Tutorial letter 101/3/2017

Macroeconomics
ECS2602

Semesters 1 & 2

Department of Economics

IMPORTANT INFORMATION
This tutorial letter contains important information about your module.

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CONTENTS

Dear Student

1   INTRODUCTION

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 all the activities in TL 102 and 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
A study guide (MO001)
A CDROM entitled *Macroeconomics.* You will also find the information on the CDROM on the website www.econom.co.za

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 and 202) 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.

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 access 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.

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

1.2.1   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 e-tutor and fellow students about your studies and the challenges that you might encounter, and to participate in online discussion forums. Note that *my*Unisa contains the **Learning Units** tool from which you will only be able to access the study guide (MO001) for this module if you have registered and have access to *my*Unisa.

On the main site = ECS2602-17-S1 (or S2) you can access: − Official study material, − Learning units, − Announcements by module lectures, − Upload your assignments on this site.

1.2.2   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 before you start studying.**

Please consult the Studies @ Unisa brochure 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

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 (MO001).

3   LECTURER(S) AND CONTACT DETAILS

3.1   Lecturer(s)

You will find the lecturers responsible for this module's contact details on *my*Unisa under the "Learning units" tab. 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 your e-tutor first and if you are not satisfied with their response, then you contact your lecturer.

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 brochure: *Studies @ Unisa* which you received with your study material or visit the 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   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 the *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.

4.4   Library services and resources information

For brief information, go to www.unisa.ac.za/brochures/studies

For detailed information, go to the Unisa website at http://www.unisa.ac.za/ and click on **Library**.

For research support and services of personal librarians, go to http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=7102.

The library has compiled a number of library guides:

- finding recommended reading in the print collection and e-reserves – http://libguides.unisa.ac.za/request/undergrad
- requesting material – http://libguides.unisa.ac.za/request/request
- postgraduate information services – http://libguides.unisa.ac.za/request/postgrad
- finding, obtaining and using library resources and tools to assist in doing research – http://libguides.unisa.ac.za/Research_Skills
- how to contact the library/finding us on social media/frequently asked questions – http://libguides.unisa.ac.za/ask

5   STUDENT SUPPORT SERVICES

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 brochure *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 (DSAR). For further information, please consult the *Studies @ Unisa* brochure.

5.2   *my*Unisa

To complete this module you need to 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, e-tutor, with other students and with the administrative departments of Unisa and submit assignments – 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 the "*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 *Studies @ Unisa* brochure for more information.

An important resource on the module website on *my*Unisa is the discussion forum (see point 5.4.1 below). Please make use of it.

Additional study material is available 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 are 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 and the name of your e-tutor. All you need to be able to participate in e-tutoring is a computer with an 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.

5.4.1.1   How to find your e-tutor

You will be connected to two sites for ECS2602. The first site is the main site "ECS2602-17-S1" on this site you can access official study material, learning units, announcements by the module lectures as well as upload your assignments.

Once you have been linked to an e-tutor you will see a second ECS2602 site, this is your e-tutors site, which will be named "ECS2602-17-S1-#E" (# Can represent any number from 1 to 4 for this module.) On this site you can connect with fellow students and ask your e-tutor questions on the "Discussion Forum".

If you are not sure how to find your e-tutors' site, please see the below graphics which were distributed to students by Unisa to generate awareness about the e-tutor programme.

Click to your **e-tutor**

Start here
http://my.unisa.ac.za

Login

Go to the e-tutor group site
(e.g. MNM1502-14-S2-3E)

Go to the official site for your module
(e.g. MNM1502-14-S2)

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How to find your e-tutor

- Go to the Unisa website and login on *myUnisa*.
- Click the "More Sites" tab.
- Select the official module site, for example, MNM1502-14-3E. This site is used to access official study material and previous question papers for this specific module.
- Find your e-tutor site for the specific module. The e-tutor site will have a code like MNM1502-14-S2-3E.

Start here
http://my.unisa.ac.za

Login

Go to the e-tutor group site
(e.g. MNM1502-14-S2-3E)

Go to the official site for your module
(e.g. MNM1502-14-S2)

What does the e-tutor module site code mean?

The e-tutor module site code is made up of 4 different parts; let us use MNM1502-14-S2-3E as an example:

- MNM1502 is the module code
- 14 – the year
- S2 – represents the second semester
- 3E is the 3rd e-tutor for this module

You should select the e-tutor group site with the E at the end.
Select, for example, MNM1502-14-S2-3E to communicate with
your e-tutor and the students in your group.

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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.

To find the regional centre near you

- Go to the Unisa website
- Click Contact Us tab
- Click Regional centres tab
- Select the Region
- Select Regional centre

You can also follow the link below:
http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=82

6 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 four assignments will help you to understand what is required of you more clearly.

You can view and download the study guide (MO001) 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 *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 *Studies @ Unisa* brochure for general time management and planning skills.

6.3 Feedback on assignments

Assignments 01 and 02 consist of multiple-choice questions. They are marked automatically – you will receive the correct answers after they have been processed. Compare it with your answers as well. Feedback on assignments will be sent to all students registered for this module in follow-up tutorial letters. The tutorial letter numbers will be 201 and 202. These tutorial letters are also available on the module website on *my*Unisa.

Assignment 03 is a fully online assignment which consists of multiple-choice questions. The benefit of doing the assignment online is that you will get three opportunities to complete the

assignment with the highest mark counting towards your semester mark. The feedback will be provided electronically after the closing date of the Assignment.

Assignment 04 is a written self-assessment assignment. Please work thoroughly through the answers we will provide in tutorial letter 202. 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 TL102. You will see that the activities test your understanding of the content and cover a range of the different types 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 learning unit.

To help you to work on this module regularly and systematically, we provide a proposed study programme below and four assignments (see section 8.6 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	30 January	Study *learning unit 1* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01. Study *learning unit 2* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01.
2	6 February	Study *learning unit 2* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01.
3	13 February	Study *learning unit 3* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01. **Complete and submit compulsory Assignment 01** *Closing date: 6 March.*
4	20 February	Study *learning unit 4* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
5	27 February	Study *learning unit 4* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
6	6 March	Study *learning unit 5* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
7	13 March	Study *learning unit 6* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
8	20 March	**Complete and submit Assignment 02** *Closing date: 27 March.*
9	27 March	Study *learning unit 7* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.
10	3 April	Study *learning unit 8* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.
11	10 April	Study *learning unit 9* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.
	Week starting	LEARNING UNIT(s) or study instruction

STUDY WEEK	Week starting	LEARNING UNIT(s) or study instruction
12	17 April	Revise *learning units 7, 8 and 9* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Complete and submit Assignment 03 using the "Self-Assessments" tool on *my*Unisa.** *You will have three opportunities to complete the assignment and the highest mark will count 40% towards your semester mark.* *Information and guidelines for completing the online assignment are provided under Assignment 03 of this tutorial letter.* *Closing date: 24 April.*
13	24 April	Prepare for the examination. Revise *learning units 1, 2, 3 and 4* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work on self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.
14	1 May	Prepare for the examination. Revise *learning units 5, 6 and 7* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work on self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.
15	8 May	Prepare for examination. Revise *learning units 8 and 9* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work and complete self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.

How much time must I spend studying ECS2602?

ECS2602 is a semester module with a credit value of 12 that must be completed for a B Com degree in Economics. Each credit is equivalent to 10 notional hours. In total it means that to be successful the average student must spend 120 notional hours on this module. The notional hours includes time that is spent studying the learning units, completing the activities in TL102, doing assignments, preparing for the examination, and writing the examination. That boils down to 30 work days (4 hours per day) that must be devoted to this module for the average student to pass it. This is the way in which each module is designed. In other words, you cannot plan your semester on the basis of completing assignments only.

PROPOSED STUDY PROGRAMME: SECOND SEMESTER

STUDY WEEK	Week starting	LEARNING UNIT(s) or study instruction
1	17 July	Study *learning unit 1* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01. Study *learning unit 2* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01.
2	24 July	Study *learning unit 2* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01.
3	31 July	Study *learning unit 3* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 01. **Complete and submit compulsory Assignment 01** *Closing date: 14 August.*
4	7 August	Study *learning unit 4* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
5	14 August	Study *learning unit 5* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
6	21 August	Study *learning unit 6* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Work on Assignment 02.
7	28 August	**Complete and submit Assignment 02** *Closing date: 29 August.*
8	4 September	Study *learning unit 7* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.
9	11 September	Study *learning unit 8* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.
10	18 September	Study *learning unit 9* and do the activities at the end of each section. Compare your answers with the solutions in TL102. Assignment 03 is a fully online assignment.

STUDY WEEK	Week starting	LEARNING UNIT(s) or study instruction
11	25 September	Revise *learning units 7, 8 and 9* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Complete and submit Assignment 03 using the "Self-Assessments" tool on *my*Unisa.** ***You will have three opportunities to complete the assignment and the highest mark will count 40% towards your semester mark.*** ***Information and guidelines on completing the online assignment are provided under Assignment 03 of this tutorial letter.*** ***Closing date: 2 October.***
12	2 October	Prepare for the examination. Revise *learning units 1, 2, 3 and 4* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work on self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.
13	9 October	Prepare for the examination. Revise *learning units 5, 6 and 7* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work on self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.
14	16 October	Prepare for the examination. Revise *learning units 8 and 9* and the activities at the end of each section. Compare your answers with the solutions in TL102. **Work on and complete self-assessment Assignment 04.** Do not submit Assignment 04. Compare your answers with the solutions in TL202.

How much time must I spend studying ECS2602?

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7   PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There are no practicals for this module.

8   ASSESSMENT

8.1   Assessment criteria

Assessment criteria used consists of formative and summative assessment. For formative assessment you will have to submit assignments that will contribute to your semester mark and final mark. The weight of the formative assessment (three assignments) will be 20% while the summative assessment (the examination's) weight is 80%. The pass rate is 50%.

Assessment criteria used for the assignments will be done as follows: the multiple-choice questions in Assignments 01 and 02 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 03 is a fully online multiple-choice assignment. Assignment 04 is a written self-assessment assignment and does not contribute to the semester mark.

8.2   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.

IMPORTANT: Assignment 01 is compulsory for examination admission. The first assignment will contribute 20% to the semester mark, the second assignment 40% and the third assignment 40%.

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.

8.2.1 Assessment of examination

For general information and requirements as far as examinations are concerned, see the brochure *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

The **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 20%, the second assignment 40% and the third assignment 40% to your semester mark.

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

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 of 100) x 20% + Examination mark (out of 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 (the examination), your semester mark will not be taken into account for the purpose of calculating the final mark.

8.3   Assignment numbers

8.3.1 General assignment numbers

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

8.3.2 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 and 02 consist of only multiple-choice questions and therefore must be completed on a marking-reading sheet with its own unique assignment number.

Assignment 03 is a fully online assignment with a unique assignment number. Assignment 04 is a written self-assessment assignment that must not be submitted and therefore not have a unique assignment number.

8.4 Assignment due dates

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

SEMESTER 1: ASSIGNMENT SUBMISSION DATES

Assignment number	Unique number	Closing date	Contents of assignments	Type of assignment	Weight
01	801518	2017/03/06	Learning units 1, 2 and 3	Multiple-choice	20
02	588844	2017/03/27	Learning units 4, 5 and 6	Multiple-choice	40
03	690624	2017/04/24	Learning units 7, 8 and 9	**Fully online** Multiple-choice	40
04	No unique number	Self-assessment Please do not submit	Revision: All Learning units	Written	0

SEMESTER 2: ASSIGNMENT SUBMISSION DATES

Assignment number	Unique number	Closing date	Contents of assignments	Type of assignment	Weight
01	789903	2017/08/14	Learning units 1, 2 and 3	Multiple-choice	20
02	822522	2017/08/29	Learning units 4, 5 and 6	Multiple-choice	40
03	696421	2017/10/02	Learning units 7, 8 and 9	**Fully online** Multiple-choice	40
04	No unique number	Self-assessment Please do not submit	Revision: All Learning units	Written	0

8.5 Submission of assignments

You may submit assignments 01 and 02 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 *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.

8.6   The assignments

FIRST SEMESTER ASSIGNMENTS

**SEMESTER 1
COMPULSORY ASSIGNMENT 01
LEARNING UNITS 1, 2 and 3
DUE DATE: 2017/03/06
UNIQUE NUMBER: 801518**

This assignment contributes 20% 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;   the economy's overall performance.

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

    a.   Real GDP is the most used measure of how much output was produced in a country during a specific year.
    b.   Real GDP is the most commonly used indicator of the level of total economic activity that took place in a country during a specific year.
    c.   If the population increases at a faster rate than the real GDP, the real per capita GDP will increase.

    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

3.   Which of the following variable(s) is/are endogenous 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.

4. The difference between expenditure on the gross domestic product and gross domestic expenditure (GDE) is that …

    1. expenditure on the gross domestic product includes both imports and exports, while GDE includes exports and excludes imports.
    2. expenditure on the gross domestic product includes exports and excludes imports, while GDE includes both imports and exports.
    3. expenditure on the gross domestic product includes exports and excludes imports, while GDE includes imports and excludes exports.
    4. expenditure on the gross domestic product includes imports and excludes exports, while GDE includes exports and excludes imports.

5. In South Africa, grants such as the Old Age Pension and the Child Support Grant are termed:

    1. Transfer payments and they are a part of government's final consumption expenditure.
    2. Transfer payments and they are excluded from government's final consumption expenditure.
    3. Donations and they are a part of government's final consumption expenditure.
    4. Donations and they are excluded from government's final consumption expenditure.

6. The biggest contributor to gross fixed capital formation in South Africa is:

    1. General government
    2. The foreign sector
    3. Private business enterprises
    4. Public corporations

7. The demand for goods is influenced by the following factors:

    a. The behaviour of households.
    b. Government spending and taxes.
    c. The variables that influence investment spending.

    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 is correct

8. A decrease in income will cause a decrease in …

    a. autonomous consumption.
    b. induced consumption.
    c. disposable income.

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

9. Which of the following is true in terms of consumption spending?

    a. An increase in the marginal propensity to consume will change the vertical intercept of the consumption function.
    b. Autonomous consumption decreases if the availability of credit decreases.
    c. The equilibrium level of output and income will decrease if the marginal propensity to save decreases.

    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

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

    a. A change in the marginal propensity to consume will cause a change in consumption spending.
    b. If the marginal propensity to consume increases, consumption spending will increase.
    c. If the marginal propensity to consume decreases, savings will increase.

    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

Question 11 is based on the following diagrams. Consider the consumption functions of country A and country B.

Country A: $C = 2000 + 0,7Y_D$, slope 0,7, intercept 2000.
Country B: $C = 1000 + 0,9Y_D$, slope 0,9, intercept 1000.
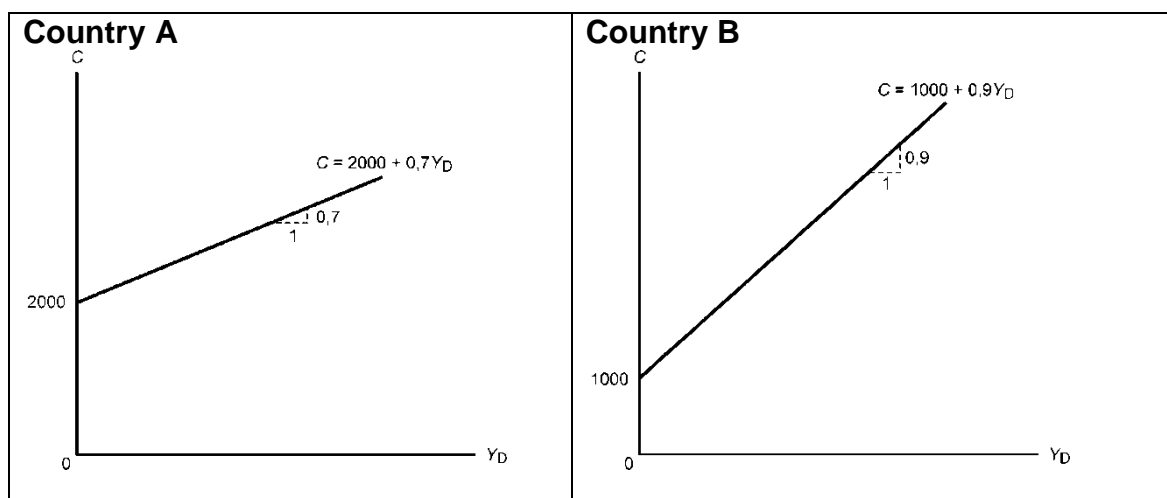
11. Which of the following statements is/are correct?

   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. Only a, b and c

12. To counter the impact of a decrease in consumer confidence and investor confidence on the level of output and income, the government can …

   a. increase government spending and decrease taxes which is represented by an upward shift of the demand for goods curve and via the multiplier effect the level of output and income increases.
   b. decrease government spending and increase taxes which is represented by a downward shift of the demand for goods curve and via the multiplier effect the level of output and income increases.
   c. use an expansionary fiscal policy.
   d. use a contractionary fiscal policy.

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

Questions 13 to 15 are based on the following goods market model:
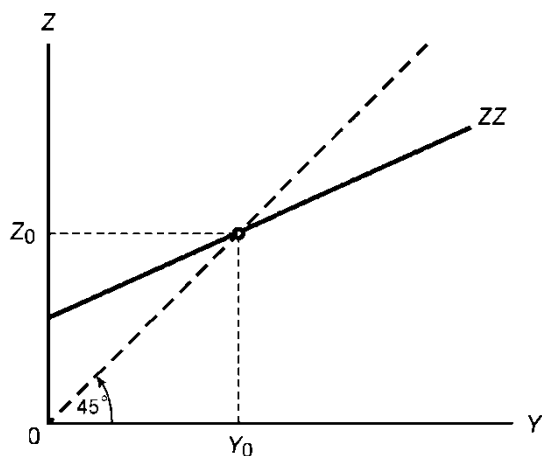
13. In the goods market model a decrease in taxes will result in …

    a.   a downward shift of the ZZ curve.
    b.   an increase in autonomous consumption.
    c.   an increase in disposable income.
    d.   an increase in the level of output and 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

14. 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 investment 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

15. 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 output (production) if the demand for goods changes.
    d.   Equilibrium is presented by $Y = c_0 + c(Y-T) + \bar{I} + G$ or $Y = 1/1-c(c_0 + \bar{I} + G - cT)$.

    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

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

    a.   Spending by households, private firms and government on residential and non-residential capital goods is termed gross capital formation.
    b.   Financial investment does not directly create production capacity and is therefore not included in our analysis.
    c.   In the goods market model an increase in investment leads to an increase in savings.

