Feedback Tutorial Letter

PRINCIPLES OF MACROECONOMICS

(PMA512S)

Assignment number 1
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. For the students in Windhoek I present face-to-face tutorials on Fridays.

We hope to see you at the vacation school and we are looking forward to your next assignment.

Regards,

Mrs. Elina Haivela

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ASSIGNMENT 1

SECTION A

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

Use the information in Table 3 to answer questions 1.1 and 1.2

Table 3

<table>
<thead>
<tr>
<th>Purchaser</th>
<th>Good or service purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Individual</td>
<td>Medical examination by a doctor in the private sector</td>
</tr>
<tr>
<td>2 Individual</td>
<td>Bread (from Checkers)</td>
</tr>
<tr>
<td>3 Individual</td>
<td>Clothing (new)</td>
</tr>
<tr>
<td>4 Individual</td>
<td>Second-hand book (from a second-hand bookshop)</td>
</tr>
<tr>
<td>5 Individual</td>
<td>Cell phone (new)</td>
</tr>
<tr>
<td>6 Edgars</td>
<td>Clothing inventories</td>
</tr>
<tr>
<td>7 Volkswagen</td>
<td>New equipment to expand its assembly line</td>
</tr>
<tr>
<td>8 Bank Windhoek</td>
<td>New building</td>
</tr>
<tr>
<td>9 Government</td>
<td>Teaching (salaries to teachers in public sector schools)</td>
</tr>
<tr>
<td>10 Government</td>
<td>Medicine for use in a public sector hospital</td>
</tr>
</tbody>
</table>

1.1 Which of the transactions in Table 3 are classified as personal consumption expenditure in the calculation of gross domestic product? (5 marks)

1, 2, 3, 4, 5 and 10 only

1.2 Which of the transactions in Table 3 are classified as gross private capital formation in the calculation of gross domestic product? (5 marks)

6, 7 and 8 only
QUESTION 2  [10 MARKS]

There are three companies in Namibia for whom one needs to find out their contribution to GDP. It is a bicycle manufacturer, a solar energy producer, and a chocolate factory. The only costs these companies have are the cost of their inputs and wages. Assume there are no rents, no depreciation, and no net income payments from the foreign sector. Assume all the output is sold to consumers as final goods. The companies' profits = Value of output (total revenues) – total costs.

<table>
<thead>
<tr>
<th></th>
<th>Bicycle company</th>
<th>Solar energy company</th>
<th>Chocolate factory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of inputs</td>
<td>N$0</td>
<td>N$0</td>
<td>N$0</td>
</tr>
<tr>
<td>Wages</td>
<td>N$50</td>
<td>N$75</td>
<td>N$25</td>
</tr>
<tr>
<td>Value of output</td>
<td>N$100</td>
<td>N$150</td>
<td>N$50</td>
</tr>
<tr>
<td>(total revenues)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.1 Calculate these companies’ contribution to Namibia’s GDP using the value-added method. (10 marks)

<table>
<thead>
<tr>
<th></th>
<th>Bicycle company</th>
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<th>Chocolate factory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of inputs</td>
<td>N$0</td>
<td>N$0</td>
<td>N$0</td>
</tr>
<tr>
<td>Value of output</td>
<td>N$100</td>
<td>N$150</td>
<td>N$50</td>
</tr>
<tr>
<td>(total revenues)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

So GDP = N$100 + N$150 + N$50 = N$300.

NB: The purpose of this question was to test your ability to differentiate between the three different methods of calculating GDP and thus it was expected that you knew that wages do not form part of the value added method as it only measures activities inside businesses that occur as products move through the different stages of production.
**QUESTION 3  [10 MARKS]**

3.1 Inflation is one of the major challenges facing the Namibian economy. Suppose that you are asked to advise the Bank of Namibia on what changes in the Repo rate they should adopt to stabilize the economy, what would be your advice? State whether you are going to adopt an expansionary or restrictive monetary policy and explain the effect on borrowers and the money supply.

**Restrictive monetary policy**
Increase the repo rate

**People with existing loans will pay back more.**

**Private companies will borrow less from the banks**

**Money supply will decrease**

(5 marks)

3.2 Distinguish between budget surplus and budget deficit.

**Budget surplus**-government revenue is greater than spending.

**Budget deficit**-government spending is greater than the revenue

(5 marks)