US cents

5.2  $45 \times 11.50 = R517.50$

5.3 US dollar has appreciated, rand has depreciated

5.4  $45 \times 11.80 = R531.00$

5.5 If the South African rand depreciates (as was seen above), imported goods become more expensive in rand terms. Consumers of imported goods would have to pay more or do without them. On the other hand, if the rand depreciates, exporters benefit because they now receive more rand for the same number of US dollars.

6. Consider the following information.

Merchandise exports	300
Net gold exports	80
Merchandise imports	350
Service receipts	150

Service payments	200
Income receipts	90
Income payments	120
(Net) current transfers	-30
Capital transfer account	0
Balance of financial account	150
Unrecorded transactions	0

- 6.1 Calculate the trade balance.
- 6.2 Calculate the balance on current account.
- 6.3 Calculate the change in (net) reserves, given the information above.
- 6.4 Of which **four** sub-accounts does the financial account consist?

6.1  $300 + 80 - 350 = 30$

6.2  $300 + 80 + 150 + 90 - 350 - 200 - 120 - 30 = -80$

6.3  $-80 + 150 = 70$

6.4 Net direct investment, net portfolio investment, financial derivatives and net other investment