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

Given the following information, answer questions 17 and 18 that follow:

Autonomous consumption	=	R100 million
Investment spending	=	R300 million
Government spending	=	R200 million
Taxes	=	R60 million
Marginal propensity to consume	=	¾ (0.75)
Full-employment level of output and income	=	R2 460 million

17. The equilibrium level of output and income is ...

    1. R138.75 million
    2. R2 640 million
    3. R2 220 million
    4. R416.25 million
    5. R2 580 million

18. Which of the following will ensure that full-employment will be reached?

    a. An increase in government spending of R60 million.
    b. A decrease in taxes of R80 million.
    c. An increase in government spending of R30 million and a decrease in taxes of R40 million.

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

Questions 19 to 24 are based on the following data for the country PORTHOS for 2017.

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

19. 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 is R1 220 million.

24

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

20. An economist, Dr Alfred Khumalo, 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 equilibrium level of output and income is equal to the full employment level of output and income?

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.

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

21. The President of the country Mr Cold Water is not interested in full employment. He is only interested in winning 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 increase if taxes are cut by R150 million?

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

22. Which of the following statements is/are correct referring to the balanced budget?

    a.   A balanced budget is one where the change in government spending alone will lead to a change in the level of output and income.

    b.   Assume that $c = 0.8$. The government increases its spending by 200 and taxes increase also by 200, then the increase in the level of output and income will be 400 due to the increase in government spending and the decrease in the level of output and income will be 200 due to the increase in taxes. The net effect is an increase of 200 in the level of output and income.

    c.   Assume that $c = 0.6$. The government increases its spending by 300 and taxes increase also by 300, then the increase in the level of output and income will be 750 due to the increase in government spending and the decrease in the level of output and income will be 450 due to the increase in taxes. The net effect is an increase of 300 in the level of output and income.

    d.   The net effect of a balanced budget, in other words where $\uparrow G = \uparrow T$ will be expansive.

    e.   The balanced budget multiplier is equal to one; that is for every 1 unit increase in government spending which is matched by a simultaneous 1 unit increase in taxes, output and income increase by 1 unit.

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

23. If government spending and taxes increase by the same amount (R500 million), the effect on the ZZ curve will be:

    1.   The ZZ curve will not shift.
    2.   The ZZ curve will shift upwards.
    3.   The ZZ curve will swivel downwards.
    4.   The ZZ curve will shift downwards.
    5.   The ZZ curve will swivel upwards.

Question 24 is based on the following diagram. Assume that G and T increase by R100.
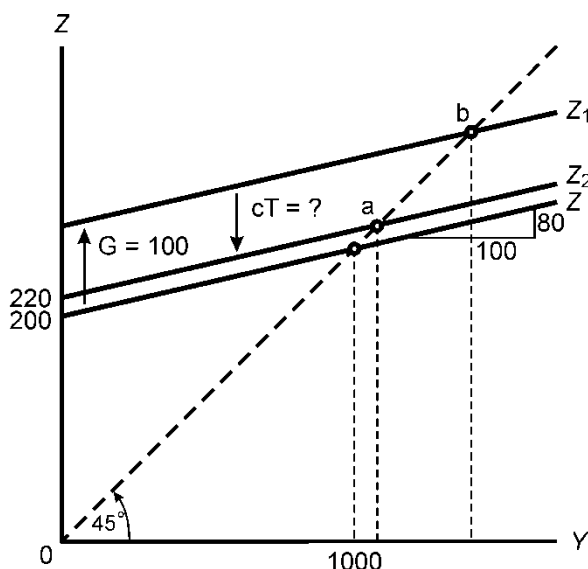
24. Which of the following statements is/are correct?

    a. The multiplier is 4.
    b. If government spending increases by R100, the equilibrium level of output and income will be R1 500 and the Z curve will shift to Z_1.
    c. If taxes then increase by R100, cT will be R80, the equilibrium level of output and income will be R1 100 and it will be represented by point a in the above diagram.
    d. The above diagram and questions imply the working of the balanced budget multiplier.
    e. Although there is an increase of R100 in taxes, there will still be an expansionary net effect of R500 on the equilibrium level of output and income.

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

25. 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.

26. A _____ relationship exists between the demand for money (M^d) and the interest rate, an increase in the interest rate will cause a _____ .

    1. negative;   downward movement along the M^d curve
    2. negative;   upward movement along the M^d curve
    3. positive;   upward movement along the M^d curve
    4. positive;   downward movement along the M^d curve

27. An increase in income will cause:

    1. The demand for money to increase and the M^d curve will shift to the right.
    2. The demand for money will decrease and the M^d curve will shift to the left.
    3. The demand for money will increase and there will be an upward movement along the M^d curve.
    4. The demand for money will decrease and there will be a downward movement along the M^d curve.

28. Exogenously determined money supply implies that …

    1. as the interest rate increases the money supply will also increase.
    2. the supply of money is determined by the demand for money and the interest rate.
    3. money supply is determined by the central bank.
    4. money demand is determined by the central bank.
    5. the money supply curve is perfectly elastic.

Questions 29 and 30 are based on the following diagram which represents changes in the supply of money. The horizontal axis represents millions of rand:
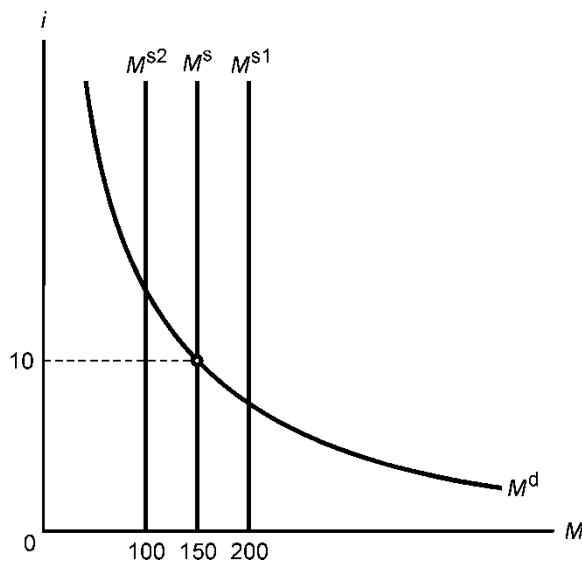
29. Which of the following statements are correct?
    At the initial interest rate of 10% …

    a. An increase in the supply of money from M^S to M^{S1} results in a surplus of money of R50 million.
    b. An increase in the supply of money from M^S to M^{S1} results in a shortage of money of R50 million.
    c. A decrease in the supply of money from M^S to M^{S2} results in a surplus of money of R50 million.
    d. A decrease in the supply of money from M^S to M^{S2} results in a shortage of money of R50 million.

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

30. A shift from M^S to M^{S2} represents the impact of an …

    1. expansionary monetary policy where the central bank buys treasury bills on the open market and consequently the interest rate increases.
    2. expansionary monetary policy where the central bank sells treasury bills on the open market and consequently the interest rate increases.
    3. contractionary monetary policy where the central bank sells treasury bills on the open market and consequently the interest rate increases.
    4. contractionary monetary policy where the central bank buys treasury bills on the open market and consequently the interest rate increases.

31. Assuming that the face value of a treasury bill is R150 000, the price paid for the bill is R138 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 the treasury bill decreases to R135 000.
    2.   7.14% and it will increase if the price paid for the treasury bill decreases to R135 000.
    3.   8.70% and it will decrease if the price paid for the treasury bill increases to R145 000.
    4.   8.70% and it will increase if the price paid for the treasury bill increases to R145 000.

32. 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%.

    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

33. 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

34. 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 bonds is extremely low.

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

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

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

SEMESTER 1
ASSIGNMENT 02
LEARNING UNITS 4, 5 and 6
DUE DATE: 2017/03/27
UNIQUE NUMBER: 588844

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 are fully 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.

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

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

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

3. 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 output and income to determine the effect on the interest rate.
   c. The IS curve represents combinations of output and income levels and interest rates where the financial market is in equilibrium, given that all autonomous variables are unchanged.
   d. The IS curve represents combinations of output and income levels and interest rates where the goods and financial markets are in equilibrium, given that all autonomous variables are unchanged.

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

4. Which of the following statement(s) is/are correct?

   a. A shift of the IS curve occurs when the interest rate changes.
   b. A change in investment spending due to a change in autonomous investment is represented by a movement along the IS curve.
   c. A change in investment spending due to a change in the interest rate is represented by a movement along the IS curve.

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

Question 5 is based on the following diagram:
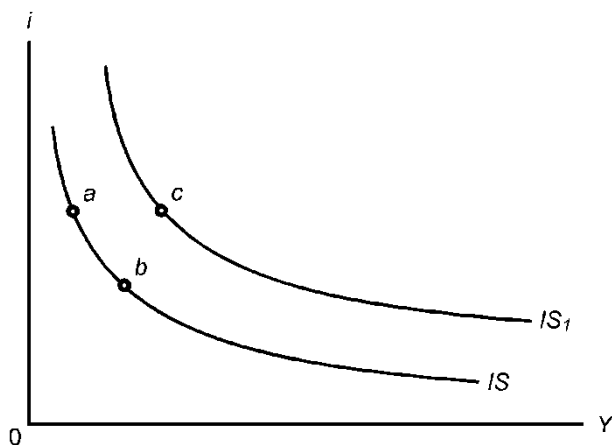
5. Which of the following statements are correct?

   a. Goods market equilibrium exists only at points a and b.
   b. At point c the level of autonomous spending is higher than at point a.
   c. At point a the interest rate is higher than at point b, therefore investment spending will be lower at point a compared to point b.
   d. At point a the demand for goods is lower than at point b.

   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 c

6. In deriving the LM curve, we assume that an increase in income in the financial market …

    1. shifts the M^s curve to the right causing the interest rate to increase.
    2. shifts the M^s curve to the left causing the interest rate to decrease.
    3. shifts the M^d curve to the right causing the interest rate to increase.
    4. shifts the M^d curve to the left causing the interest rate to increase.

Question 7 is based on the following diagram:
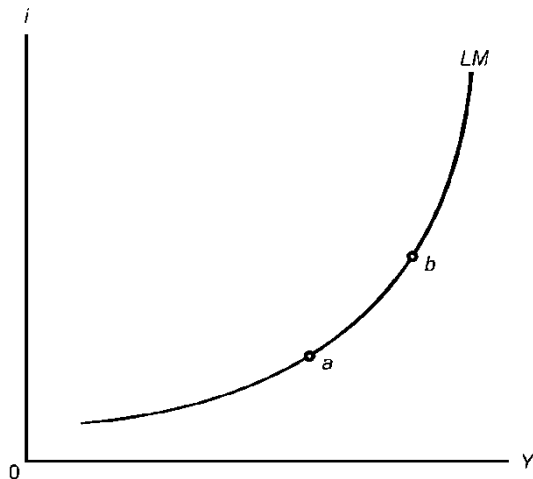
7. A movement from point a to point b on the LM curve implies that ...

    1. the money supply in the economy decreases causing the interest rate to increase.
    2. an increase in the level of output and income increases the money supply and the interest rate decreases.
    3. an increase in the level of output and income increases the demand for money and the interest rate increases.
    4. an increase in the interest rate decreases investment spending in the economy.
    5. the money supply in the economy increases causing the level of output and income to increase.

8. An expansionary fiscal policy, for example an increase in government spending, will …

    a. shift the IS curve to the right.
    b. have an impact on the financial market first and then on the goods market.
    c. increase the level of output and income and therefore the supply of money will be higher.
    d. definitely increase investment spending.
    e. decrease the interest rate, which will lead to an increase in investment spending.

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

9.   An increase in the nominal money supply …

   a.   refers to a contractionary monetary policy.
   b.   will have an impact on the financial market first and then on the goods market.
   c.   will lead to a decrease in the interest rate because the demand for money increases.
   d.   results in investment spending definitely increasing.
   e.   leads to an increase in the level of output and income (Y). This increase in Y will increase investment spending and consumption spending through the multiplier process.

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

10. Which of the following statements are correct?

   a.   If the marginal propensity to consume changes from 0.5 to 0.8 the size of the multiplier will increase and the greater the impact of a given change in government spending (G) on the level of output and income (Y) will be.
   b.   The greater the interest sensitivity of investment spending and the greater the output and income sensitivity of investment spending, the more effective an increase in government spending will be in increasing the level of output and income.
   c.   The steepness of the IS curve depends on the interest sensitivity of investment spending and the output and income sensitivity of investment spending.
   d.   If a small change in the interest rate leads to a great impact on investment spending it means that investment spending is very sensitive to a change in the interest rate. Consequently this greater impact on investment spending will have a greater impact on output and income and the IS curve will be flatter.

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

11. When comparing a **contractionary fiscal policy** with an **expansionary monetary policy** in the IS-LM model the results regarding the interest rate and investment spending are as follows:

1.	Contractionary fiscal policy	Expansionary monetary policy
The interest rate	Lower	Lower
Investment spending	Indeterminate	Higher

2.	Contractionary fiscal policy	Expansionary monetary policy
The interest rate	Lower	Higher
Investment spending	Indeterminate	Higher

3.	Contractionary fiscal policy	Expansionary monetary policy
The interest rate	Lower	Lower
Investment spending	Higher	Higher

4.	Contractionary fiscal policy	Expansionary monetary policy
The interest rate	Lower	Lower
Investment spending	Indeterminate	Lower

5.	Contractionary fiscal policy	Expansionary monetary policy
The interest rate	Higher	Lower
Investment spending	Indeterminate	Higher

12. In the IS-LM model, which one of the following policy actions will cause a decline in the budget deficit without a corresponding decline in the level of output and income given that the relative shifts of the IS curve and the LM curve are the same?

    1. A contractionary fiscal policy and an expansionary monetary policy.
    2. An expansionary fiscal policy and an expansionary monetary policy.
    3. A contractionary fiscal policy and a contractionary monetary policy.
    4. An expansionary fiscal policy and a contractionary monetary policy.

13. 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 output 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 definitely 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 b
5. None of the options 1 to 4

14. Study the following two diagrams:
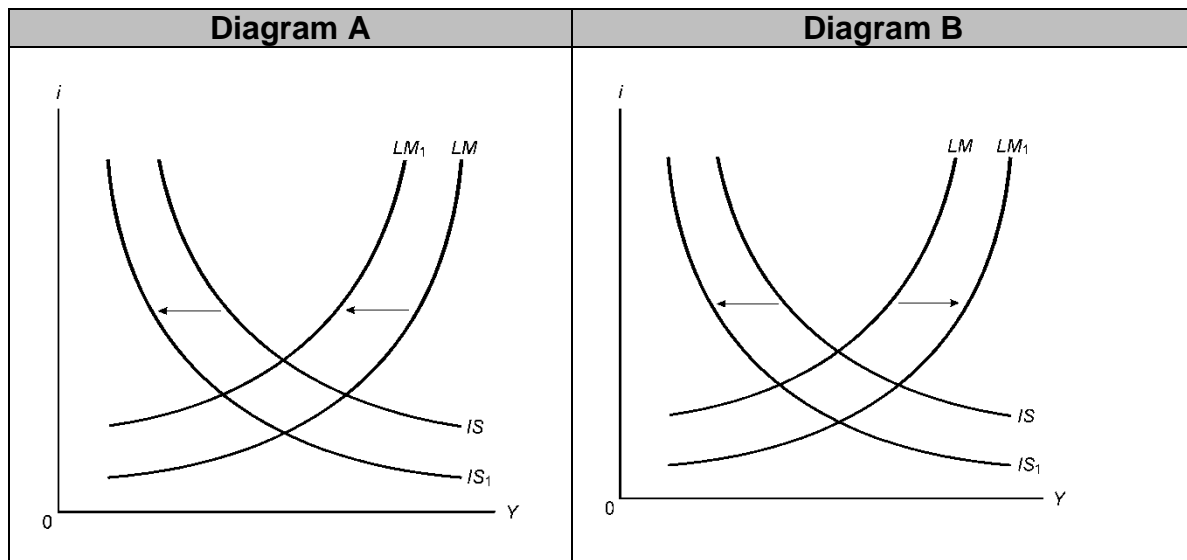
Diagram A	Diagram B

14. Which of the following statements are correct?

a. Diagram A illustrates an expansionary fiscal policy and an expansionary monetary policy.

b. Diagram B illustrates a contractionary fiscal policy and a contractionary monetary policy.

c. Diagram A illustrates a contractionary fiscal policy and a contractionary monetary policy. For example, an increase in taxation combined with a decrease in the money supply.

d. A contractionary fiscal policy for example a decrease in government spending combined with an expansionary monetary policy e.g. an increase in the money supply is illustrated in Diagram B.

e. Refer to diagram B. The possible reason for the shift of the IS curve to the left is a decrease in government spending and for the downward shift of the LM curve is an increase in the demand for money.

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

15. Which of the following refers to a depreciation of the rand?

a. R1 = $0.30 to R1 = $0.25
b. R1 = $0.25 to R1 = $0.30
c. R1 = $0.50 to R1 = $0.55
d. $1 = R8 to $1 = R7
e. $1 = R7 to $1 = R8

36

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

16. An increase in the nominal exchange rate between RSA and the USA implies that …

    1. more rands must be paid for a dollar, leading to higher imports and possibly a trade deficit.
    2. fewer rands must be paid for a dollar, leading to lower imports and possibly a trade surplus.
    3. fewer rands must be paid for a dollar, leading to lower exports and possibly a trade deficit.
    4. more rands must be paid for a dollar, leading to lower exports and possibly a trade surplus.

17. An increase in the real exchange rate implies that …

    a. SA goods are now relatively cheaper than the goods produced in the rest of the world.
    b. SA goods are now 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

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

    a. The money spent by tourists who visit 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

19. A trade balance deficit indicates that …

    1. government spending exceeds tax revenue.
    2. merchandise exports exceed merchandise imports.
    3. tax revenue exceeds government spending.
    4. imports of services exceed exports of services.
    5. merchandise imports exceed merchandise exports.

20. Given the following information:
    Interest rate on RSA bonds: 12%
    Interest rate on USA bonds: 8%

    Which one of the following statements is correct?

    1. If the expected depreciation of the rand is 5% financial market participants will be indifferent between RSA and USA bonds.
    2. If the expected appreciation of the rand is 5% financial market participants will buy USA bonds.
    3. If the expected depreciation of the rand is 5% financial market participants will buy USA bonds.
    4. If the expected depreciation of the rand is 5% financial market participants will buy RSA bonds.

21. The _____ condition implies that if an investor's only concern is the expected rate of return when choosing to invest in either domestic or foreign financial investment, he/she would consider the difference in the interest rate and the _____.

    1. multilateral parity;   expected changes in the exchange rate
    2. interest rate relation;   expected economic growth
    3. multilateral interest parity;   expected changes in the exchange rate
    4. interest parity;   expected changes in the exchange rate
    5. interest parity;   expected economic growth

22. Which of the following statements are correct?

    a. The "domestic demand for goods" and the "demand for domestic goods" are the same.
    b. Part of domestic demand falls on foreign/imported goods.
    c. Foreign demand for domestic goods is also known as exports.
    d. Domestic demand for foreign goods is also known as imports.

