FEEDBACK TUTORIAL LETTER

2ND SEMESTER 2019

Assignment 2

PRINCIPLES OF MACROECONOMICS
PMA512S
Dear Student

This Tutorial Letter is to give feedback on Assignment 2 of Principles of Macroeconomics PMA512.

Congratulations with completing your second assignment for this semester. I trust that you have studied hard this far and will continue to do so.

I would like to continuously remind you that by doing your assignment on your own, and not copying it from another will only be to your benefit in the coming exams.

Remember to read thoroughly through the questions before answering, especially the multiple-choice questions. Always try to answer as completely as possible, provide all the facts. Don’t simply write down the answer, but show all your calculations. Avoid making unnecessary calculation mistakes and always write down the initial formula for any calculation.

Use this opportunity to revise the questions in Assignment 2 with the memorandum in hand. Give attention to the remarks of the marker-tutor in your assignment book. If there is anything that you are still unsure of, do not hesitate to contact a marker-tutor.

Good luck with your exams!!!

Regards,

Mrs. Elina Haivela

Tel. +264 81 1283754

Email: elinae85@gmail.com
ASSIGNMENT 2

SECTION A

Instruction: Please use the answer sheet at the end of this tutorial letter. Cross the alternative you select with an X.

1. A
2. A
3. C
4. C
5. B
6. C
7. B
8. B
9. D
10. B
11. A
12. B
13. A
14. C
15. B
16. B
17. B
18. C
19. D
20. D
SECTION B

QUESTION 1 [6 marks]

For the situation below, determine which commodity each country should specialize and trade in. One unit of resource can produce the quantities given in Table 1.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Fish</th>
<th>Wheat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namibia</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>South Africa</td>
<td>20</td>
<td>60</td>
</tr>
</tbody>
</table>

The opportunity costs are:

Namibia 1 Fish = 2 wheat (20/10) 1 Wheat = 0.5 fish (10/20)
South Africa 1 Fish = 3 wheat (60/20) 1 Wheat = 0.33 fish (20/60) (4 points)

Namibia should specialize in the production of fish
South Africa should specialize in the production of wheat. (2 points)

QUESTION 2 [8 marks]

Suppose you are given a consumption function in the following form:

\[ C = 90 + 0.86Y \]

(a) Calculate the income multiplier. (2 points)

\[
\text{Multiplier} = \frac{1}{1 - 0.86} = \frac{1}{0.14} = 7.142857... 
\]

(b) Determine by how much savings (S) will increase if income (Y) increases by N$20. (2 points)

The MPS = 0.14 therefore the increase in savings will be: 0.14 x N$20 = N$2.80

(c) How much is consumption (C) when disposable income (Y) is 500? (3 points)

\[
C = 90 + (0.86 \times 500) = 90 + 430 = 520
\]

(d) What does the figure 90 represent? (1 point)

The figure 90 represents the autonomous consumption.
QUESTION 3 [8 marks]
Illustrate the inflationary gap graphically and discuss the fiscal measures that could be taken to rectify the situation.

Equilibrium to the right of $Y_f$ (full employment income level) and competition for scarce resources may cause inflation. Restrictive fiscal policy is required to decrease aggregate demand; increase taxes (T) or decrease government spending (G).

(4 points for the graph and 4 points for the explanation and policies)
QUESTION 4 [8 marks]
Consider each of the following cases separately. In each situation, identify the type of unemployment and briefly explain your reasoning.

(a) Meatco closes its Ohangwena abattoir for a year because of a drop in demand for meat. (2 points)

_Cyclical unemployment:_ Caused by a temporary decrease in demand, the abattoir will re-open after a year. It is also referred to as demand deficient unemployment.

(b) As personal computers replaced typewriters, typewriter factories shut down. Workers in typewriter factories became unemployed and had to find other industries to be employed in. (2 points)

_Structural unemployment:_ This type of unemployment is caused by structural changes in the economy or the way in which the economy is organised. There were some changes in technology (computers replacing typewriters) that caused the economy to be restructured or re-organised.

(c) The steel industry suffers a slump as import competition increases and as a result unemployment rises. (2 points)

_Structural unemployment:_ Unemployment is caused by increased foreign competition as a result of globalisation. Although the word slump is used, you should see it in context—the cause of the unemployment is foreign competition and that is structural unemployment.

(d) Eli-Tangi is looking for work since he was fired by a mining company because he could not work underground as a result of personal problems. (2 points)

_Frictional unemployment:_ This arises from the normal operation of the labour market. Getting fired is part of the normal operation of the labour market and it takes time to find a new job.