



**COLLEGE OF BUSINESS AND ECONOMICS  
JOHANNESBURG BUSINESS SCHOOL  
DEPARTMENT OF BUSINESS MANAGEMENT  
FINAL WRITTEN ASSESSMENT**

SUBJECT: Applied Macroeconomics  
CODE: BMA9X03  
DATE: 7 June 2018  
DURATION: 180 Minutes (3 hours)  
TOTAL MARKS: 100  
EXAMINER(S): Prof S Chetty  
MODERATOR: Prof AM Pretorius  
NUMBER OF PAGES: 2

**INSTRUCTIONS:**

- This is a closed-book assessment.
- There are 4 questions. **Answer question 1 (compulsory) plus 2 other questions.** (In total you must answer 3 questions)
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.

**QUESTION 1 (THIS QUESTION IS COMPULSORY)**

**[40 MARKS]**

Economic growth in South Africa proved to be better than expected towards the latter part of 2017. Following a weak performance reflected in negative growth in the 1<sup>st</sup> quarter of 2017, the economy demonstrated sustained growth for the rest of the year, topping its performance for the year with a growth rate of 3,1% in the 4<sup>th</sup> quarter. Economic growth for the year as a whole was recorded at 1,3% compared to 0,6% in 2016. GDP per capita, on the other hand, fell by 0,1% in 2017 compared to the drop of 0,8% in 2016. Economic growth forecasts for 2018 range between 1,5 and 1,8%. Given this background, answer the following questions:

- 1.1 Explain the concept of gross domestic product (GDP) and its relevance for evaluating the economic performance of a country. (6)
- 1.2 Although the South African economy exhibited a positive GDP growth rate of 1,3% for 2017, GDP per capita fell by 0,1%. Explain, with reasons, the difference in performance reflected between these two indicators of economic growth. (3)
- 1.3 Evaluate, with reference to **TWO** contributing factors, the performance of the South African economy over the 2017 period. (6)
- 1.4 Suppose there is a sustained improvement in consumer confidence resulting in a significant **increase in household consumption expenditure**. With the use of the aggregate demand and supply model, analyse and illustrate the short- and long-run

effects of a demand expansion that follows an increase in household consumption expenditure. Start from an initial position of long-run structural equilibrium which is below full employment. (13)

- 1.5 Given the improved performance in 2017 and the positive expectations going forward, some argue that the South African economy has turned the corner. Critically evaluate this view with reference to **THREE** key factors that impact the South African economic growth outlook for 2018. (12)

**QUESTION 2****[30 MARKS]**

- 2.1 Explain the meaning of inflation and the importance of price stability for private business decisions. (6)
- 2.2 In view of an apparent improvement in South Africa's inflation outlook, the repo rate was reduced by 25 basis points to 6,5% at the end of March 2018. Suppose the decline in interest rates is sustained in future months, explain **FOUR** implications of the lower interest rates for private business. (12)
- 2.3 Critically evaluate **THREE** factors that impact South Africa's inflation outlook. (12)

**QUESTION 3****[30 MARKS]**

- 3.1 Compare the Keynesian and Classical views on the causes of, and remedies for, unemployment. (10)
- 3.2 Unemployment has been persistently high in South Africa. The unemployment rate in terms of the official (restricted) definition, has averaged at close to 26% over the last 5 years. Apart from the effects of a low economic growth environment, the high unemployment is considered to be attributable largely to structural factors (causes). Discuss **THREE** such structural factors (causes). (12)
- 3.3 Policies to address unemployment cannot be considered in isolation of policies to address inflation. Evaluate this policy dilemma with the use of the short-run Phillips curve. (8)

**QUESTION 4****[30 MARKS]**

- 4.1 Evaluate **TWO** provisions in the South African 2018/19 National Budget in terms of their implications for private business. (6)
- 4.2 According to the 2018 Budget Review, gross national debt is forecasted to breach 60% of GDP by 2021/22 and to stabilise at 56,2% by 2022/23. Make use of the public debt-to-GDP ratio, taking into account prevailing economic conditions and recent developments, to evaluate South Africa's ability to achieve fiscal sustainability. (8)
- 4.3 Explain how the balance of payments can impose a constraint on the extent to which economic policy may be used to stimulate economic growth. (4)
- 4.4.1 Explain **TWO** factors that can contribute to an appreciation in the external value of the Rand. (6)
- 4.4.2 Explain **TWO** implications of an appreciation in the external value of the Rand for private business. (6)