    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

23. Regarding the determinants of exports, which of the following are correct?

    a. $Y\downarrow \rightarrow X\downarrow$
    b. $Y^*\downarrow \rightarrow X\downarrow$
    c. $Y^*\uparrow \rightarrow X\downarrow$
    d. $\varepsilon\uparrow \rightarrow X\uparrow$
    e. $\varepsilon\uparrow \rightarrow X\downarrow$

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

Question 24 is based on the following diagram.
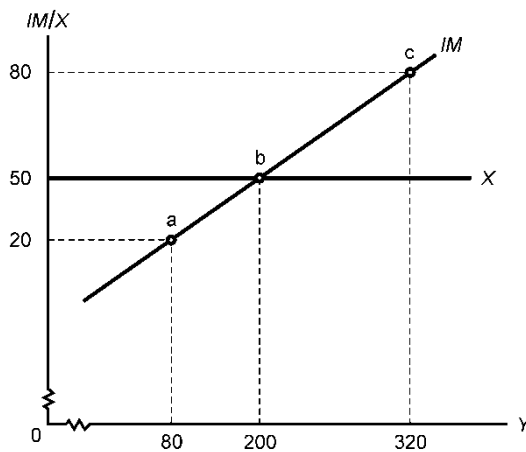
24. Which of the following statements are correct?

    a. At an income level of R320 million, imports exceed exports.
    b. At an income level of R80 million a trade deficit occurs.
    c. A trade surplus occurs at an income level of R80 million because imports exceed exports.
    d. Point b is the trade balance point because exports equal imports.
    e. At an income level higher than the income level of R200 million, a trade deficit occurs because imports exceed 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

25. Which of the following statements are correct?

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

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

Question 26 is based on the following diagram.
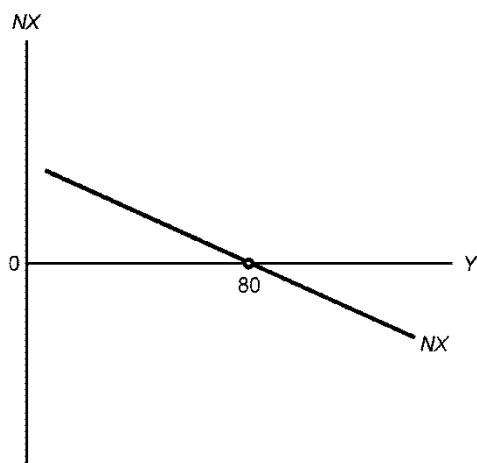
26. At any income level lower than R80 million a trade surplus occurs because if …

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

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27. Given the equilibrium level of output and income position in the following diagram, what happens to the level of output and income and the trade balance if government spending decreases?
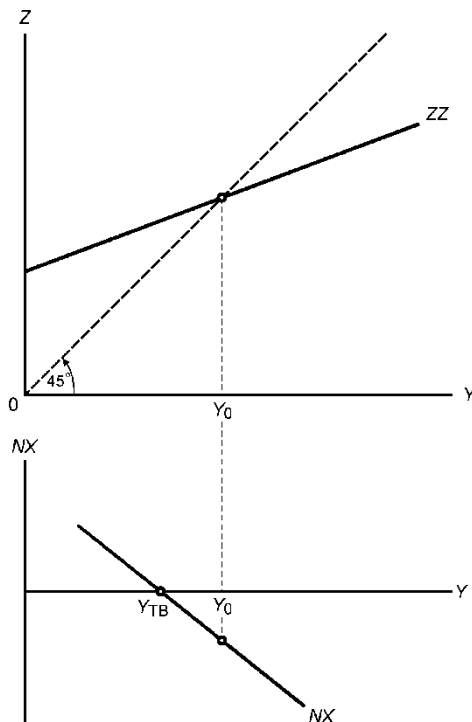
1. The level of output and income decreases and the trade deficit decreases as imports decrease.
2. The level of output and income decreases and the trade deficit decreases as exports decrease.
3. The level of output and income increases and the trade deficit increases as imports increase.
4. The level of output and income decreases and trade balance is reached as imports increase.

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

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

29. An increase in the demand for domestic goods takes place if …

1. imports increase.
2. exports increase.
3. investment spending declines.
4. consumption spending declines.
5. government spending declines.

30. An increase in exports …

    1. increases the demand for foreign goods.
    2. increases the demand for domestic goods.
    3. increases domestic expenditure.
    4. is recorded on the financial account of the balance of payments.
    5. gives rise to a trade deficit if the initial equilibrium position is a trade balance.

31. 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

32. Given the goods market equilibrium in the following diagram, what would the likely impact of a depreciation of the domestic currency be?

    1. The domestic level of output and income will increase and there will be a trade deficit.
    2. The domestic level of output and income will decrease and there will be a trade surplus.
    3. The domestic level of output and income will decrease and there will be a trade deficit.
    4. The domestic level of output and income will be unchanged and there will be a trade surplus.
    5. The domestic level of output and income will increase and there will be a trade surplus.

Question 33 is based on the following diagram.

33. 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. $Y\uparrow \rightarrow G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow IM\uparrow \rightarrow NX\downarrow$

34. For the Marshall-Lerner condition to hold a(n) …

    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 deterioration in the trade balance.
    4. appreciation must eventually lead to an increase in imports and an improvement in the trade balance.

Question 35 is based on the following:

Compare the impact on the level of output and the trade balance of an increase in foreign demand with that of an increase in domestic demand.

Hint: Complete the following diagrams and then answer question 35.

An increase in foreign demand	An increase in domestic demand
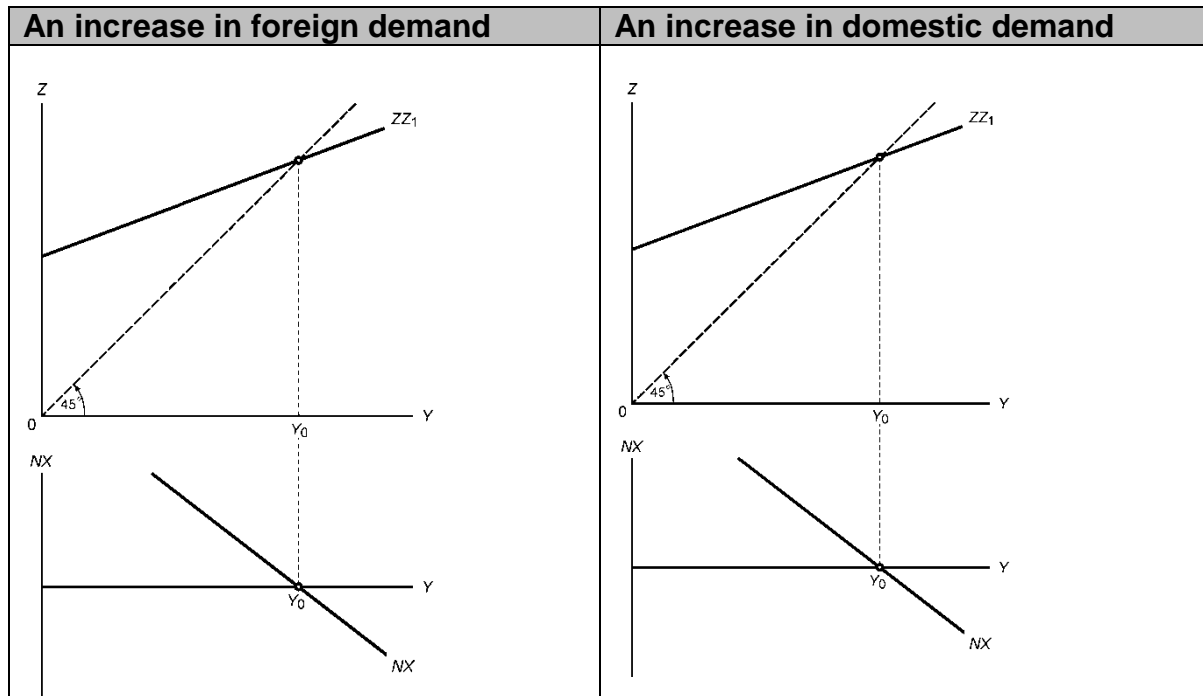
35. Which of the following statements are correct?

a. An increase in foreign demand and an increase in domestic demand will shift the demand curve ZZ_1 upwards and the level of output and income increases in both instances.
b. An increase in foreign demand will shift the NX curve to the right while an increase in domestic demand will cause a downward movement along the NX curve.
c. An increase in foreign demand will shift the NX curve to the right while an increase in domestic demand will cause an upward movement along the NX curve.
d. In the case of an increase in foreign demand the trade balance will improve and in the case of an increase in domestic demand the trade balance worsens.
e. In the case of an increase in foreign demand a trade surplus occurs and in the case of an increase in domestic demand a trade deficit occurs.

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

<div style="border:1px solid; text-align:center;">

SEMESTER 1
ASSIGNMENT 03
LEARNING UNITS 7, 8 and 9
DUE DATE: 2017/04/24
UNIQUE NUMBER: 690624
FULLY ONLINE ASSIGNMENT ON _my_UNISA

</div>

This assignment contributes 40% towards your semester mark.

Important information
The assignment consists of 15 online multiple choice questions.
This is a **fully online** assignment; meaning that in order to complete it you will need access to the internet. Your internet connection must be stable.
You can do the assignment on a computer, mobile phone or tablet.
You will have **three** opportunities to complete the assignment (no time limit) and the highest score will count towards your semester mark.
The assignment is only available in English.
The questions will be randomly drawn from a question bank so each student will receive a unique assignment.
The feedback for your unique set of questions will become available to you under the "Self Assessment" tab after the closing date for the assignment.

	Online instructions
Step 1	• Visit the _my_Unisa website: https://my.unisa.ac.za • Log on to _my_Unisa with your student number and password. (If you do not already have a _myUnisa_ account, click on "Claim UNISA Login" and follow the instructions). • Once logged into myUnisa, select the ECS2602-17-S1 site. • On the left hand side you will see a tool bar, select **"Self Assessments"**

Step 2	• Under "Take an Assessment" click on "**Assignment 3**"
Step 3	• When you are ready to do the assignment, select the "**Begin Assessment**" button.

Note that when the question has multiple correct options the check box will be square and when there is only a single correct answer it is a circle.
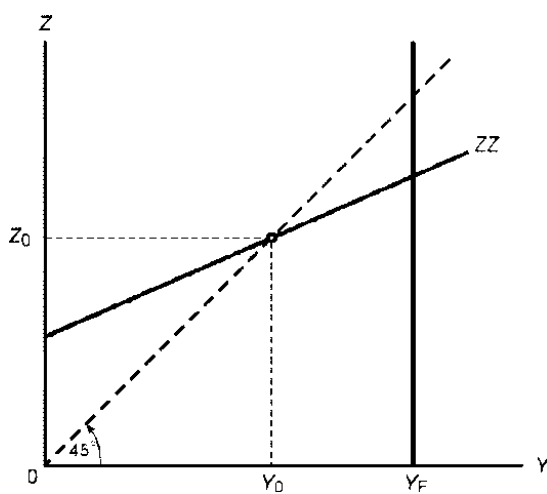
Best of luck with your assessment!

Please let us know if you experience any technical difficulties.

NOTE: Assess or mark your answers once you have received Tutorial Letter 202.
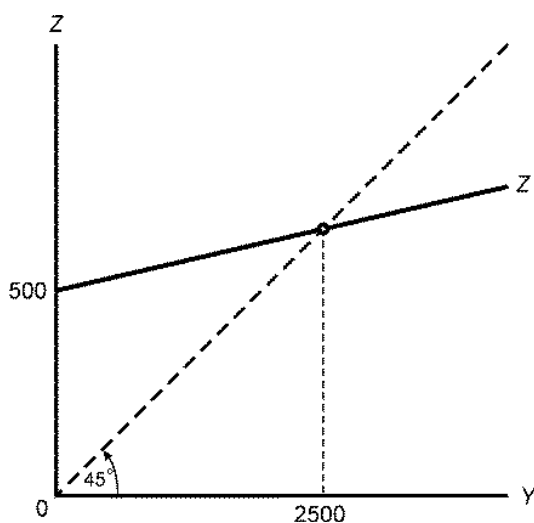
Question 1

Use the following goods market model to explain how taxes can be used to ensure full employment. Indicate any shift and/or movement on the diagram.
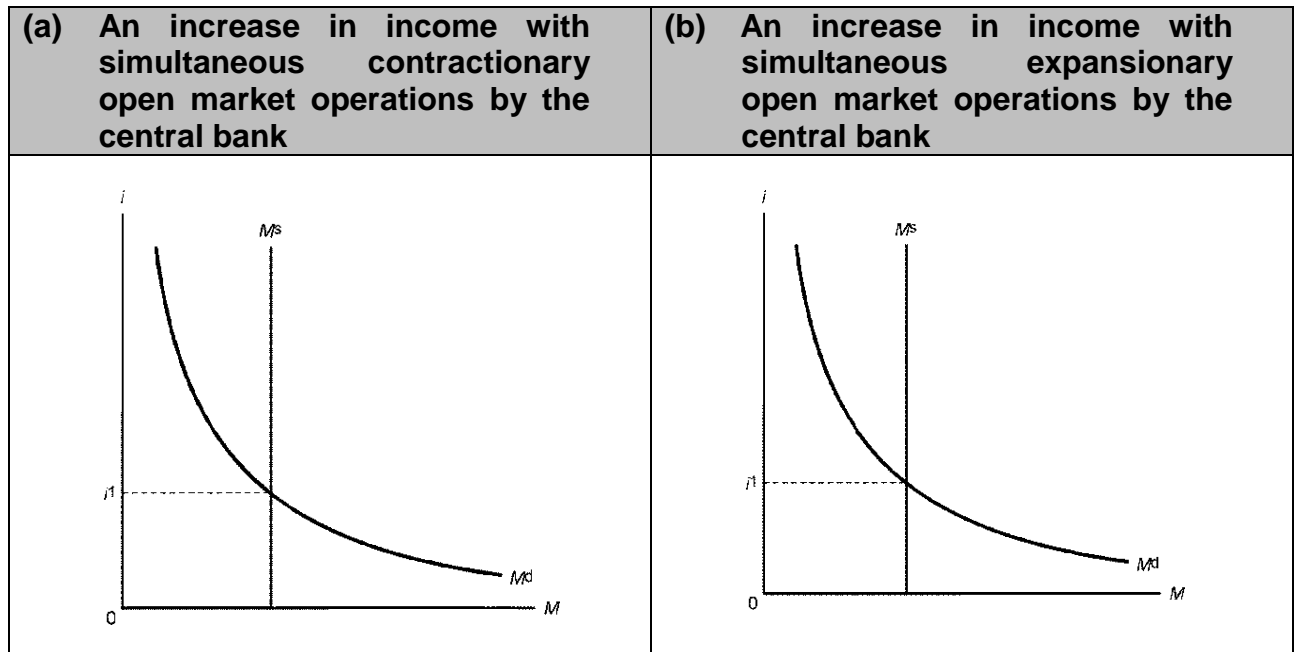

Question 2

Use the following goods market model to illustrate and explain the impact of a simultaneous increase of 200 in government spending and an increase of 200 in taxes on the level of output and income.

Question 3

Use the following diagrams of the financial market to illustrate and explain the impact on the equilibrium interest rate of:

(a) An increase in income with simultaneous contractionary open market operations by the central bank	(b) An increase in income with simultaneous expansionary open market operations by the central bank

Question 4

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 5

Use the following information to derive an IS curve:

● A decrease in the interest rate from 6% to 4% increases investment spending by 200.
● The multiplier is 5.
● In the goods market model of autonomous spending before the decrease in the interest rate is 800.

Question 6

Derive the LM curve by assuming that the level of output and income decreases.

Question 7

The following are the behavioural equations of the IS-LM model:
$C = c_0 + cY_D$
$I = I(Y,i)$
$G = G$
$T = T$
$M^d = YL(i)$
$M^s = M^s$
Identify the exogenous and endogenous variables.
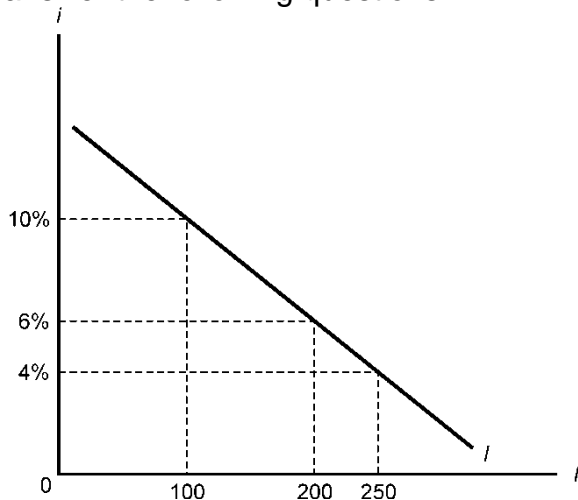
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OR the question above can also be phrased as follows:

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 8

The following diagram represents the investment function of Mallerga. Use the diagram to answer the following questions:

a. Calculate investment spending if the central bank decreases the interest rate from 10% to 6%, and indicate how this would be illustrated on the diagram.

b. During the period in which the central bank decreased the interest rate the government of Mallerga decided to nationalize the mines and factories. Show the impact of these actions on investment spending in Mallerga.

c. Investment spending is an important determinant of the level of output and income in the economy. Explain the impact of a decrease in the interest rate and nationalization on the level of output and income and unemployment in the IS-LM model.

Question 9

Critically discuss the following statement:

The more sensitive investment spending is to 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 10

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 11

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 12

The impact of an expansionary fiscal policy differs in the good market model compared to the impact in the IS-LM model. By using chain of events and words what are the similarities and differences between the impact in the goods market model and the IS-LM model?

Question 13

Use the IS-LM model to compare the impact of a contractionary monetary policy with that of an expansionary fiscal policy.

Question 14

Question 14 is based on the following diagram:

USD per 1 ZAR

25 Jul 2006 00:00 UTC - 21 Jul 2016 07:36 UTC
ZAR/USD close:0.06991 low:0.05923 high:0.15506

Source: http://www.xe.com

a. What was the overall effect from 2012 – 2016 on the nominal exchange rate?
b. What might be the possible reasons for the depreciation of the rand against the USA dollar from 2015?
c. Discuss briefly some possible implications of the weak rand.

Question 15

a. Describe the concept NX and refer to the different trade balance positions.
b. Given the following information construct a NX curve. Clearly indicate points of a trade surplus, trade balance and a trade deficit.

