



**ASSIGNMENT 1<sup>ST</sup> SEMESTER : MACROECONOMICS (MAC)  
ECONOMICS 1 (ECO101)**

**CHAPTERS COVERED : 3, 4, 15, 16, 17, 21 & 22**

**DUE DATE : 3:00 p.m. 20 MARCH 2012**

**TOTAL MARKS : 100**

#### **INSTRUCTIONS TO CANDIDATES FOR COMPLETING AND SUBMITTING ASSIGNMENTS**

The complete 'Instructions to Students for Completing and Submitting Assignments' must be collected from any IMM GSM office, the relevant Student Support Centre or can be downloaded from the IMM GSM website. It is essential that the complete instructions be studied prior to commencing your assignment. The following points highlight only a few important notes.

1. You are required to submit ONE assignment per subject.
2. The assignment will contribute 20% towards the final examination mark, and the other 80% will be contributed by the examination, however, the examination papers will count out of 100%.
3. Although your assignment will contribute towards your final examination mark, you do not have to earn credits for admission to the examinations; you are automatically accepted on registering for the exam.
4. Number all the pages of your assignment (e.g. page 1 of 4) and write your name and surname, student number and subject at the top of **each** page.
5. The IMM GSM requires assignments to be presented in a typed format, on plain A4 paper. Unless otherwise specified, this assignment must be completed within a limit of 1500 words, excluding the bibliography. Students who exceed the word limit may find that only part of the submitted assignment will be marked.
6. A separate assignment cover, which is provided by the IMM GSM, must be attached to the front of each assignment.
7. Retain a copy of each assignment before submitting, in case the original does not reach the IMM GSM.
8. The assignment due date refers to the day up to which assignments will be accepted for marking purposes. The deadline is 3:00 p.m. on 20 March 2012. Late assignments will be accepted, but **25 marks** will be deducted from the maximum mark, if received after 3:00 p.m. on 20 March 2012 and up to 5:00 p.m. the following day, after which no assignments will be accepted.
9. If you fail to follow these instructions carefully, the IMM Graduate School of Marketing cannot accept responsibility for the return of the assignment. It may even result in your assignment not being marked.

Results will be available on the IMM GSM website, [www.immgsm.ac.za](http://www.immgsm.ac.za), on Friday, 4 May 2012.

**SPECIFIC INSTRUCTIONS:**

**Answer ALL the questions**  
**Show ALL steps in calculations**

**QUESTION 1 [15]**

- 1.1 Inflation can be defined as the continuous and considerable rise of prices in general. Identify **three (3)** factors that can cause demand-pull inflation. **(3)**
- 1.2 Distinguish between the following economic concepts:
- a) Gross National Income (GNI) **(4)**
  - b) Gross Domestic Product (GDP) **(4)**
  - c) Gross Domestic Expenditure (GDE) **(4)**

**QUESTION 2 [15]**

- 2.1 The Government's economic activity involves three important flows. Identify and briefly describe these flows. **(6)**
- 2.2 Discuss the role of the Government in the circular flow of production, income and spending by drawing a diagram and then explaining their role. **(9)**

**QUESTION 3 [15]**

- 3.1 Discuss how the Bank Supervision Department of the South African Reserve Bank plays a pivotal role in pursuit of financial stability in South Africa. **(4)**
- 3.2 Explain, using a diagram, the effect of a reduction in interest rates on the demand for money in the economy. **(11)**

**QUESTION 4 [15]**

- 4.1 Assume a litre of beer costs the consumer R18.75 and the government lowers the tax on beer by 60 cents per litre. Answer the following questions:
- a) What will happen to the consumption of beer in the country? **(2)**
  - b) Give **four (4)** groups that will share in the result of this decrease in tax. Include in your answer how each of these groups will be affected. **(8)**
- 4.2 Identify **five (5)** macroeconomic objectives which can be used to judge the performance of the economy. **(5)**

**QUESTION 5 [15]**

- 5.1 With regard to the Phillips principle, explain the 'trade-off principle'. (2)
- 5.2 Draw a Phillips curve showing the relationship between the inflation rate and the unemployment rate. (5)
- 5.3 Explain, using a Phillips curve, the result of simultaneous increase in inflation and unemployment. (8)

**QUESTION 6 [15]**

Suppose the market is in equilibrium at an exchange rate of £11.50 and a quantity of 22 billion pounds a day. Suppose there is a decrease in the supply of pounds.

- 6.1 Draw a graph showing the original equilibrium position. (5)
- 6.2 Then on the same graph, show the effect of the decrease in the supply of pounds. (5)
- 6.3 Provide a brief explanation of the effect shown in (6.2). (5)

**PRESENTATION [10]**