



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Economics
DEPARTMENT	Business Management
CAMPUS(ES)	APK
MODULE NAME	Applied Macroeconomics
MODULE CODE	BMA9X03
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Summative Assessment Opportunity June 2019

ASSESSMENT DATE	06 June 2019	SESSION	08:30 – 11:30
ASSESSOR(S)	Prof S Chetty		
MODERATOR(S)	Prof AM Pretorius		
DURATION	3 hours (180 min)	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	3
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INFORMATION/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)
- Answer each question in a separate book.
- 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]**

South Africa continues to be afflicted by persistently excessive unemployment, together with the ills of substantial poverty and inequality. The official unemployment rate averaged at just over 24% from 1994 to 2018. It hit a high of 29,3% in the first and second quarters of 2003. Although there was a drop of 0,4 of a percentage point from 27,5% in the third quarter to 27,1% in the fourth quarter of 2018, there was a 0,4 of a percentage point increase year-on-year from the fourth quarter of 2017. Unemployment according to the expanded definition dropped by 0,3 of a percentage point from 37,3% in the third quarter to 37,0% in the fourth quarter of 2018. There was however an increase of 0,7 of a percentage point year-on-year from the fourth quarter of 2017. Significant disparities exist in the unemployment rate in terms of gender, race and age, with unemployment in the various categories impacting the African Black population the most.

Employment creation is high on South Africa's policy agenda, with the New Growth Path aiming for the creation of 5 million new jobs between 2010 and 2020, and the National Development Plan aiming for an unemployment rate of 14% by 2020 and 6% by 2030 through the creation 11 million new jobs. The 2018 Presidential Jobs Summit resulted in a number of agreements between organised labour, business, community and government to engage in interventions that aim to create an additional 275 000 jobs per year. The Jobs Summit was followed by an Investment Conference which aimed at mobilising R1,2 trillion over the next five years. The conference managed to bring in about R300 billion rand worth of investment pledges from both domestic and international companies.

Given this background, answer the following questions:

- 1.1 There is a significant difference between the unemployment rates measured either in terms of the official or expanded definitions. Explain the reasons for this difference and debate the use of these two measures as realistic representations of the state of joblessness in South Africa. (7)
- 1.2 It is evident that government has set ambitious targets for the reduction of unemployment. Given that the persistence of high unemployment in South Africa is attributed largely to structural factors, critically evaluate, **THREE** such factors that continue to present a challenge to government in its effort to reduce unemployment to desired levels. (12)
- 1.3 Suppose that the pledges made at the 2018 Investment Conference are realised, resulting in significant investment in new technology related to the 4th Industrial Revolution. With the use of the aggregate demand and supply model, analyse and illustrate the short- and long-run effects of **a supply expansion following an improvement in labour productivity due to the better technology**. For simplicity ignore any initial effects on aggregate demand associated with the increased investment spending. Start from an initial position of long-run structural equilibrium which is below full employment. (13)
- 1.4 Discuss how government can partner with private business in addressing unemployment in South Africa. Your discussion may include existing arrangements or approaches. (8)

QUESTION 2

[30 MARKS]

- 2.1 Following a technical recession in the first half of 2018, the South African economy rebounded somewhat with 2,6% and 1,4% growth in the third and fourth quarters respectively, resulting in a 0,8% growth for the year as whole. Going forward, GDP growth is forecasted at 1,3%, 1,8% and 2,0% for 2019, 2020 and 2021 respectively. Given this brief background, evaluate **THREE** key factors that have a bearing on South Africa's economic growth prospects for 2019 and the years ahead. (12)
- 2.2 It is often argued that economic growth measured by GDP or GDP per capita is not an appropriate or adequate measure of economic progress, particularly in respect of welfare and development. Debate this view. (10)
- 2.3 Discuss the relevance of information on GDP for business decisions. (8)

QUESTION 3

[30 MARKS]

- 3.1 Discuss the argument that low and stable inflation contributes to a balanced and sustainable economic growth. (6)
- 3.2 Following inflation rates of above 5% in October and November, CPI inflation fell to 4,5% in December of 2018. The downward trend continued in 2019 with inflation recorded at 4% for January and slightly higher at 4,1% in February. According to the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB), the overall risks to South Africa's inflation outlook are somewhat evenly balanced. Critically evaluate this view, with reference to **THREE** key factors that have a bearing on South Africa's inflation outlook. (12)
- 3.3 Suppose that the declining trend in the inflation rate continues into 2019, prompting the SARB to initiate a downward cycle in interest rates. Explain **FOUR** implications of declining interest rates for private business. (12)

QUESTION 4

[30 MARKS]

- 4.1 Provide an evaluation of South Africa's prevailing investment climate. In your evaluation of the investment climate include the following: the extent to which investments are being undertaken (with the use of appropriate measures/indicators); business confidence levels; pronouncements of rating agencies; and the key factors that are impacting the investment environment. (12)
- 4.2 Discuss how fiscal policy may be used to stimulate economic growth and how it can conflict with monetary policy aimed at reducing inflation. (9)
- 4.3 Suppose that foreign sentiment shifts significantly in favour of South Africa, resulting in a substantial net inflow of foreign capital into the South African economy. Given that South Africa follows a flexible (floating) exchange rate system, make use of a diagram depicting the foreign exchange market for US dollars in terms of rand, to analyse the impact of the net of inflow of foreign capital. (9)