Exports = R100 million
Imports:
At Y = R200 million imports = R50 million
At Y = R300 million imports = R100 million
At Y = R400 million imports = R150 million
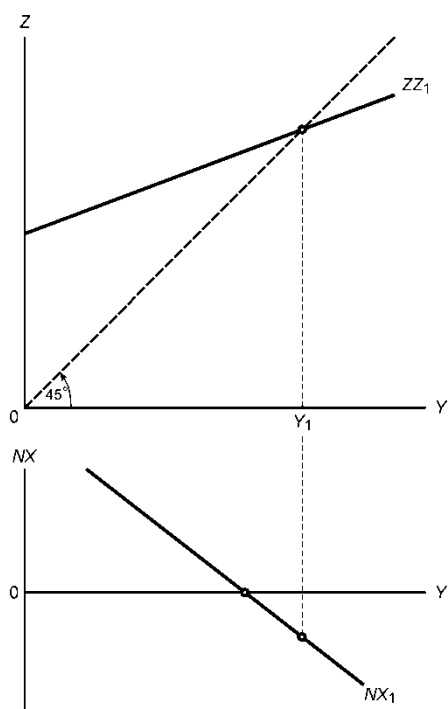
c. What would happen to the NX curve if exports increase?

Question 16

Question 16 is based on the following data for Brazil:

BRAZIL CURRENT ACCOUNT
Current Account (Million USD)
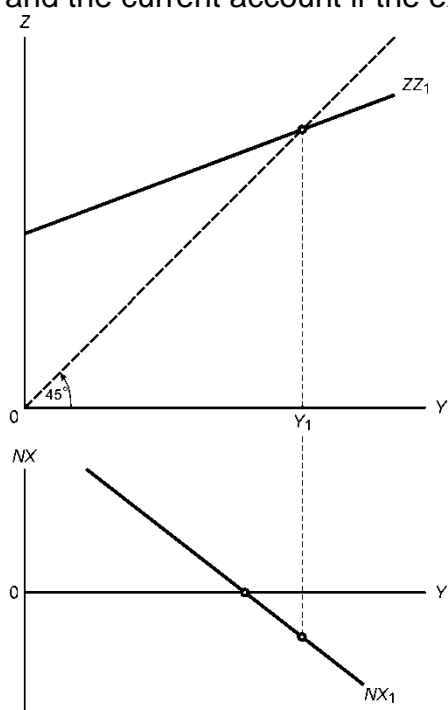
source: TradingEconomics.com; Banco Central do Brasil

● Since 2008 government spending in Brazil has been increasing.

a. Use the following model to explain the impact of increased government spending on the level of output and income and the current account of Brazil.

b. Use the following model to explain what would happen to the level of output and income and the current account if the exchange rate depreciates.

c. Explain what effect a depreciation of the exchange rate will have on the trade balance, assuming the Marshall-Lerner condition holds.
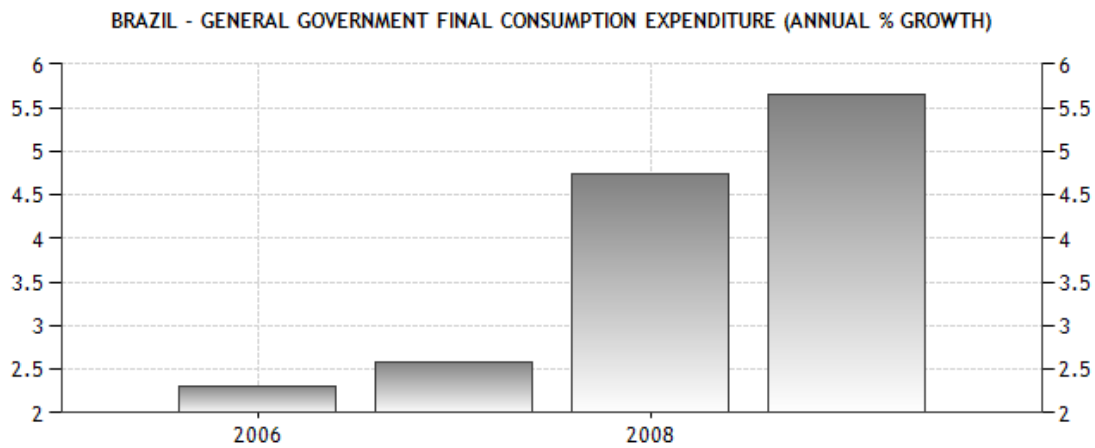
Question 17

Question 17 a 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 worldwide 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

i.   Given that an economic recession is defined as a decrease in real GDP for two consecutive periods (where a period is 3 months, also known as a quarter because there are four periods of 3 months in a year), during which period did Brazil experience an economic recession?

ii.   Based on the above information use the IS-LM model to explain in words how Brazil made use of monetary and fiscal policies to deal with the economic recession they experienced.

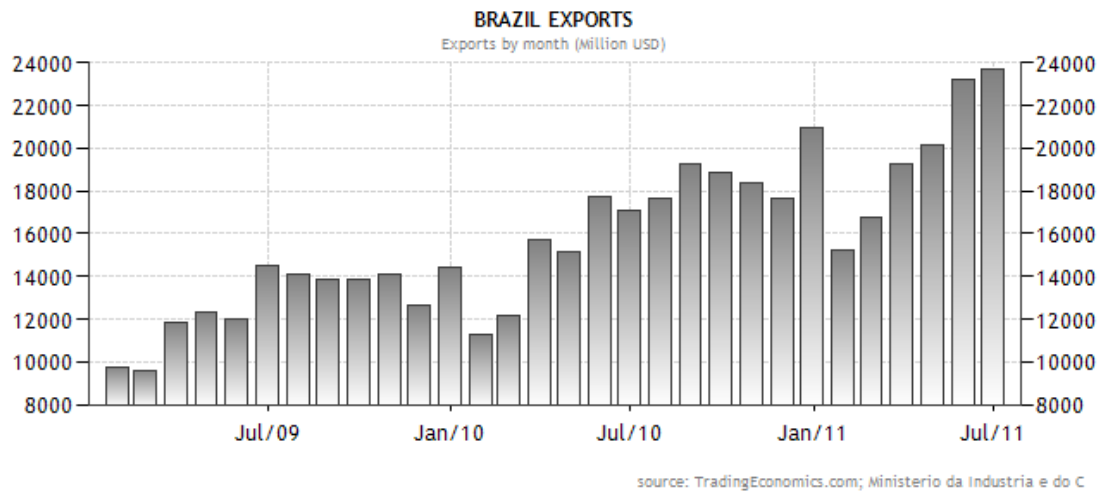Question 17 b is based on the following diagram where the price of a US$ in terms of the Brazilian Real is given:

USDBRL EXCHANGE RATE

Source: TradingEconomics.com

i.   Did the Brazilian Real depreciate or appreciate against the US$ since January 2009?
ii.   Beginning in 2009 Brazil applied a contractionary monetary policy. Use the IS-LM model for an open economy to illustrate and explain the impact on the

   1.   level of output and income
   2.   interest rate
   3.   financial account of the balance of payment
   4.   exchange rate and
   5.   current account of the balance of payment
         of this policy.

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Events to consider:

● Since 2009 there was a significant increase in the demand for commodities from Brazil as well as an increase in foreign direct investment in commodity-related industries.

BRAZIL EXPORTS
Exports by month (Million USD)

source: TradingEconomics.com; Ministerio da Industria e do C

● A contractionary monetary policy has been followed and in 2011 the interest rate in Brazil was the highest interest rate of any major economy.
● Government spending has increased steadily.

Question 18

Briefly explain why an increase in a budget deficit leads to a deterioration of the current account of the balance of payments.

Question 19

Question 19 is based on the following extract from the *Monetary Policy Review* June 2015. South African Reserve Bank. (2015). Pretoria:

"… *monetary policy in South Africa remains in a tightening cycle… policy easing by the European Central Bank (ECB) and the Bank of Japan may support capital flows to emerging markets, further moderating the risk of an abrupt decline in emerging-market (EM) currency prices"*

Which one of the following chain of events' illustrates the effect of the above extract on South Africa's trade balance.

1. $M\uparrow \rightarrow M/P\uparrow \rightarrow i\downarrow \rightarrow E\downarrow \rightarrow X\uparrow \rightarrow NX\uparrow$
2. $E\uparrow \rightarrow i\uparrow \rightarrow X\uparrow \rightarrow NX\uparrow$
3. $i\uparrow \rightarrow Capital_{inflow} \rightarrow E\uparrow \rightarrow X\downarrow \rightarrow NX\downarrow$
4. $i\downarrow \rightarrow Capital_{outflow} \rightarrow E\downarrow \rightarrow X\uparrow \rightarrow NX\uparrow$

Question 20

Question 20 is based on the following graph:

SOUTH AFRICA GOVERNMENT SPENDING

SOURCE: WWW.TRADINGECONOMICS.COM | SOUTH AFRICAN RESERVE BANK
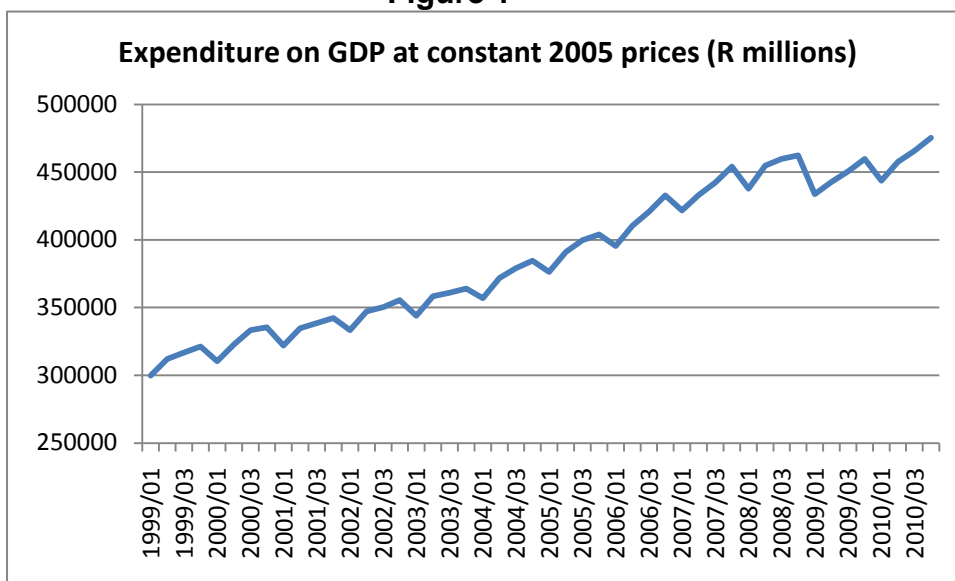
Measured in millions of ZAR

a. Which stabilisation policy is represented by the data?
b. Given the data and policy, what will happen in the AS-AD model? Explain in words and by using a chain of events and a diagram what will happen in the short run and in the medium run in the goods market, the financial market and the labour market.

Question 21

Read through the following and answer questions a and b that follow.

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

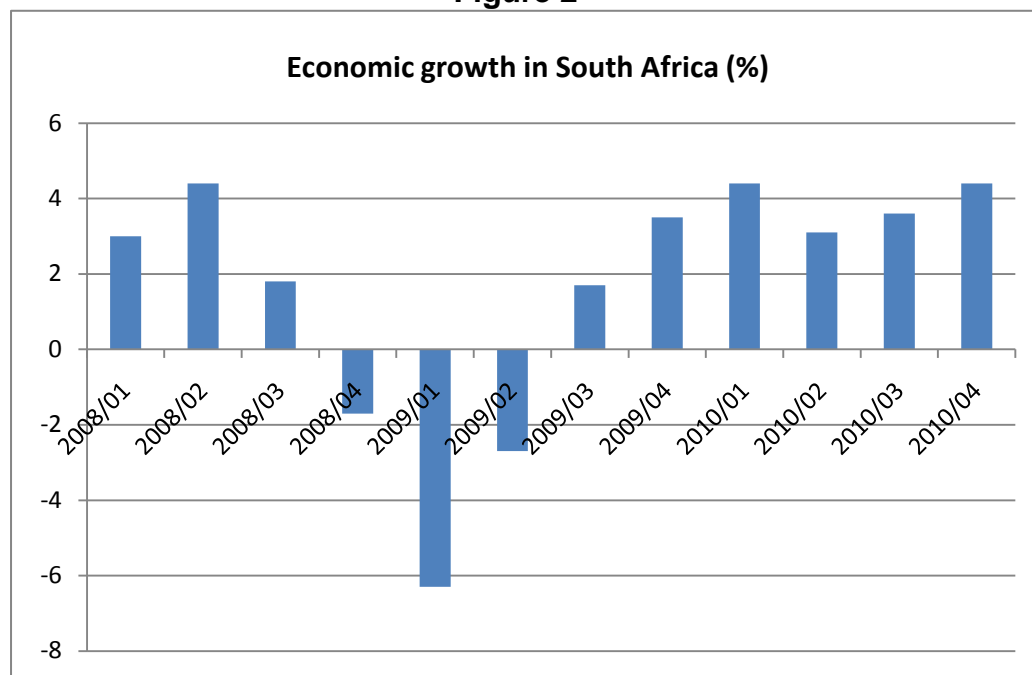Expenditure on GDP at constant 2005 prices (R millions)

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

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

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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.
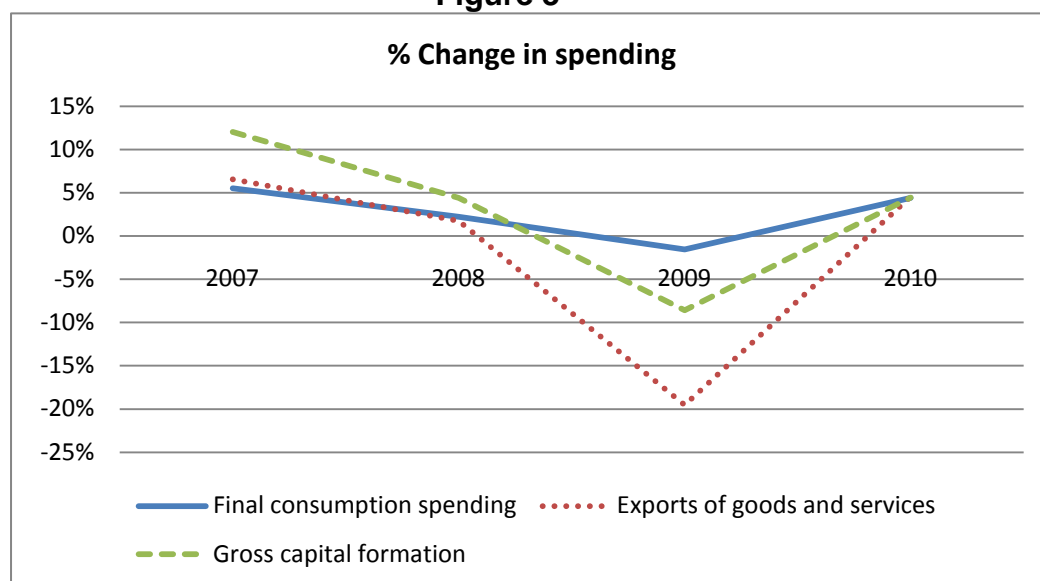
Figure 2

Economic growth in South Africa (%)

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

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.
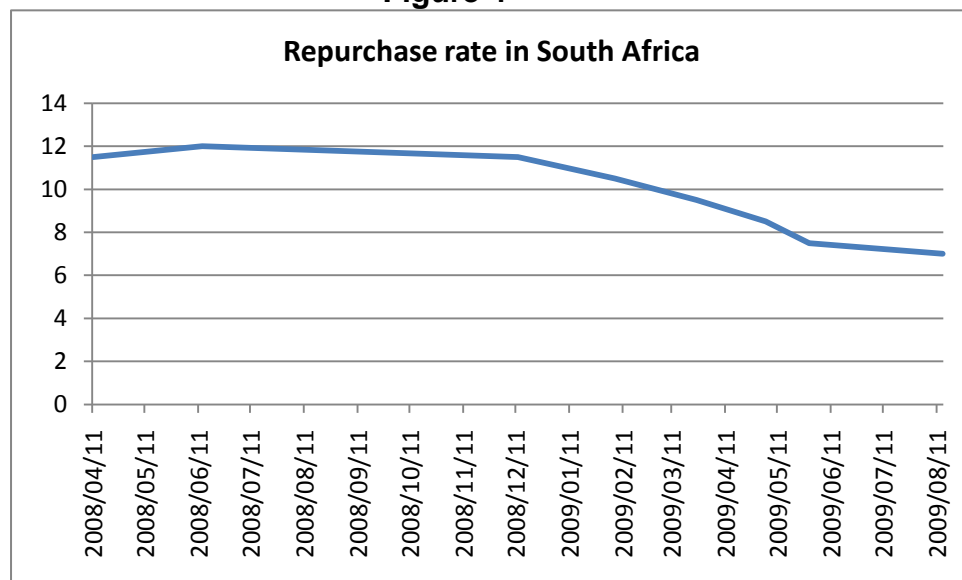
Figure 3

% Change in spending

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

The recession could have been much worse. But it was met by a strong macroeconomic response, which certainly limited the depth 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

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

a. During which period did South Africa experience an economic recession?

b. What type of monetary policy did South Africa follow between May 2008 and the end of 2009?

c. Given the data and policy identified in question b, what will happen in the AS-AD model? Explain in words and by using chain of events and a diagram what will happen in the short and medium run in the goods market, the financial market and the labour market as a result of this monetary policy being employed.

Question 22

When comparing the impact of the two different policies (question 20 and question 21 above) in the AS-AD model, the impact in the medium run is different. Briefly explain why.

SECOND SEMESTER ASSIGNMENTS

<div style="border:1px solid black; background:#cccccc; text-align:center; padding:10px; width:50%; margin:auto;">

SEMESTER 2
COMPULSORY ASSIGNMENT 01
LEARNING UNITS 1, 2 and 3
DUE DATE: 2017/08/14
UNIQUE NUMBER: 789903

</div>

This assignment contributes 20% 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 25,35% in 2015.
    2. The drought experienced in 2015/16 reduced many crop harvests and caused food price inflation in South Africa.
    3. The annual inflation in South Africa rose from 2015 to 2016.
    4. Because of high inflation, it is expected that the interest rate will increase.
    5. The drought experienced in 2015/16 reduced the total maize crop harvested and caused the price of maize in South Africa to rise.

2. The main focus of this macroeconomics module is the study of …

    1. the determinants of the short, medium and long-term growth potential of the economy.
    2. only the interaction between the goods market and the financial market.
    3. different theories on the determination of output and income in a closed economy in the short term only.
    4. only the determination of output and income and the impact of fiscal and monetary policy on the financial, labour and foreign exchange markets.
    5. the determination of output and income and the impact of fiscal and monetary policy on the level of output and income.

3. Which of the following statement(s) is/are correct?

    An autonomous (or exogenous) variable in our model means that the variable …

    a. is not influenced 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 influenced 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

4.   Expenditure on South Africa's gross domestic product is spending on goods and services produced within the borders of South Africa …

    1.   excluding exports and including imports.
    2.   excluding imports and including exports.
    3.   including exports and imports.
    4.   excluding exports and imports.

