



**FACULTY OF MANAGEMENT
SUPPLEMENTARY LAST ASSESSMENT OPPORTUNITY**

DEPARTMENT OF BUSINESS MANAGEMENT

MODULE:	APPLIED MACROECONOMICS
CODE:	BMA9X03
DATE:	26 JULY 2017
DURATION:	3 HOURS
TOTAL MARKS:	100

EXAMINER:	PROF S CHETTY
EXTERNAL MODERATOR:	PROF D BLAAUW
NUMBER OF PAGES:	2

INSTRUCTIONS TO CANDIDATES

1. There are 4 questions. **Answer question 1 (compulsory) plus 2 other questions. (In total you must answer 3 questions)**
2. Number your answers correctly as per the question paper and in your own interest, please write legibly.

NOTE: THIS IS A CLOSED BOOK ASSESSMENT

QUESTION 1 (This question is compulsory)

[40]

Given an environment of low and declining consumer confidence, growth in real consumption expenditure by households dropped from 1,7% in 2015 to 0,8% in 2016. Although private consumption expenditure on non-durable goods, semi-durable goods and services increased by 0,9%, 3,3%, and 2,1% respectively, expenditure on durable goods fell by 7,3% in 2016 compared to a decline of 1,9% in 2015. Household spending on durable goods decreased for seven consecutive quarters before increasing marginally in the fourth quarter of 2016. Note, although there was a 0,2% increase in spending on durable goods in the fourth quarter there was a decline of 7,3% for the year as a whole (as already indicated). Given this background, answer the following questions:

- 1.1 Explain the nature of consumption expenditure by households, in terms of its components, general behaviour and macroeconomic importance. (5)
- 1.2 Discuss how the factors indicated below, impact the spending decisions of households:
 - Disposable income (4)
 - Wealth (3)
 - Price level (3)
- 1.3 In the scenario depicted above, the lower growth in real consumption expenditure by households in 2016 is reflective of low and declining consumer confidence. Evaluate South Africa's consumer environment with reference to **THREE** key factors which contribute to low consumer confidence. You may include in your answer any recent developments that may negatively impact private consumer confidence going forward. (12)

- 1.4 With the use of the aggregate demand and supply model, analyse and illustrate the short- and long-run effects of a **demand contraction** that follows a **decline in private (household) consumption spending as a result of lower consumer confidence**. Start from an initial position of long-run structural equilibrium which is below full employment. (13)

QUESTION 2

[30]

- 2.1 Unemployment in South Africa is considered to be predominantly of a structural nature, causing the economy to persist well below its full employment level. In this regard, discuss **THREE** causes of structural unemployment in South Africa. (12)
- 2.2 Explain **THREE** factors in terms of how these can bring about a balance of payments deficit through effects on the international flow of goods and/or capital. (9)
- 2.3 Suppose that South Africa is confronted with high unemployment and a large balance of payments deficit. Explain the policy dilemma that is associated with this situation and the conventional policy approach to try and achieve both lower unemployment and an improvement in the balance of payments position. (9)

QUESTION 3

[30]

- 3.1 In economic analyses, an important distinction is made in the application of nominal and real variables. In this regard, explain the meaning and macroeconomic relevance of the following concepts:
- Real gross domestic product (5)
 - Real interest rate (5)
 - Real exchange rate (5)
- 3.2 Opponents of inflation targeting have argued for an end to the system, given South Africa's high unemployment rate and the unfavourable impact on employment in times of strict monetary policy. Evaluate this argument with the aid of the Phillips curve, bringing into consideration the challenge of unforeseen supply shocks to an inflation targeting policy. (10)
- 3.3 Discuss, broadly, the policy implications of the Neoclassical School. (5)

QUESTION 4

[30]

- 4.1 With the use of a diagram depicting the investment (capital formation) function, analyse the impact of changes in the level of uncertainty on aggregate real investment behaviour; and discuss **TWO** key factors which impact negatively on private investor sentiment in South Africa. (13)
- 4.2 Suppose, in the face of reduced inflationary pressure, the South African Reserve Bank (SARB) engages in a **series of decreases** in the repo rate. Explain **THREE** implications of **lower** interest rates for private business. (9)
- 4.3 Discuss how government decisions on the following fiscal aggregates impact private business:
- Government expenditure (4)
 - Taxation (4)