FEEDBACK TUTORIAL LETTER

2ND SEMESTER 2020

ASSIGNMENT 1 & 2

Principles of Macroeconomics
PMA512S
Dear Student

Thank you for submitting your first assignment on time. I trust that you have worked hard this far and will continue to do so because success is the best motivator. If you did not start off well, remember you still have one assignment to try and make up for this.

In this tutorial letter I would like to give feedback on Assignment 1 of Principles of Macroeconomics. If you did not answer Section A very well, it could be because you did not read the required units thoroughly before attempting to answer the questions. Always try to answer the questions as complete as possible providing all the facts and also show your calculations.

Use the opportunity to revise the questions with the memorandum in hand. Feel free to contact any of your tutor/markers if you need assistance with this assignment or with assignment 2.

We are looking forward to your next assignment.

Regards,

Mrs. Elina Haivela

Tel. +264 81 1283754

Email: elinae85@gmail.com
ASSIGNMENT 1

SECTION A

1. a
2. d
3. b
4. b
5. a
6. a
7. d
8. d
9. b
10. a
11. c
12. a
13. b
14. d
15. d
16. c
17. b
18. a
19. d
20. c
Table 2

<table>
<thead>
<tr>
<th>Description</th>
<th>N$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private consumption expenditure by households</td>
<td>180 230</td>
</tr>
<tr>
<td>Consumption expenditure by general government</td>
<td>62 326</td>
</tr>
<tr>
<td>Gross capital formation (63 124 + 3 698)</td>
<td>66 822</td>
</tr>
<tr>
<td>GDE</td>
<td>309 378</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>95 231</td>
</tr>
<tr>
<td>Less: Imports of goods and services</td>
<td>(64 258)</td>
</tr>
<tr>
<td>GDP</td>
<td>340 351</td>
</tr>
<tr>
<td>Less: Net factor payments to the rest of the world</td>
<td>25 987</td>
</tr>
<tr>
<td>GNP</td>
<td>314 364</td>
</tr>
<tr>
<td>Less: Consumption of fixed capital</td>
<td>65 238</td>
</tr>
<tr>
<td>NNP</td>
<td>249 126</td>
</tr>
</tbody>
</table>

(One mark for each item entered correctly and 2 marks for every total printed in bold).

To calculate the GDE and the GDP, you have to study Accounts 1 and 3. The GDP is calculated using the expenditure method as explained in Account 1.

The calculation of the third item, namely gross capital formation, is explained in Account 3. It is calculated as follows:

- Gross fixed capital formation: 63 124
- Plus: change in private sector inventories: 3 698
- GROSS CAPITAL FORMATION: 66 822
Private consumption expenditure by households plus consumption expenditure by the general government plus gross capital formation represent the total expenditures in our country. In the national accounts it is called the gross domestic expenditure or GDE. The word domestic means it is inside the country.

The GDE plus exports minus imports represent the gross domestic product or GDP which is the market value of all final goods and services produced inside the borders of the country for a period of one year. The imports are subtracted because they are produced in other countries and therefore not part of our GDP.

To calculate the GNP and NNP you have to use the formulas on p.40 of the study guide. GNP = GDP less net factor payments. The NNP = GNP less consumption of fixed capital.

**QUESTION 2 [5 marks]**

Explain briefly what the reserve requirement refers to and how it can be used to stimulate economic activity in a country.

- The reserve requirement refers to the percentage of banks’ deposits that must be kept at the central bank in the form of reserves. Any change in the reserve requirement will change the value of the credit multiplier. (Suggest 1 mark)

- If the BON wishes to stimulate the economy, they should use expansionary monetary policy and reduce the reserve requirement. This means banks will keep a smaller percentage of their deposits at the central bank. The value of the multiplier will increase and banks will be able to create more money. (Suggest 2 marks)

- Example: Deposit N$1 000

  Reserve requirement 5%: Multiplier = 1/0.05 = 20. \[ D = 20 \times 1000 = \text{N$}20\,000. \]

  Reserve requirement 4%: Multiplier = 1/0.04 = 25. \[ D = 25 \times 1000 = \text{N$}25\,000. \]

  (Suggest 2 marks. Any correct example acceptable.)
QUESTION 4 [10 marks]
Table 3 is a hypothetical industrial column for cotton dresses produced in Namibia during 2010. Use the data to answer the questions below.