5.   South Africa's gross domestic expenditure (GDE), which is the total value of spending on final goods and services within the borders of South Africa …

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

6.   In our goods market model, an increase in the demand for goods implies …

    a.   an increase in output.
    b.   an increase in income.
    c.   an increase in employment.
    d.   a decrease in unemployment.
    e.   a decrease in savings.

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

Questions 7 to 9 are based on the following consumption function:
$C = 300 + 0.4Y_D$

7.   The parameter $0.4Y_D$ is termed:

    1.   Autonomous consumption.
    2.   Total consumption.
    3.   Induced consumption.
    4.   Marginal propensity to consume.

8.   If the level of disposable income (Y_D) were to increase by 100, the level of autonomous consumption will be:

    1.   300
    2.   400
    3.   340
    4.   100

9. If disposable income (Y_D) increases by 200, then the change in induced consumption will be:

    1. 0.4 x 100
    2. 300 + 200
    3. 0.4 x 300
    4. 0.4 x 200

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

    a. Government spending is an exogenous variable.
    b. An increase in government spending increases income and an increase in income increases government spending but by less than one to one.
    c. Expansionary fiscal policy can be the result of an increase in government spending and/or a decrease in taxes.
    d. If the tax revenue of government is larger than government spending, a budget surplus exists.

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

Question 11 is based on the following diagram below.
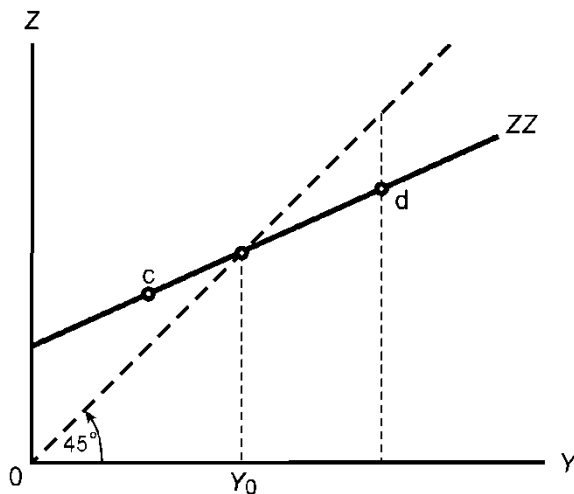
11. Which of the following statements is/are correct?
    Given a demand for goods curve ZZ …

    a. At point d the demand for goods exceeds the level of output; therefore excess supply occurs and producers will cut back on production to reach equilibrium at Y_0.
    b. At point d the level of output exceeds the demand for goods; therefore excess supply occurs and producers will cut back on production to reach equilibrium at Y_0.
    c. At point c the demand for goods exceeds the level of output; therefore excess demand occurs and producers will increase production to reach equilibrium at Y_0.
    d. At point c the level of output exceeds the demand for goods; therefore excess demand occurs and producers will increase production to reach equilibrium at Y_0.

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

Questions 12 to 17 are based on the following data for a hypothetical country for 2017.

Marginal propensity to consume = 0.8
Government spending   = R360 billion
Government revenue   = R241 billion

12. The value of the multiplier is equal to ...

    1. 1.2
    2. 8
    3. 0.2
    4. 5

13. During 2017 the country experienced a _____ of   _____.

    1. budget surplus;   R119 billion
    2. budget surplus;   R241 billion
    3. budget deficit;   R360 billion
    4. budget deficit;   R119 billion
    5. balanced budget

14. An economist calculated that the gap between the current level of output and income and the full employment level of income is R100 billion.
   Which of the following will ensure that full employment is reached?

    1. An increase in government spending of R100 billion.
    2. An increase in taxation of R100 billion.
    3. An increase in government spending of R20 billion.
    4. A decrease in taxation of R20 billion.
    5. An increase in government spending of R50 billion and a decrease in taxation of R50 billion.

15. If an increase in the budget deficit is unacceptable, which one of the following policy actions will result in an increase in the level of output and income without changing the budget deficit?

    1. A decrease in government spending of R200 billion and a decrease in taxation of R200 billion.
    2. An increase in government spending of R100 billion and an increase in taxation of R200 billion.
    3. An increase in government spending of R100 billion and an increase in taxation of R100 billion.
    4. An increase in government spending of R200 billion and a decrease in taxation of R100 billion.

16. Which one of the following describes the impact of an increase in government spending of R10 billion on the goods market diagram?

    1. The vertical intercept increases by R10 billion and via the multiplier effect the demand for goods and the level of output and income increases by R50 billion.
    2. The vertical intercept increases by R50 billion and via the multiplier effect the demand for goods and the level of output and income increases by R10 billion.
    3. The vertical intercept increases by R50 billion and via the multiplier effect the demand for goods and the level of output and income increases by R50 billion.
    4. The vertical intercept decreases by R10 billion and via the multiplier effect the demand for goods and the level of output and income increases by R50 billion.
    5. The vertical intercept decreases by R10 billion and via the multiplier effect the demand for goods and the level of output and income decreases by R50 billion.

17. Which one of the following describes the impact of an increase in taxation of R10 billion on the goods market diagram?

    1. The vertical intercept increases by R10 billion and via the multiplier effect the increase in the demand for goods and the level of output and income increases by R50 billion.
    2. The vertical intercept decreases by R8 billion and via the multiplier effect the decrease in the demand for goods and the level of output and income decreases by R40 billion.
    3. The vertical intercept increases by R8 billion and via the multiplier effect the decrease in the demand for goods and the level of output and income decreases by R40 billion.
    4. The vertical intercept decreases by R10 billion and via the multiplier effect the decrease in the demand for goods and the level of output and income decreases by R50 billion.
    5. The vertical intercept decreases by R50 billion and via the multiplier effect the decrease in the demand for goods and the level of output decreases by R50 billion.

Questions 18, 19 and 20 are based on the following diagram:
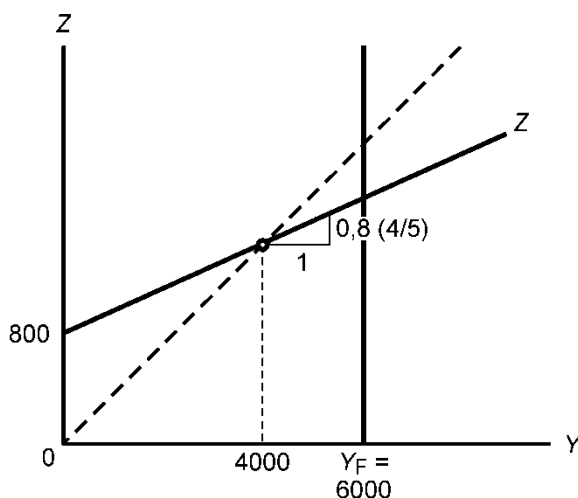
18. The value of the multiplier is equal to…

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

19. Government spending must increase by _____to reach the full employment level and taxes must decrease by _____ to reach the full employment level.

1. 2 000;   400
2. 4 000;   2 000
3. 1 600;   320
4. 2 500;   80
5. 400;   500

20. In the goods market model, the value of the multiplier will increase if …

1. taxes (T) increase.
2. government spending (G) increases.
3. the marginal propensity to consume (c) increases.
4. investment spending (I) increases.

21. 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 autonomous spending 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

22. An increase in expenditure implies an increase in income and employment. The implication of this is that government spending can be used to achieve full employment. Which of the following are factors which can prevent a situation of full employment being reached by an increase in government spending?

a. Jobless growth.
b. Budget constraints of the government.
c. Balance of payment constraints.

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

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

    a. An increase in government spending and/or a decrease in taxes will definitely decrease structural 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 means to increase output, income and employment. However, high imports, crowding out of private investment and an unsustainable budget deficit are all constraints to the effectiveness of expansionary fiscal policy.

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

24. Money, which can be used for transactions, includes …

    1. Income, interest received from bonds, shares and currency.
    2. Income, bonds, shares, demand deposits, coins and notes.
    3. Currency, demand deposits, income and the interest rate.
    4. Investment, shares, coins and notes and demand deposits.
    5. Coins and notes and demand deposits.

25. 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.
    d. The events chain can be illustrated by a leftward shift of the M^d curve.

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

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

    a. In the financial market an increase in output and income will increase the interest rate.
    b. Expansionary monetary policy will increase the demand for bonds and the price of bonds will increase.
    c. Exogenously determined money supply implies that as the interest rate increases the money supply will also increase.
    d. If an expansionary monetary policy is applied, bonds will be sold on the open market by the central bank.

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

27. If income increases, the demand for money …

   1. decreases and the money demand curve will shift to the left.
   2. increases and the money demand curve will shift to the right.
   3. increases and there will be an upward movement along the money demand curve.
   4. increases and there will be downward movement along the money demand curve.

28. According to the traditional approach to money supply …

   1. the interest rate must increase in order to decrease the money supply.
   2. the interest rate must decrease in order to increase the money supply.
   3. a decrease in the money supply resulting from the central bank selling bonds on the open market will decrease the real money supply which results in an increase in the interest rate.
   4. a decrease in the money supply resulting from the central bank buying bonds on the open market will decrease the real money supply which results in an increase in the interest rate.

Questions 29 and 30 are based on the following diagram:
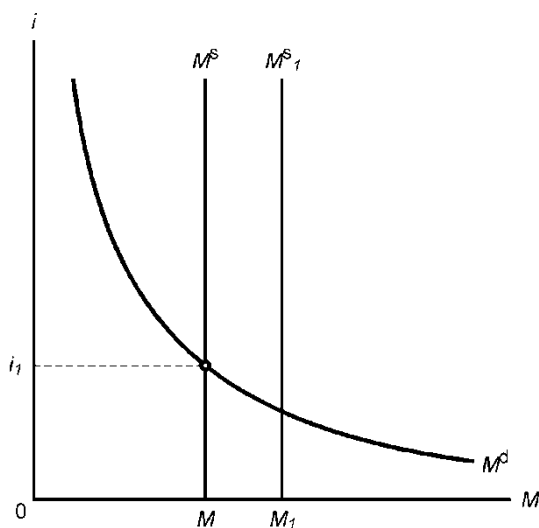
29. In terms of a chain of events, the shift of the M^s curve from M^s to M^s_1 can be presented as follows:

   1. $M^s\downarrow : D_B \downarrow \rightarrow P_B\downarrow \rightarrow i\downarrow$
   2. $M^s\uparrow : D_B \downarrow \rightarrow P_B\downarrow \rightarrow i\downarrow$
   3. $M^s\uparrow : S_B \downarrow \rightarrow P_B\uparrow \rightarrow i\downarrow$
   4. $M^s\uparrow : D_B \uparrow \rightarrow P_B\uparrow \rightarrow i\downarrow$

30. Given the M^s curve, an increase in the level of output and income (Y) will …

   1. shift the M^d curve to the right and an excess supply of money exists at the interest rate i_1.
   2. shift the M^d curve to the right and an excess demand for money exists at the interest rate i_1.
   3. shift the M^d curve to the left and an excess demand for money exists at the interest rate i_1.
   4. shift the M^d curve to the left and an excess supply for money exists at the interest rate i_1.

Question 31 and 32 are based on the diagram below:
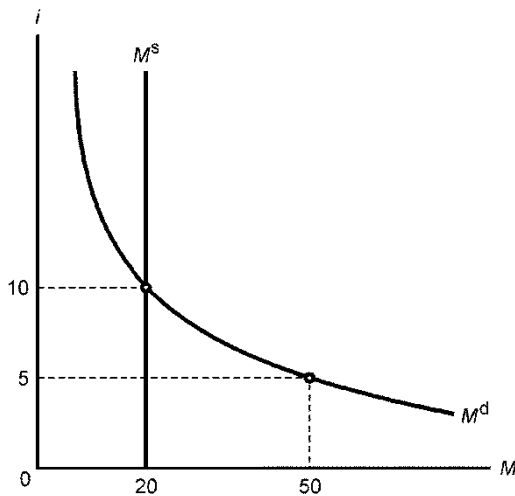
31. Which of the following statements are correct?

   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

32. Which one of the following statements is correct regarding the M^d curve?

1. A decrease in the interest rate from 10% to 5% increases the amount of money demanded and this is represented by an upward movement along the M^d curve.
2. An increase in the interest rate from 5% to 10% decreases the amount of money demanded and this is represented by an upward movement along the M^d curve.
3. A decrease in income increases the amount of money demanded and this is represented by a upward movement along the M^d curve.
4. An increase in income increases the amount of money demanded and this is represented by a leftward shift of the M^d curve.

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

a. If the face value of the Treasury bill is R300 000, the price paid is R280 000 with the maturity date of one year, the rate of return is R20 000.
b. If the face value of the Treasury bill is R300 000, the price paid is R280 000 with the maturity date of one year, the rate of return is 7.14%.
c. If the price paid for 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.
d. The price paid for a treasury bill determines the rate of return.
e. There is a negative or inverse relationship between the price of a treasury bill and the interest rate.

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

34. If the financial market is in a liquidity trap …

a. monetary policy is ineffective in bringing about a decrease in the interest rate.
b. financial money market participants are willing to hold less money at the same interest rate.
c. a decrease in the interest rate can be brought about by buying of bonds by the central bank.
d. there is a high demand for bonds.

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

35. 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 a and b
   3. Only a and c
    4. Only b and c
    5. Only a

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 can be regarded as fully exogenous variables in the IS-LM model?

    a. Nominal money supply.
    b. Interest rate.
    c. Government spending.

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

2. To derive the IS curve, we change …

    1. the level of output and income to determine the effect on the interest rate.
    2. government spending to determine the effect on the demand for goods.
    3. the money supply to determine the effect on the demand for goods.
    4. the interest rate to determine the effect on the level of output and income.
    5. the demand for money to determine the effect on the interest rate.

3. Assume an increase in the interest rate when deriving the IS curve.
    In the goods market, if the interest rate increases …

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

Question 4 is based on the following diagram:
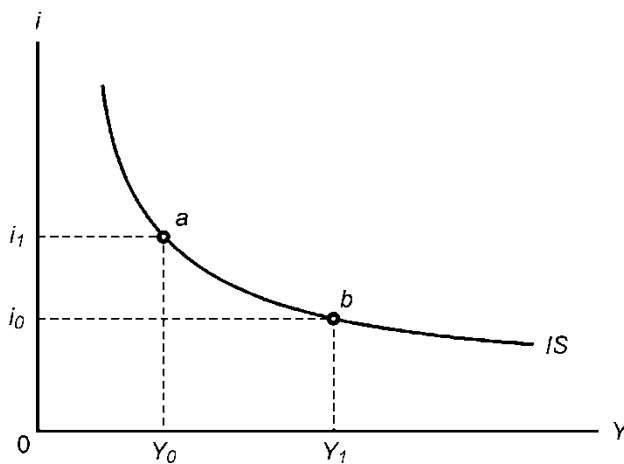
4.   Which of the following statements is/are correct?

    a.   An increase in the interest rate causes a movement along the IS curve from point a to point b.
    b.   A decrease in taxes causes a movement along the IS curve from point a to point b.
    c.   At point a the demand for goods is higher than at point b.
    d.   At point b the level of investment spending is higher than at point a.
    e.   At points a and b goods market equilibrium exists, in other words
         Y = Z.

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

Question 5 is based on the following diagram:
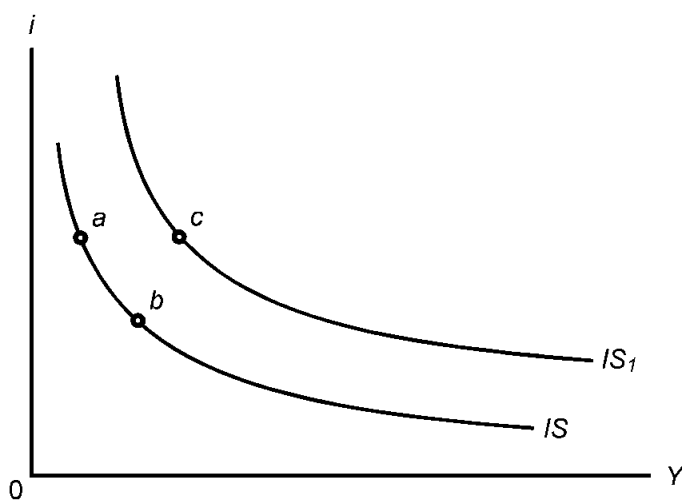
5. Which of the following statements is correct?

    a. Goods market equilibrium exists only at points a and b.
    b. At point b the interest rate is lower than point a and therefore investment spending will be higher.
    c. At point c the level of autonomous spending is the same as at point a.
    d. At point a the demand for goods is lower than at point b.
    e. At point c the supply of money is higher than at point a.

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

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

    a. To derive the LM curve we change the level of income to determine the effect on the interest rate.
    b. The derivation of the LM curve is described by the following chain of events;
    $Y\uparrow \rightarrow M^s\uparrow \rightarrow i\uparrow \rightarrow I\downarrow \rightarrow Z\downarrow$.
    c. When we derive the LM curve an increase in income will cause an increase in the demand for money which is represented by the shift of the demand for money curve to the right and it will cause an increase in the equilibrium 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

7. Which of the following factors will shift the LM curve upwards?

    a. An increase in the marginal propensity to consume.
    b. An increase in the nominal money supply.
    c. A decrease in the nominal money supply.
    d. A decrease in investment spending.
    e. A decrease in the interest rate.

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

8. An expansionary fiscal policy, for example a decrease in taxes will …

    a. shift the LM curve downwards.
    b. have an impact on the goods market first, then the financial market and then back to the goods market.
    c. cause the supply of money to be higher since the level of output and income increases.
    d. cause the investment spending to be indeterminate since the increase in the interest rate decreases investment spending and the increase in the level of output and income increases investment spending.
    e. shift the IS curve to the left since the interest rate increases.

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

9. An increase in the nominal money supply ….

    a. refers to an expansionary monetary policy.
    b. will have an impact on the goods market first, then the financial market, and then back to the goods market.
    c. will lead to a decrease in the interest rate because the real money supply increases.
    d. will lead to a decrease in the interest rate and therefore investment spending will increase, the demand for goods will increase and the level of output and income will increase.
    e. will have no influence on government spending and taxes.
    f. will increase the demand for money.

