



ASSIGNMENT MEMORANDUM

**SUBJECT : MACROECONOMICS (MAC)
ECONOMICS 1 (EC101)**

ASSIGNMENT : 2ND SEMESTER 2011

SPECIFIC INSTRUCTIONS

Answer **ALL** the questions.

References are to the prescribed textbook. Mohr, P., Fourie, L. and Associates. 2008. *Economics for South African Students*. 4th edn. Van Shaik.

QUESTION 1 [15]

1.1 **Answer: Mohr et al. 2008: 320**

- (a) Services to the government: **(3)**
- Government's banker and advisor
 - Keeps the gold and other foreign reserves
 - Administration of exchange control.

- (b) Rendering economical and statistical services: **(3)**
- Collects
 - Processes
 - Interprets and publishes economic and other data.

- (c) Maintaining financial stability: **(4)**
- Supervises banks
 - Responsible for the national payment system
 - Banker of banks
 - Sole mandate to manufacture and destroy banknotes and coins.

1.2 **Answer: Mohr et al. 2008: 355-356**

- a) Changing consumer preferences **(1)**
- b) Political and other shocks **(1)**
- c) Redistribution of income **(1)**
- d) Misconceptions and entitlement **(1)**
- e) Population growth and urbanisation **(1)**

QUESTION 2 [15]

- 2.1 **Answer: Mohr et al. 2008: 53, Figure 3-7**
- Foreign sector (2)
 - Firms (2)
 - Government (2)
 - Households (2)
- 2.2 **Answer: Mohr et al. 2008: 53, Figure 3-7**
- Expenditure (C) (1)
 - Savings (S) (1)
 - Taxes (T) (1)
 - Imports (Z). (1)
- 2.3 **Answer: Mohr et al. 2008: 53, Figure 3-7**
- Investment spending (I) (1)
 - Government spending (G) (1)
 - Exports (X). (1)

(Note: A figure containing the mark allocation will be provided to the markers)

QUESTION 3 [15]

- 3.1 **Answer: Mohr et al. 2008: 409**
- a) Economy consists of households and firms only (1)
 - b) There is no government (1)
 - c) There is no foreign sector (1)
 - d) Prices are given (1)
 - e) Money supply and interest rates are given (1)
- 3.2 **Answer: Mohr et al. 2008: 412**
- a) Households' expectations (2)
 - b) Interest rates (2)
 - c) Income distribution (2)
 - d) Age distribution of the population (2)
 - e) Level of taxation (2)

QUESTION 4 [15]

- 4.1 **Answer: Mohr et al. 2008: 410, see Figure 18-1** (7)

(Note: A figure containing the mark allocation will be provided to the markers)

- 4.2 **Answer: Mohr et al. 2008: 410**
- a) Households spend more as their total income increases (2)
 - b) Consumption does not fall to zero when income falls to zero (2)

- c) The increase in consumption when income increases is smaller than the increase in income (2)
- 4.3 Autonomous consumption is independent of income. Induced consumption is determined by the level of income. (2)

QUESTION 5 [15]

Answer: Mohr et al. 2008: 392, Figure 17-4

- 5.1 It is the rate at which the quantity of a currency demanded equals the quantity of the same currency supplied. (2)
- 5.2 The correct figure and the correct movements in the figure. (8)

(Note: A figure containing the mark allocation will be provided to the markers)

- 5.3 **Explanation:**
- Original supply and demand is in equilibrium (E) £10 and 1 billion. (1)
 - Supply of pounds shifts to the left t S₁S₁ (1)
 - Equilibrium price goes up (1)
 - Equilibrium quantity falls (1)
 - New equilibrium at E₁ (1)

QUESTION 6 [15]

Answer: Mohr et al. 2008: 321-322

- 6.1 When a customer deposits money in a bank, the bank has two choices – it may lend the money to a borrower or it may keep the money in its vaults. If the bank hoards the money, nothing happens. The money may be safe but the money earns no interest. (2)

The reserve requirement is the amount of money (percentage of the bank's deposits) which the bank must keep in its own vaults or those of the central bank and which it cannot lend to another customer. (2)

- 6.2 A 20 percent reserve ratio means that the bank must retain 20 percent of each deposit and can lend no more than 80 percent. In this way, the bank multiplies the initial deposit by lending to another customer. (2)

- 6.3 The reserve ratio,

$$R = \frac{\text{Required reserves}}{\text{Total deposits}} \quad (2)$$

- 6.4 M1: Includes coins and notes in circulation outside the monetary sector as well as all demand deposits including cheque and transmission deposits of the domestic private sector with monetary institutions. (3)

M2: Is equal to M1 plus all other short-term and medium-term deposits of the domestic private sector with monetary institutions. **(2)**

M3: Is equal to M2 plus all long-term deposits of the domestic private sector with monetary institutions. **(2)**

PRESENTATION [10]