Table 3

<table>
<thead>
<tr>
<th>Activity</th>
<th>Market value</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cotton farmers produce cotton</td>
<td>100 000</td>
<td>100 000</td>
</tr>
<tr>
<td>(b) Weavers produce cotton cloth</td>
<td>250 000</td>
<td>150 000</td>
</tr>
<tr>
<td>(c) Dressmakers produce unlabelled dresses</td>
<td>300 000</td>
<td>50 000</td>
</tr>
<tr>
<td>(d) Shops sell labelled dresses to consumers</td>
<td>700 000</td>
<td>400 000</td>
</tr>
<tr>
<td><strong>TOTALS:</strong></td>
<td><strong>1 350 000</strong></td>
<td><strong>700 000</strong></td>
</tr>
</tbody>
</table>

(a) Answers are printed in bold. (6)

(b) What is the cotton dress industry's contribution to Namibia's GDP? Provide a reason for your answer.

The cotton dress industry's contribution is N$700 000. The amount of N$ 1 350 000 cannot be included due to double counting. (2)

(c) List the intermediate products in this industrial column.

The intermediate products are cotton, cotton cloth and the unlabelled dresses. (2)
Dear Student

This Tutorial Letter is to give feedback on Assignment 2 of Principles of Macroeconomics PMA512S.

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

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SECTION A
1. b
2. b
3. b
4. d
5. d
6. d
7. b
8. d
9. b
10. a
11. b
12. a
13. b
14. c
15. b
16. c
17. d
18. b
19. a
20. d
SECTION B
QUESTION 1 [10 marks]

Consider the data in the following table.

<table>
<thead>
<tr>
<th></th>
<th>Crossbows</th>
<th>Arrows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangeni</td>
<td>14 hours</td>
<td>13 hours</td>
</tr>
<tr>
<td>Hope</td>
<td>4 hours</td>
<td>4 hours</td>
</tr>
</tbody>
</table>

(a) Calculate the opportunity costs:

Tangeni: 1 crossbow = 0.93 hrs of arrows \((13/14)\)  1arrow = 1.08 hrs of crossbows \((14/13)\)

Hope: 1 crossbow = 1.0 hr of arrows \((4/4)\)  1 arrow = 1.0 hr of crossbows \((4/4)\)

(b) Who has a comparative advantage at making crossbows? Please provide reasons for your answer.

Tangeni - it has the lowest opportunity cost at making crossbows.  (2)

(c) Who has a comparative advantage at making arrows? Please provide reasons for your answer.

Hope– it has the lowest opportunity cost at making arrows.  (2)

(d) Who should specialise in making crossbows and who should specialise in making arrows? Provide reasons for your answers.

Tangeni should specialise in making crossbows because she has a comparative advantage.  (1)

Hope should specialise in making arrows because she has a comparative advantage.  (1)
QUESTION 2 [12 marks]

<table>
<thead>
<tr>
<th></th>
<th>Disposable Income (Y)</th>
<th>Consumption (C)</th>
<th>MPC</th>
<th>Net Saving</th>
<th>MPS</th>
<th>Income Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60 000</td>
<td>60 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>61 000</td>
<td>60 700</td>
<td>700/1000=0.7</td>
<td>300</td>
<td>300/1000=0.3</td>
<td>1/1-0.7=1/0.3=3.33</td>
</tr>
<tr>
<td>C</td>
<td>62 000</td>
<td>61 500</td>
<td>800/1000=0.8</td>
<td>500</td>
<td>200/1000=0.2</td>
<td>1/1-0.8=1/0.2=5</td>
</tr>
<tr>
<td>D</td>
<td>63 000</td>
<td>62 200</td>
<td>700/1000=0.7</td>
<td>800</td>
<td>300/1000=0.3</td>
<td>1/1-0.7=1/0.3=3.33</td>
</tr>
</tbody>
</table>

QUESTION 3 [8 marks]

Consider each of the following cases separately. In each situation, identify the type of unemployment and briefly explain your reasoning.

(a) The steel industry suffers a slump due to import competition; unemployment rises.

**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. (2)

(b) A factory worker is laid off because sales decrease with a slow-down of economic activity.

**Cyclical unemployment:** It is caused by a temporary decrease in demand such as a slump. (2)

(c) An accountant refuses a job offer and decides to look for another job with a higher rate of compensation.

**Frictional unemployment:** It arises from the natural operation of the labour market – it takes time to find a new job. (2)

(d) Unemployed persons are hired as Santa Clauses during the Christmas Season.

**Seasonal unemployment:** It is caused by seasonal shifts in labour demand and supply. Santa Clauses are employed only during the Christmas season. (2)