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

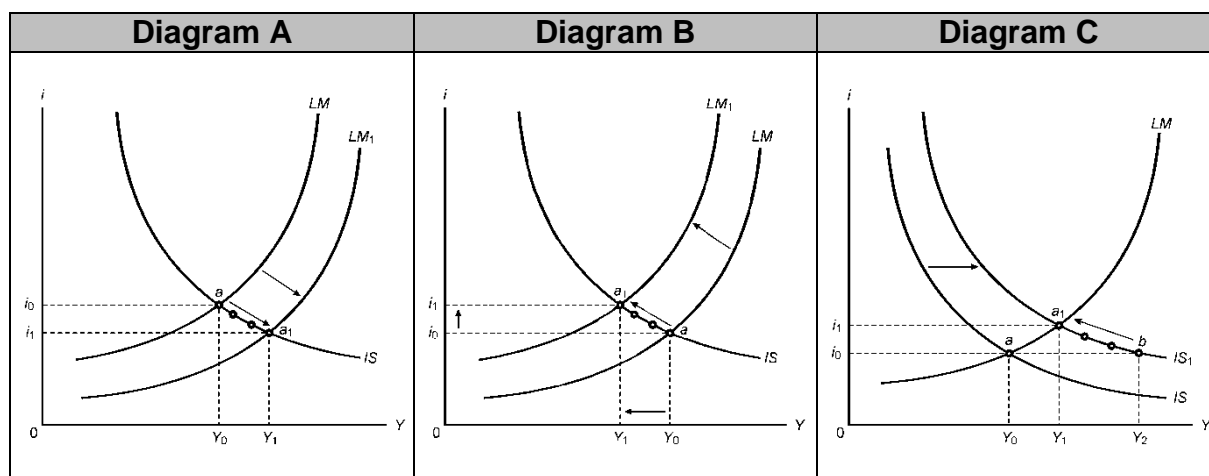Question 10 is based on the following diagram:
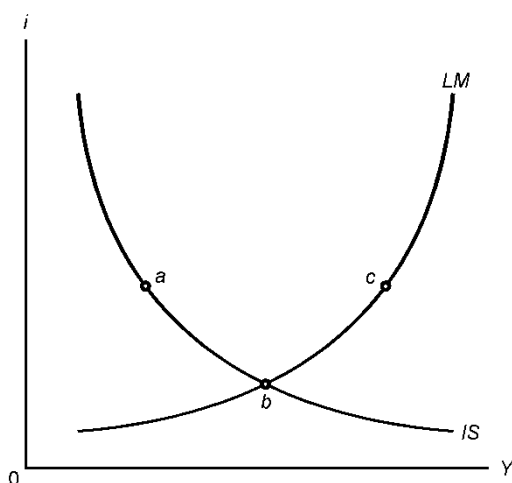
10. Which of the following statements is/are correct?

    a.   The LM curve is derived from the financial market and therefore at point c the financial market is in equilibrium.
    b.   The IS curve is derived from the goods market and therefore at point a the goods market is in equilibrium.
    c.   Point b indicates an equilibrium position where the goods market and the financial market are in equilibrium.
    d.   At point c the goods market is in disequilibrium.
    e.   At point a the financial market is in disequilibrium.

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

11. Which diagram illustrates the following chain of events?

    $M\uparrow \rightarrow M/P\uparrow \rightarrow i\downarrow$
    $i\downarrow \rightarrow I\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow$
 $Y\uparrow \rightarrow I\uparrow$
    $Y\uparrow \rightarrow C\uparrow$

| Diagram A | Diagram B | Diagram C |

    1.   Diagram A.
    2.   Diagram B.
    3.   Diagram C.
    4.   Not diagram A, B or C

12. Which one of the following policy actions in the IS-LM model will lead to an unchanged interest rate and an increase in the level of output and income given that the relative shifts in the IS curve and the LM curves are the same?

    1.   A contractionary fiscal policy and an expansionary monetary policy.
    2.   A contractionary fiscal and a contractionary monetary policy.
    3.   An expansionary fiscal and an expansionary monetary policy.
    4.   It is not possible to achieve the policy objectives.

13. Comparing the impact of a decrease in government spending in the goods market model with the impact of a decrease in government spending in the IS-LM model:

   a. In both models the level of output and income will decrease.
   b. In both models the demand for goods including consumption spending will be lower.
   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 and higher in the IS-LM model.

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

Study the following two diagrams and answer question 14.
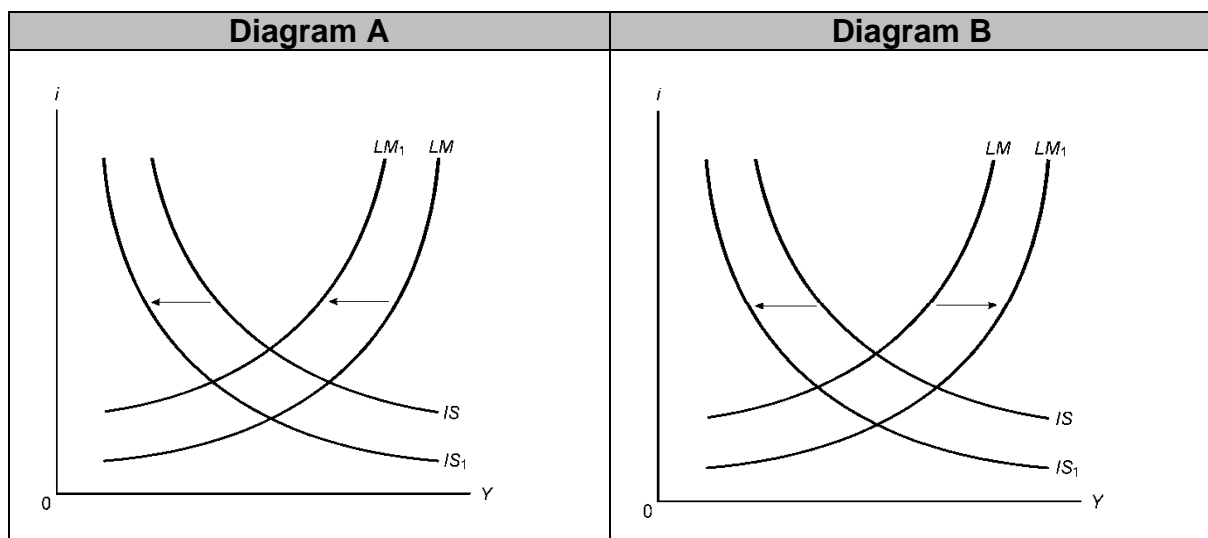
14. Which of the following statements is/are correct?

   a. Diagram A illustrates a contractionary fiscal policy and an expansionary monetary policy.
   b. Diagram B illustrates a contractionary fiscal policy and an expansionary monetary policy.
   c. Diagram A illustrates a decrease in government spending in other words a contractionary fiscal policy combined with a decrease in the money supply, in other words a contractionary monetary policy.
   d. The net effect in Diagram A is a decrease in the level of output and income while in Diagram B the level of output and income is unchanged.
   e. The net effect in Diagrams A and B is an unchanged interest rate.

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

15. In the case of South Africa, a change from R1 = $0.40 to R1 = $0.45 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

16. From the perspective of South Africa, an increase (appreciation) in the nominal exchange rate will cause the following to happen:

    1. The rand becomes less expensive to foreigners.
    2. Foreign goods are more expensive to South Africans.
    3. Foreign currency is more expensive to South Africans.
    4. South African goods are more expensive to foreigners.
    5. Imports are more expensive.

17. A decrease in the real exchange rate (ε) implies that …

    a. SA goods are now relatively cheaper than the goods produced in the rest of the world.
    b. SA goods are now 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

18. A current account surplus indicates that a country earns more on _____ than it spends on _____ and this would be reflected as a _____ balance on the current account.

    1. imports; exports; positive
    2. exports; imports; negative
    3. exports; imports; positive
    4. imports; exports; negative

19. A trade balance surplus indicates that …

    1. merchandise exports exceed merchandise imports.
    2. government spending exceeds tax revenue.
    3. merchandise imports exceed merchandise exports.
    4. tax revenue exceeds government spending.
    5. imports of services exceed exports of services.

20. Given the following information:

    Interest rate on RSA bonds: 8%
    Interest rate on USA bonds: 6%

    Which one of the following statements is correct?

    1. If the expected depreciation of the rand is 3% financial market participants will buy RSA bonds.
    2. If the expected depreciation of the rand is 3% 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.

21. According to the interest-parity condition...

    1. a lower domestic interest rate leads to a depreciation of the nominal exchange rate and a deterioration of the trade balance.
    2. a higher domestic interest rate leads to an appreciation of the nominal exchange rate and a deterioration of the trade balance.
    3. an appreciation of the nominal exchange rate leads to a higher interest rate and a deterioration of the trade balance.
    4. a depreciation of the nominal exchange rate leads to a lower interest rate and an improvement of the trade balance.

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

    a. The "domestic demand for goods" and the "demand for domestic goods" are the same.
    b. Part of the "domestic demand for goods" falls on foreign/imported goods.
    c. The components of the "domestic demand for goods" are C + I + G + IM – X.
    d. The components of the "demand for domestic goods" are C + I + G + X – IM.

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

23. 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 24 is based on the following diagram.
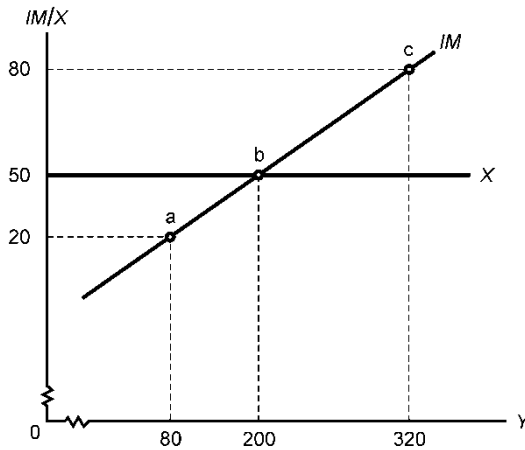
24. Which of the following statements are correct?

    a. The above diagram can be used to derive the NX curve.
    b. At an income level of R80 million a trade deficit occurs.
    c. A trade surplus occurs at an income level of R80 million because exports exceed imports.
    d. Point b is the trade balance point because exports equal imports.
    e. At an income level higher than the income level of R200 million, a trade deficit occurs because imports exceed exports.

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

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25. 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 (in other words the ZZ curve).
    e. The goods market is in equilibrium when domestic output is equal to the domestic demand for goods (in other words the DD curve).

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

Question 26 is based on the following diagram.
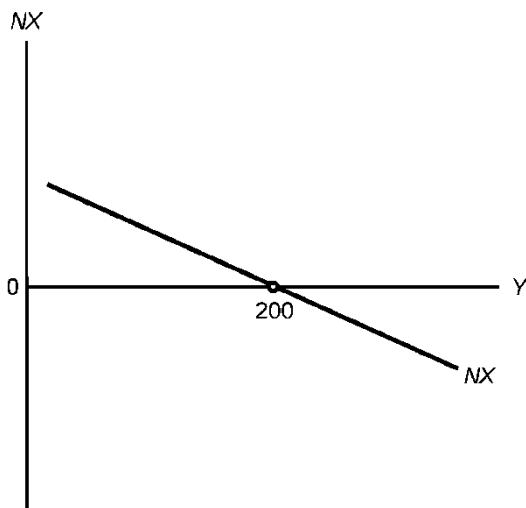
26. At any income level higher than R200 million a trade deficit occurs because if …

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

27. Given the equilibrium level of output and income position in the following diagram, what happens to the level of output and income and the trade balance if government spending increases?
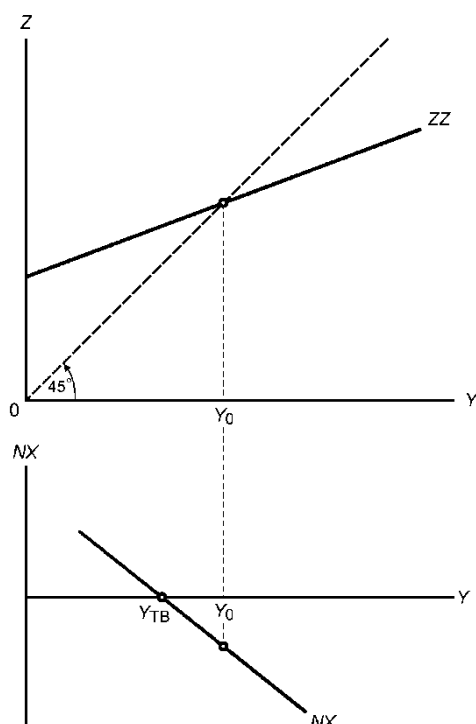
1. The level of output and income decreases and the trade deficit decreases as imports decrease.
2. The level of output and income decreases and the trade deficit decreases as exports decrease.
3. The level of output and income increases and the trade deficit increases as imports increase.
4. The level of output and income decreases, trade balance is reached as imports increase.

28. An increase in domestic demand, for instance through an increase in government spending, can be presented by the following events chain:

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

29. An increase in exports …

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

30. A decrease in the "domestic demand for goods" can be due to a(n)…

    a.   increase in imports.
    b.   decrease in autonomous investment spending.
    c.   decrease in autonomous consumption spending.
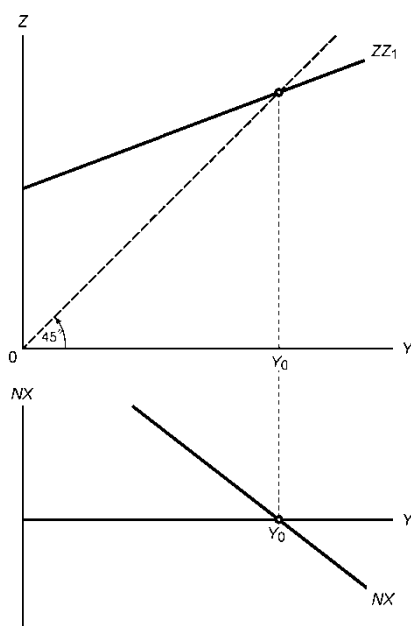   d.   decrease in government spending.

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

31. Which of the following factors will shift the NX curve?

    a.   A change in imports due to a change in the domestic level of output and income (Y).
    b.   A change in exports due to a change in the level of output and income of our trading partners (Y*).
    c.   A change in exports due to a depreciation of the nominal exchange rate.
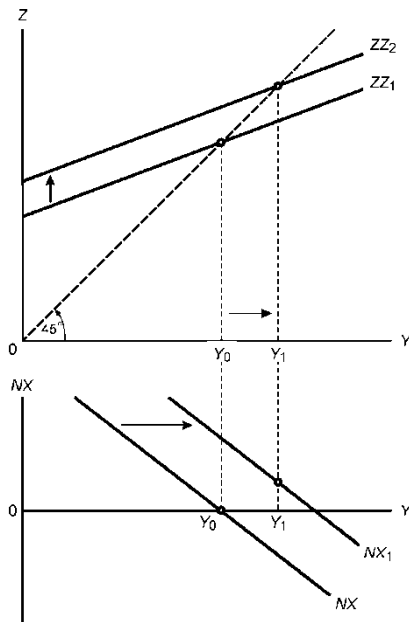   d.   A change in government spending.

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

32. Given the goods market equilibrium in the following diagram, what would the likely impact of a depreciation of the domestic currency be?

1. The domestic level of output and income will increase and there will be a trade deficit.
2. The domestic level of output and income will decrease and there will be a trade surplus.
3. The domestic level of output and income will decrease and there will be a trade deficit.
4. The domestic level of output and income will be unchanged and there will be a trade surplus.
5. The domestic level of output and income will increase and there will be a trade surplus.

Question 33 is based on the following diagram.

33. 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. $Y\uparrow \rightarrow G\uparrow \rightarrow Z\uparrow \rightarrow Y\uparrow \rightarrow IM\uparrow \rightarrow NX\downarrow$

34. 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

Question 35 is based on the following:

Compare the impact on the level of output and income and the trade balance of an increase in foreign demand with that of an increase in domestic demand.

Hint: Complete the following diagrams and then answer question 35.

An increase in foreign demand	An increase in domestic demand
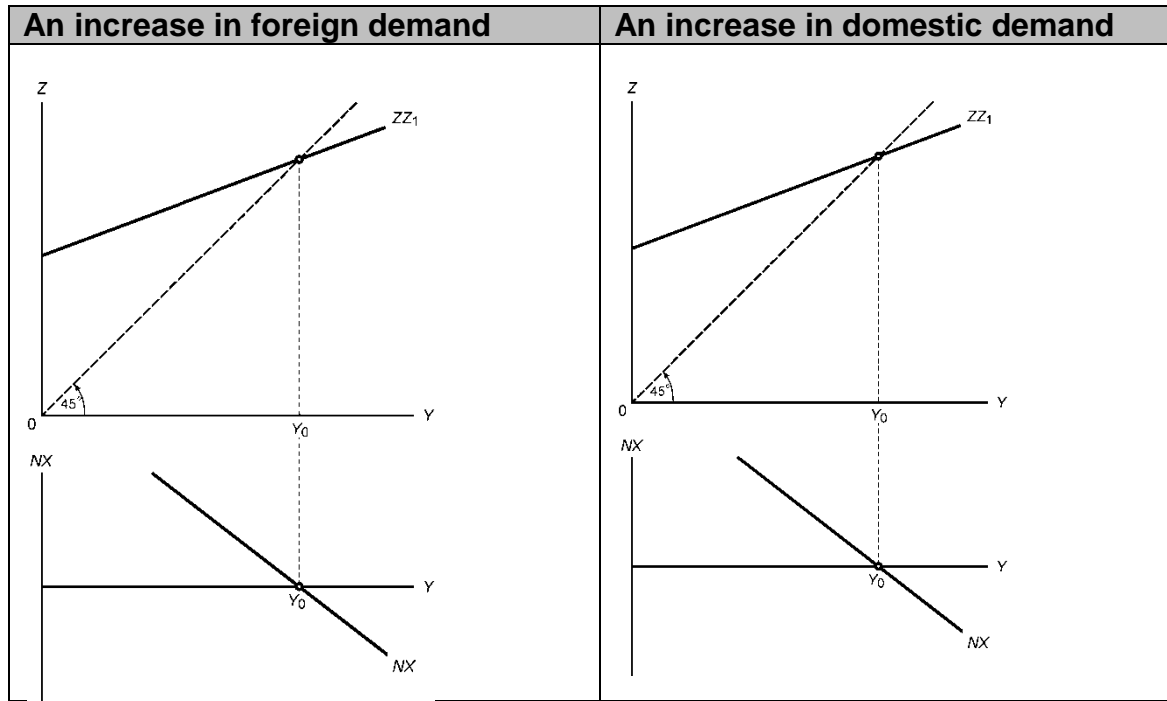
35. Which of the following statements are correct?

   a. An increase in foreign demand will shift the demand curve ZZ_1 upwards while an increase in domestic demand will shift the demand curve ZZ_1 downwards.
   b. An increase in foreign demand and an increase in domestic demand will increase the level of output and income.
   c. An increase in foreign demand and an increase in domestic demand will shift the NX curve to the right.
   d. An increase in foreign demand will shift the NX curve to the right while an increase in domestic demand will cause a downward movement along the NX curve.
   e. In the case of an increase in foreign demand a trade surplus occurs and in the case of an increase in domestic demand a trade deficit occurs.

