

Learning activity 6

True/False answers

1. Macroeconomics deals with phenomena such as total production, total employment and inflation.

1. True
2. False

Macroeconomics focus on the economy as a whole and therefore aggregate variables will be used to analyse the macroeconomic. Microeconomics will focus on individual businesses, consumers and markets.

2. Microeconomics focuses on specific parts of the economy while macroeconomics is concerned with the economy as a whole.

1. True
2. False

Please refer to section 6.1.1 and make sure you can distinguish between microeconomics and macroeconomics.

3. The study of the total output of the motorcar industry is an example of macroeconomics.

1. True
2. False

When we study a particular market or industry, that forms part of microeconomics.

4. An increase in the price of tomatoes is a macroeconomic issue.

1. True
2. False

When we study a particular market or industry, that forms part of microeconomics.

5. The compilers of the national accounts can avoid double counting by recording only every second transaction in the economy.

1. True
2. False

That is not a solution for double counting. To avoid double counting the following procedures may be followed:

- only the final value of goods or services that are sold to consumers can be added (expenditure approach)

- only the value added can be added for each transaction in the production chain (production method)
 - the factor payments can be added (income method)
6. According to the income method, GDP is estimated by adding up the income earned by the various factors of production.

1. True
2. False

The income method is one way to calculate GDP and avoid double counting.

7. Market prices are used to calculate the value of all final goods and services.

1. True
2. False

When we use the expenditure approach, we add the market prices of all final goods and services to calculate GDP.

8. The GDP includes goods and services that are produced outside the borders of the country.

1. True
2. False

The GDP only includes goods and services that are produced inside the borders of the country.

9. Nominal GDP could increase, while real GDP decreases.

1. True
2. False

If the inflation rate is positive, it means that an increase in the nominal GDP can be due purely to an increase in prices, and not due to an increase in the actual amount that was produced, i.e. real GDP.

10. Nominal values should always be used to calculate economic growth.

1. True
2. False

Nominal values include changes in price levels. Therefore real values should always be used to calculate economic growth.

Review answers

1. What is the focus area of macroeconomic analysis?

Macroeconomics focuses on the broader economy (or aggregate level) as a whole, for instance the national growth rate, total expenditure by government and consumers.

2. What is the focus area of microeconomic analysis?

Microeconomics focuses on a specific economic sector or unit, for instance the individual consumers, firms and industries.

3. Indicate whether the following will be studied under microeconomics or macroeconomics.

- 3.1 Government purchases of goods and/or services.
- 3.2 The purchase of a new designer T-shirt.
- 3.3 The price of data bundles charged by Cell C and Telkom.
- 3.4 The impact of a repo rate increase by the South African Reserve Bank on a consumer's decision to buy a house.
- 3.5 The impact of an increase in the petrol price on total spending by consumers.

3.1 Macroeconomics

3.2 Microeconomics

3.3 Microeconomics

3.4 Microeconomics

3.5 Macroeconomics

4. To calculate GDP we must add the value of all **final** goods and services.
5. The GDP can be calculated by adding the value added, this is known as the **production** method.
6. GDP can be measured according to three different approaches. What are these approaches?

The income, expenditure and production methods