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

This assignment contributes 40% towards your semester mark.

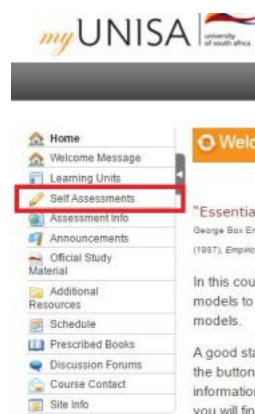| Important information |
| --- |
| The assignment consists of 15 online multiple choice questions. |
| This is a **fully online** assignment; meaning that in order to complete it you will need access to the internet. Your internet connection must be stable. |
| You can do the assignment on a computer, mobile phone or tablet. |
| You will have **three** opportunities to complete the assignment (no time limit) and the highest score will count towards your semester mark. |
| The assignment is only available in English. |
| The questions will be randomly drawn from a question bank so each student will receive a unique assignment. |
| The feedback for your unique set of questions will become available to you under the "Self Assessment" tab after the closing date for the assignment. |

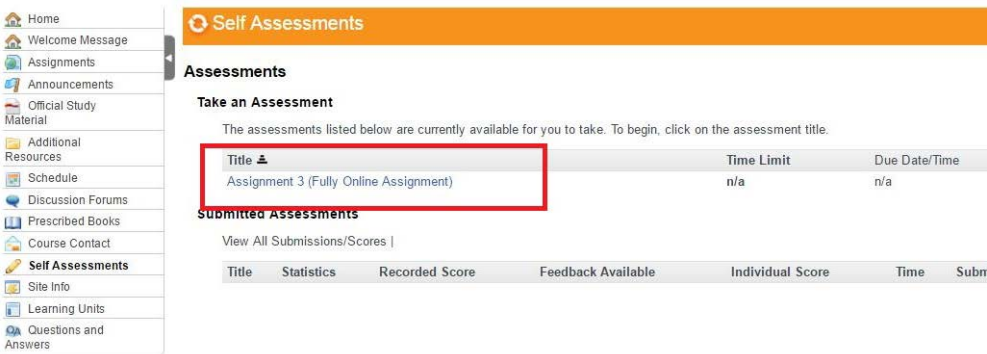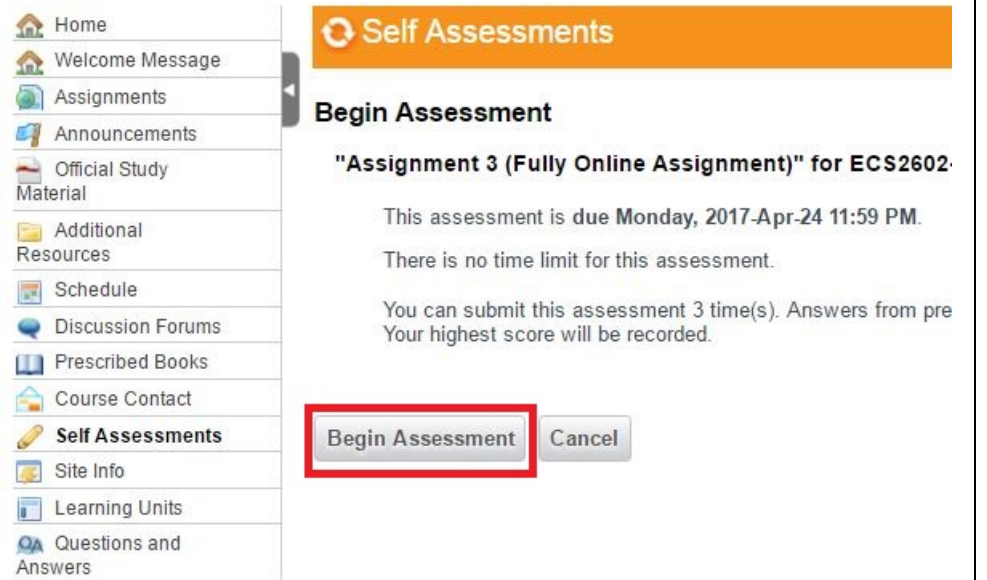|	Online instructions
Step 1	- Visit the *my*Unisa website: https://my.unisa.ac.za - Log on to *my*Unisa with your student number and password. (If you do not already have a *myUnisa* account, click on "Claim UNISA Login" and follow the instructions). - Once logged into myUnisa, select the ECS2602-17-S2 site. - On the left hand side you will see a tool bar, select **"Self Assessments"**

Step 2	• Under "Take an Assessment" click on "**Assignment 3**" **Self Assessments** Home Welcome Message Assignments Announcements Official Study Material Additional Resources Schedule Discussion Forums Prescribed Books Course Contact **Self Assessments** Site Info Learning Units Questions and Answers **Assessments** **Take an Assessment** The assessments listed below are currently available for you to take. To begin, click on the assessment title. Title ▲ Time Limit Due Date/Time Assignment 3 (Fully Online Assignment) n/a n/a **Submitted Assessments** View All Submissions/Scores	 Title Statistics Recorded Score Feedback Available Individual Score Time Subm
Step 3	• When you are ready to do the assignment, select the "**Begin Assessment**" button. Home Welcome Message Assignments Announcements Official Study Material Additional Resources Schedule Discussion Forums Prescribed Books Course Contact **Self Assessments** Site Info Learning Units Questions and Answers **Self Assessments** **Begin Assessment** "**Assignment 3 (Fully Online Assignment)**" for ECS2602 This assessment is due Monday, 2017-Apr-24 11:59 PM. There is no time limit for this assessment. You can submit this assessment 3 time(s). Answers from pre Your highest score will be recorded. Begin Assessment Cancel

Note that when the question has multiple correct options the check box will be square and when there is only a single correct answer it is a circle.
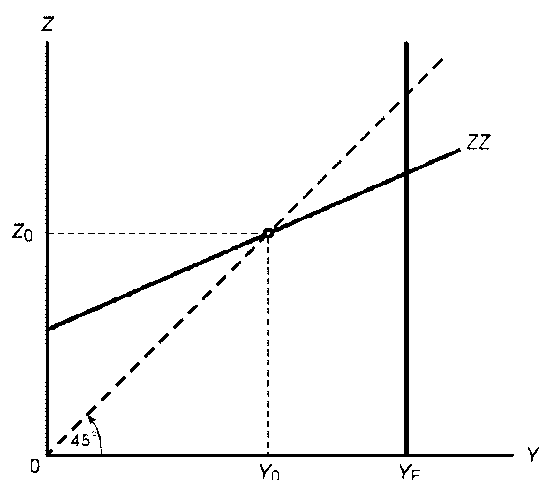
Best of luck with your assessment!

Please let us know if you experience any technical difficulties.

SEMESTER 2
ASSIGNMENT 04
LEARNING UNITS 1 to 9
Theoretical and application questions and case studies
SELF-ASSESSMENT ASSIGNMENT
DO NOT SUBMIT THIS ASSIGNMENT

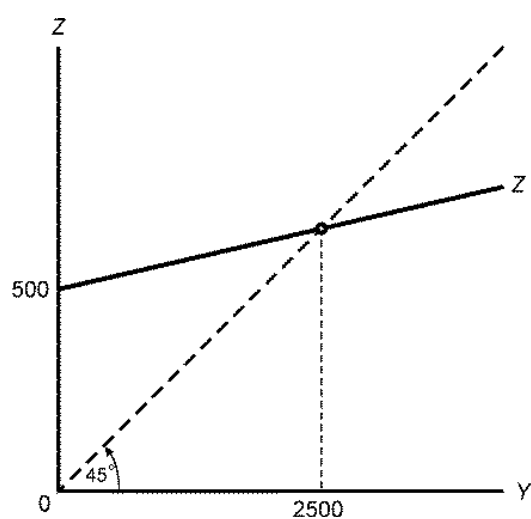**NOTE**: Assess or mark your answers once you have received Tutorial Letter 202.

Question 1

Use the following goods market model to explain how taxes can be used to ensure full employment. Indicate any shift and/or movement on the diagram.
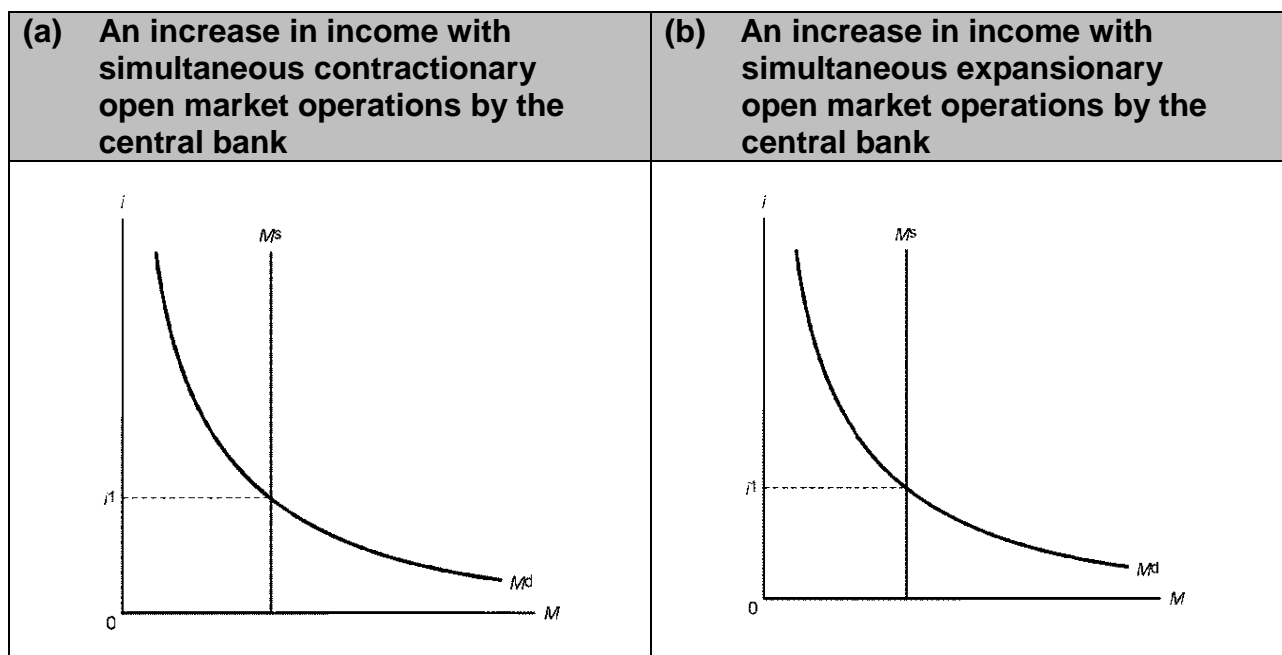

Question 2

Use the following goods market model to illustrate and explain the impact of a simultaneous increase of 200 in government spending and an increase of 200 in taxes on the level of output and income.

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Question 3

Use the following diagrams of the financial market to illustrate and explain the impact on the equilibrium interest rate of:

(a) An increase in income with simultaneous contractionary open market operations by the central bank	(b) An increase in income with simultaneous expansionary open market operations by the central bank

Question 4

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 5

Use the following information to derive an IS curve:

● A decrease in the interest rate from 6% to 4% increases investment spending by 200.
● The multiplier is 5.
● In the goods market model of autonomous spending before the decrease in the interest rate is 800.

Question 6

Derive the LM curve by assuming that the level of output and income decreases.

Question 7

The following are the behavioural equations of the IS-LM model:
$C = c_o + cY_D$
$I = I(Y,i)$
$G = G$
$T = T$
$M^d = YL(i)$
$M^s = M^s$
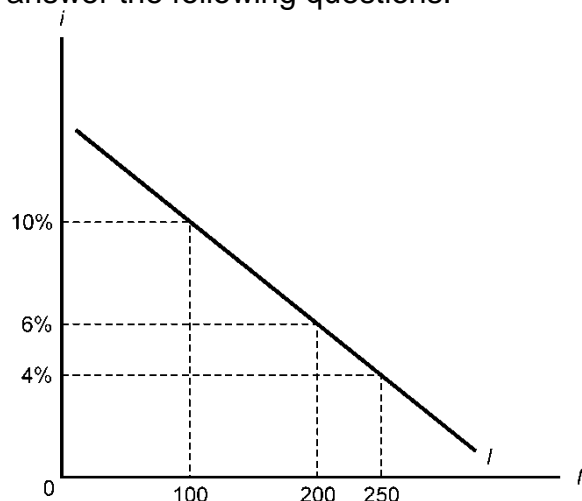Identify the exogenous and endogenous variables.

OR the question above can also be phrased as follows:

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 8

The following diagram represents the investment function of Mallerga. Use the diagram to answer the following questions:

i

10% ┆
6% ┆
4% ┆
0 | 100 | 200 | 250 | I

a. Calculate investment spending if the central bank decreases the interest rate from 10% to 6%, and indicate how this would be illustrated on the diagram.
b. During the period in which the central bank decreased the interest rate the government of Mallerga decided to nationalize the mines and factories. Show the impact of these actions on investment spending in Mallerga.
c. Investment spending is an important determinant of the level of output and income in the economy. Explain the impact of a decrease in the interest rate and nationalization on the level of output and income and unemployment in the IS-LM model.

Question 9

Critically discuss the following statement:

The more sensitive investment spending is to 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 10

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 11

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 12

The impact of an expansionary fiscal policy differs in the good market model compared to the impact in the IS-LM model. By using chain of events and words what are the similarities and differences between the impact in the goods market model and the IS-LM model?

Question 13

Use the IS-LM model to compare the impact of a contractionary monetary policy with that of an expansionary fiscal policy.

Question 14

Question 14 is based on the following diagram:

Source: http://www.xe.com

a. What was the overall effect from 2012 – 2016 on the nominal exchange rate?
b. What might be the possible reasons for the depreciation of the rand against the USA dollar from 2015?
c. Discuss briefly some possible implications of the weak rand.

Question 15

a.   Describe the concept NX and refer to the different trade balance positions.
b.   Given the following information construct a NX curve. Clearly indicate points of a trade surplus, trade balance and a trade deficit.

Exports = R100 million
Imports:
At Y = R200 million imports = R50 million
At Y = R300 million imports = R100 million
At Y = R400 million imports = R150 million

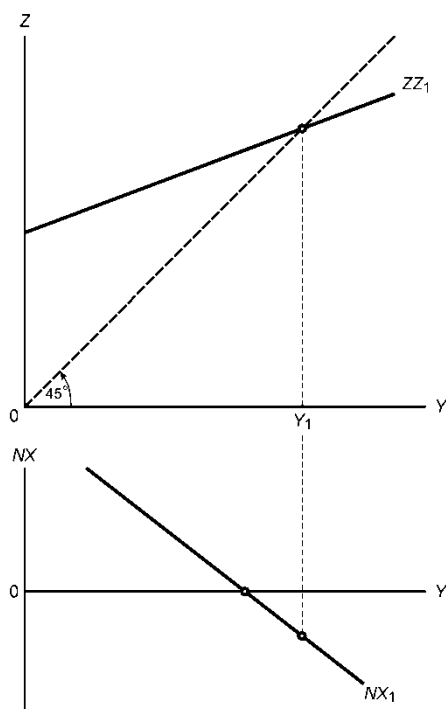c.   What would happen to the NX curve if exports increase?

Question 16

Question 16 is based on the following data for Brazil:

source: TradingEconomics.com; Banco Central do Brasil

●   Since 2008 government spending in Brazil has been increasing.

a. Use the following model to explain the impact of increased government spending on the level of output and income and the current account of Brazil.

b. Use the following model to explain what would happen to the level of output and income and the current account if the exchange rate depreciates.

c. Explain what effect a depreciation of the exchange rate will have on the trade balance, assuming the Marshall-Lerner condition holds.
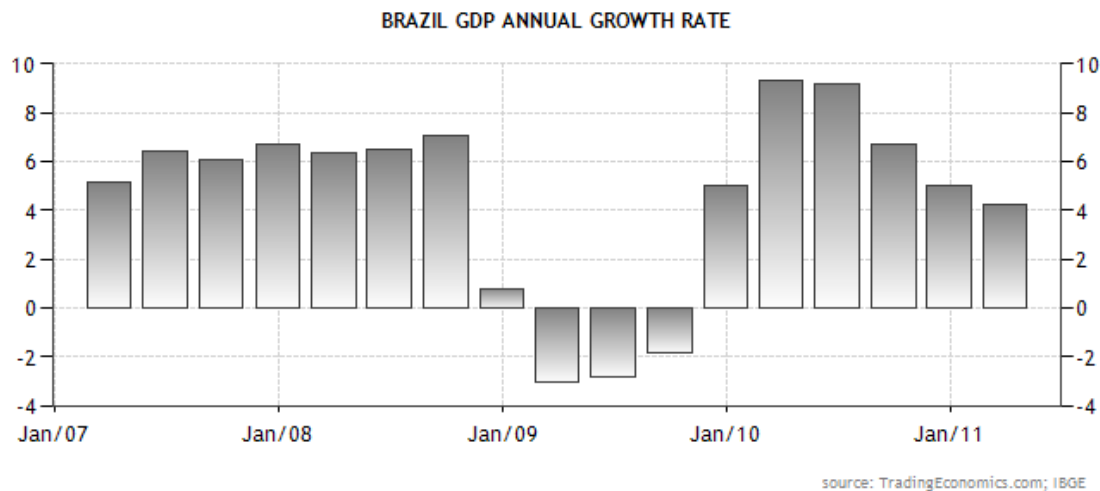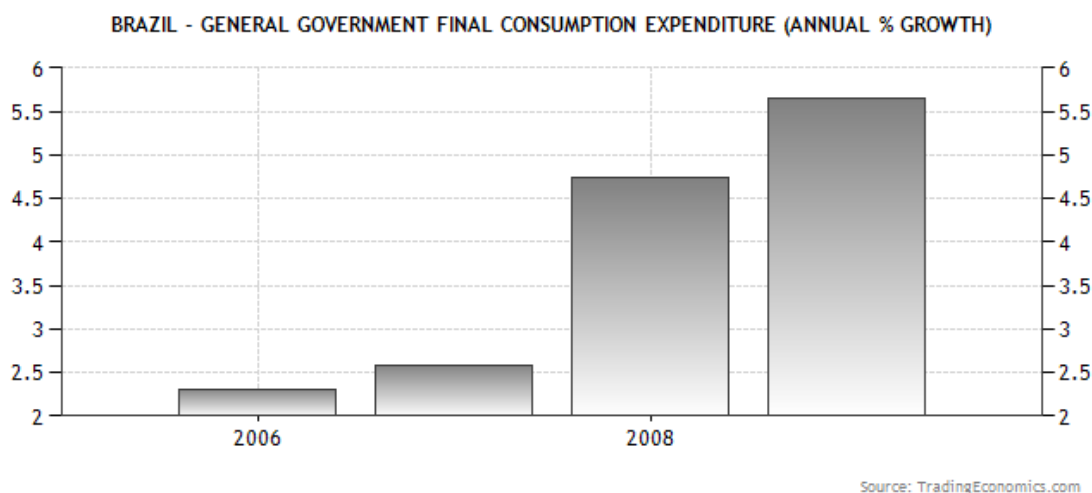
Question 17

Question 17 a 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.
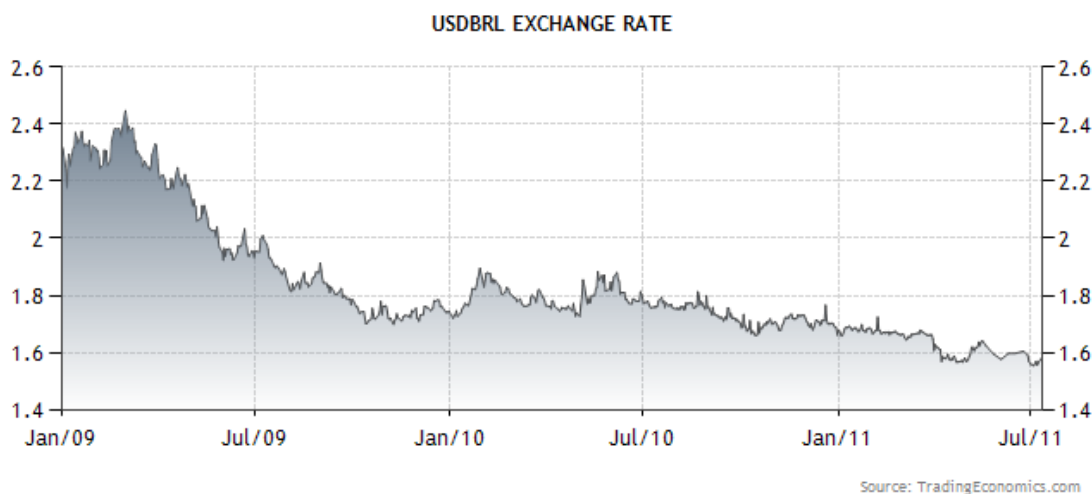
In response to the worldwide economic crisis many countries used monetary and fiscal policies in an attempt to deal with the impact of the recession on the level of output and income.

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

i.   Given that an economic recession is defined as a decrease in real GDP for two consecutive periods (where a period is 3 months, also known as a quarter because there are four periods of 3 months in a year), during which period did Brazil experience an economic recession?

ii.   Based on the above information use the IS-LM model to explain in words how Brazil made use of monetary and fiscal policies to deal with the economic recession they experienced.
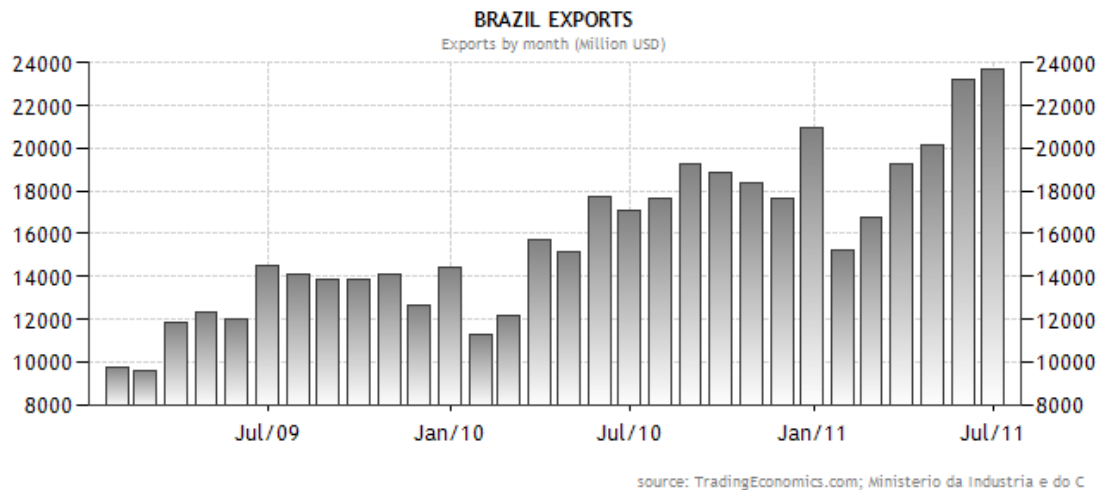
Question 17 b is based on the following diagram where the price of a US$ in terms of the Brazilian Real is given:

USDBRL EXCHANGE RATE

Source: TradingEconomics.com

i.   Did the Brazilian Real depreciate or appreciate against the US$ since January 2009?

ii.   Beginning in 2009 Brazil applied a contractionary monetary policy. Use the IS-LM model for an open economy to illustrate and explain the impact on the

1.   level of output and income
2.   interest rate
3.   financial account of the balance of payment
4.   exchange rate and
5.   current account of the balance of payment of this policy.

Events to consider:

●   Since 2009 there was a significant increase in the demand for commodities from Brazil as well as an increase in foreign direct investment in commodity-related industries.

BRAZIL EXPORTS
Exports by month (Million USD)

source: TradingEconomics.com; Ministerio da Industria e do C

- A contractionary monetary policy has been followed and in 2011 the interest rate in Brazil was the highest interest rate of any major economy.
- Government spending has increased steadily.

Question 18

Briefly explain why an increase in a budget deficit leads to a deterioration of the current account of the balance of payments.

Question 19

Question 19 is based on the following extract from the *Monetary Policy Review* June 2015. South African Reserve Bank. (2015). Pretoria:
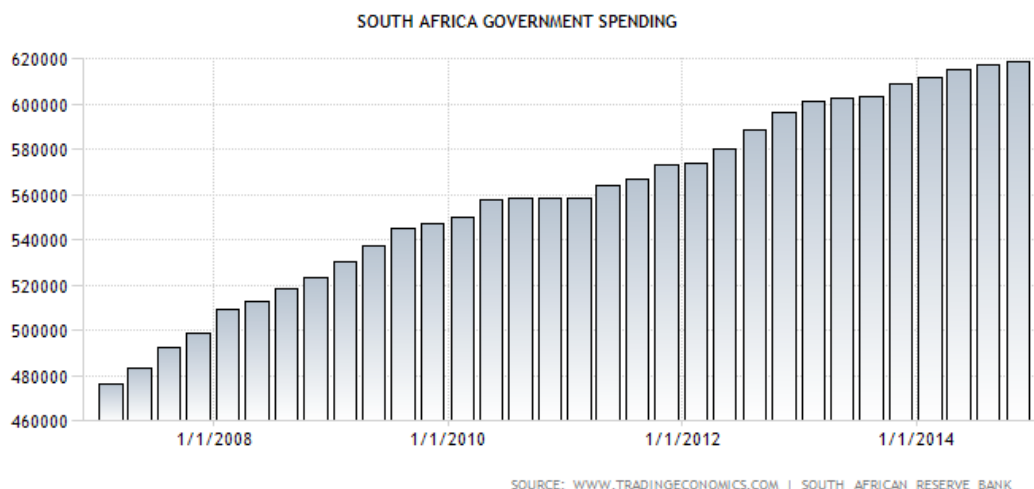
"… *monetary policy in South Africa remains in a tightening cycle… policy easing by the European Central Bank (ECB) and the Bank of Japan may support capital flows to emerging markets, further moderating the risk of an abrupt decline in emerging-market (EM) currency prices*"

Which one of the following chain of events' illustrates the effect of the above extract on South Africa's trade balance.

1. $M{\uparrow} \rightarrow M/P{\uparrow} \rightarrow i{\downarrow} \rightarrow E{\downarrow} \rightarrow X{\uparrow} \rightarrow NX{\uparrow}$
2. $E{\uparrow} \rightarrow i{\uparrow} \rightarrow X{\uparrow} \rightarrow NX{\uparrow}$
3. $i{\uparrow} \rightarrow Capital_{inflow} \rightarrow E{\uparrow} \rightarrow X{\downarrow} \rightarrow NX{\downarrow}$
4. $i{\downarrow} \rightarrow Capital_{outflow} \rightarrow E{\downarrow} \rightarrow X{\uparrow} \rightarrow NX{\uparrow}$

Question 20

Question 20 is based on the following graph:

SOUTH AFRICA GOVERNMENT SPENDING

SOURCE: WWW.TRADINGECONOMICS.COM | SOUTH AFRICAN RESERVE BANK
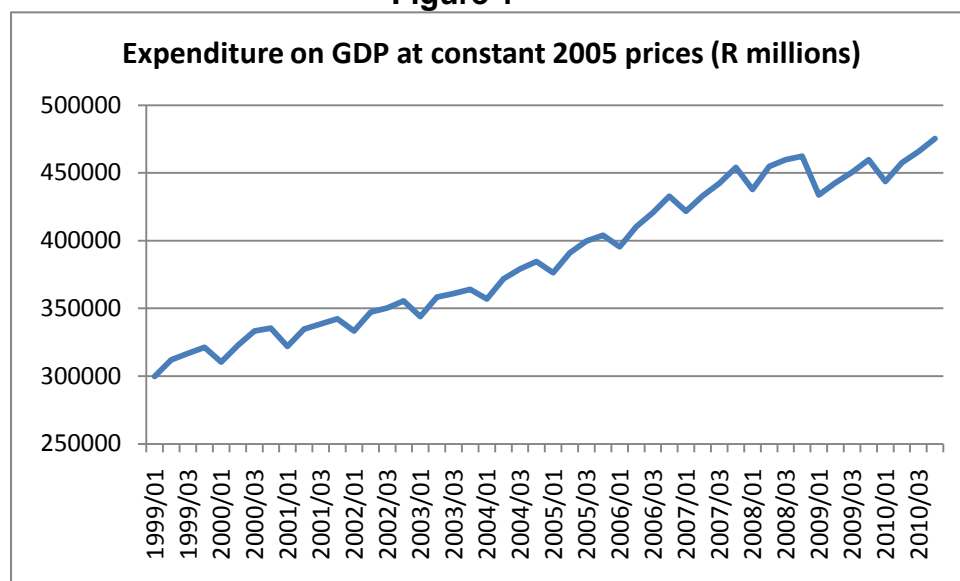
Measured in millions of ZAR

a. Which stabilisation policy is represented by the data?
b. Given the data and policy, what will happen in the AS-AD model? Explain in words and by using a chain of events and a diagram what will happen in the short run and in the medium run in the goods market, the financial market and the labour market.

Question 21

Read through the following and answer questions a and b that follow.

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).
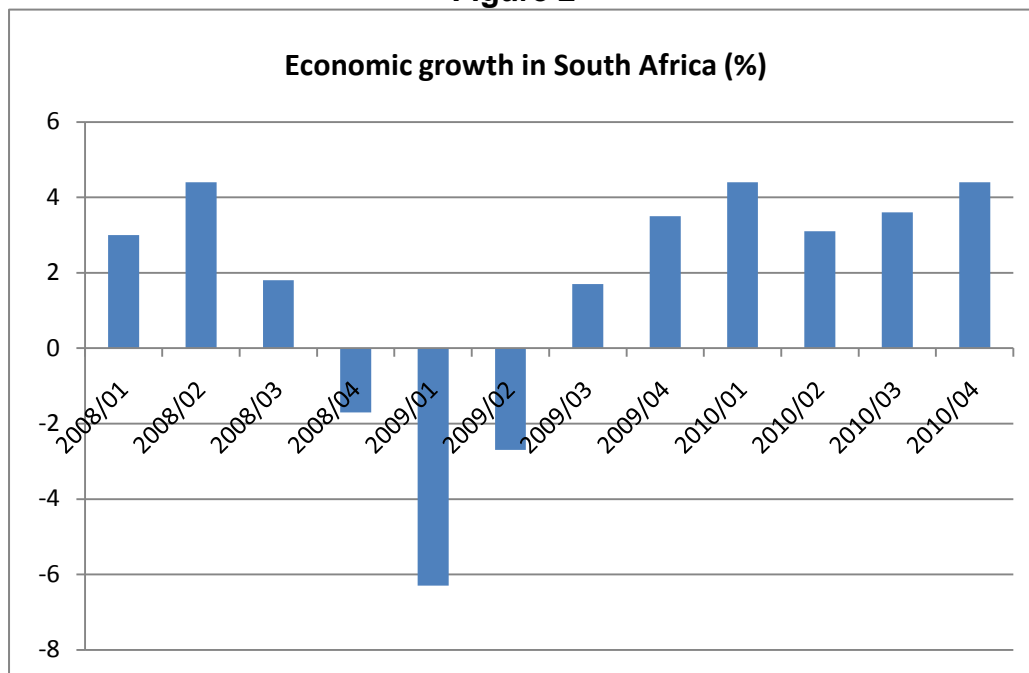
Figure 1

Expenditure on GDP at constant 2005 prices (R millions)

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*
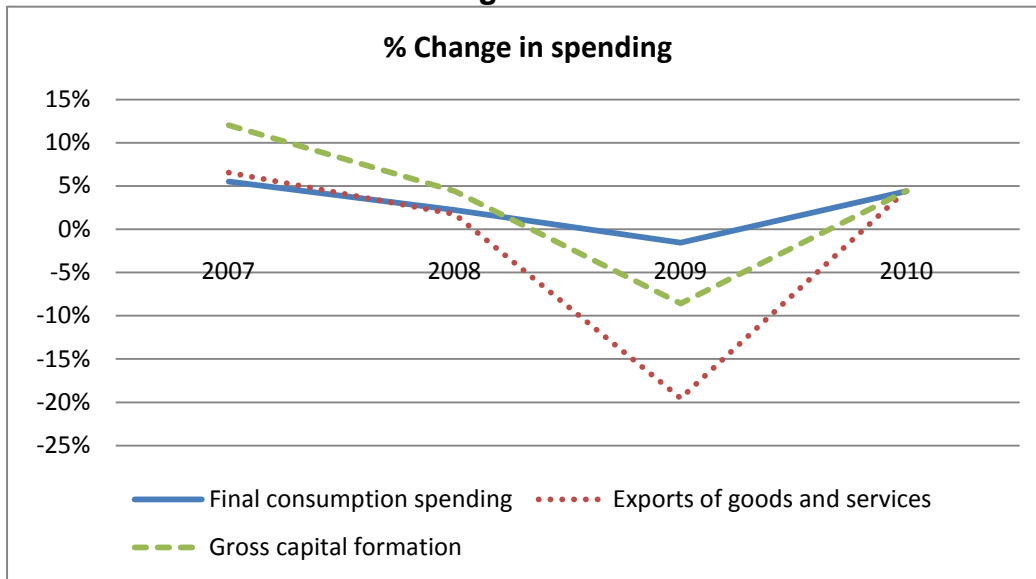
What triggered the end of the expansion phase and the economic recession in South Africa was falling house prices in the United States of America which led to the so-called "subprime mortgage" crisis. Preceding the crisis there was a rapid increase in mortgages to less creditworthy borrowers in America. 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

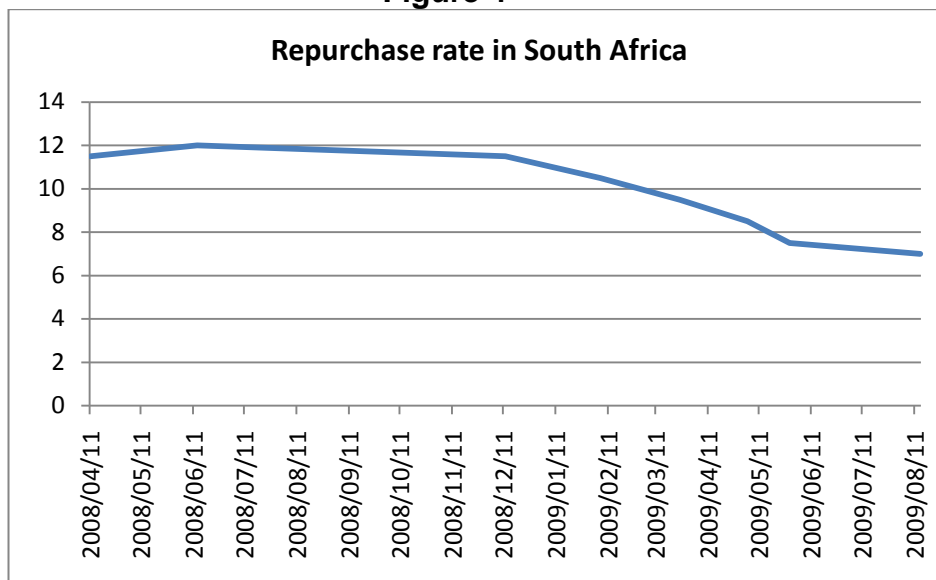**Source:** South African Reserve Bank, *Quarterly Bulletin Time Series*

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

% Change in spending

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

The recession could have been much worse. But it was met by a strong macroeconomic response, which certainly limited the depth 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

Repurchase rate in South Africa

Source: South African Reserve Bank, *Quarterly Bulletin Time Series*

a.   During which period did South Africa experience an economic recession?
b.   What type of monetary policy did South Africa follow between May 2008 and the end of 2009?
c.   Given the data and policy identified in question b, what will happen in the AS-AD model? Explain in words and by using chain of events and a diagram what will happen in the short and medium run in the goods market, the financial market and the labour market as a result of this monetary policy being employed.

Question 22

When comparing the impact of the two different policies (question 20 and question 21 above) in the AS-AD model, the impact in the medium run is different. Briefly explain why.

* *** *

8.7 Other assessment methods

The *Studies @ Unisa* brochure contains important information on the final year concession procedure (FI) to assist students with one or two modules outstanding for completion of their qualification. The Department of Examination Administration (DEA) will inform all students who qualify for a final year concession by sms/email.

8.8 The examination

8.8.1 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 2017 and the supplementary examination will be written in October/November 2017. If you are registered for the second semester you will write the examination in October/November 2017 and the supplementary examination will be written in May/June 2018.
During the semester, the Examination Section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

8.8.2 Examination paper

The format of the examination paper and guidelines on how to answer examination questions are discussed in detail in Tutorial Letter 103 which you will receive during the semester.

8.8.3 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 the module 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 learning unit outcomes as indicated in the Study guide (MO001).

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.

8.8.4 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 and give you examples of questions that you may expect.

9 FREQUENTLY ASKED QUESTIONS

The *Studies @ Unisa* brochure contains an A-Z guide of the most relevant study information.

10 SOURCES CONSULTED

None.

11 IN CLOSING

Distance education is very tough on the 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.

Work actively (with pen and paper) and make use of the activities in the workbook (TL102).

Do all the assignments. Start early by answering the questions as you finish the learning 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 information as well).
We hope that you will enjoy this module and wish you all the best!

12 ADDENDUM

None.