

Supplementary Assessment

Supplementary Assessment is available to eligible students who receive an Interim Fail (NF) grade, for a result between 45 and 49%. This additional assessment will be an opportunity to demonstrate that you are able to meet the learning outcomes for the unit.

Unit Code: ECON203: Macroeconomics 2 (Semester 2, 2019)

Problem Set

This is comprised of calculation questions to help students have basic quantitative skills and understand economic concepts in a better way. The students are expected to complete these questions by their own.

Topic:	ALL TOPICS covered in the lecture
Due date:	48 Hours after assessment is released
Format:	Problem Set
Length:	Students will answer questions in the problem set.
Purpose:	This additional assessment will be an opportunity to demonstrate that you are able to meet the learning outcomes for the unit.
Learning outcomes assessed:	<ol style="list-style-type: none">1. Interpret economic concepts and their application contemporary issues (GA5, GA7, GA8);2. Think critically and reflectively (GA4, GA6, GA8)'3. Explain and evaluate the factors influencing the functioning of economies (GA4, GA5, GA6).
How to submit:	Drop your assessment in the Assignment Box at Bld 412 Ground Floor (Arts Precinct)
Assessment criteria:	The mark for the problem set will be based on the quality of the answers including: <ul style="list-style-type: none">• the ability to apply economic tools to the analysis and solution of problems faced by consumers and firms• the communication of economic principles to explain and analyse economic institutions and economic decisions• the ability to synthesis theory and practice for selected microeconomic issues

For further information about the *Supplementary Assessment Guidelines and Information for Students* please see: <http://www.acu.edu.au/policies/843743>

Section A (TRUE/FASLE Questions) [Total = 40 marks]

Consider each of the following statements. Say whether you believe the statement is True, False or Uncertain. Briefly explain your answer in words. Note that most of the marks will be given for the explanation.

Question 1. [10 marks] Suppose that the government reduces its spending temporarily given the budget deficit prospect. This policy shifts the AD curve up and to the right.

False. A temporary reduction in government purchases increases savings for a given level of output in the goods market. So, the saving curve shifts right and this induces lower real interest rate in the goods market. So, the IS curve shifts down and to the left. Since the intersection of IS and LM curves shifts to the left now, the AD curve shifts down and to the left for a constant price level.

Question 2. [10 marks] A contractionary monetary policy shifts the AD curve down and to the left.

True. A fall in nominal money supply reduces real money balances for a given level of output. This induces higher real interest rate in the asset market. So, the LM curve shifts up and to the left. Since the intersection of IS and LM curves shifts to the left now, the AD curve shifts down and to the left for a constant price level.

Question 3. [10 marks] To raise tax revenue, the government raises the effective tax rate on capital. This policy shifts the AD curve down and to the left.

True. A rise in the effective tax rate on capital increases the tax-adjusted user cost of capital and so reduces desired investment for a given level of output. So, the investment curve shifts left and this induces lower real interest rate in the goods market. So, the IS curve shifts down and to the left. Since the intersection of IS and LM curves shifts to the left now, the AD curve shifts down and to the left for a constant price level.

Question 4. [10 marks] A fall in the expected inflation shifts the AD curve up and to the right.

False. A fall in the expected inflation increases real money demand for a given level of output. This induces higher real interest rate in the asset market. So, the LM curve shifts up and to the left. Since the intersection of IS and LM curves shifts to the left now, the AD curve shifts down and to the left for a constant price level.

Section B (Problem Solving Questions) [Total = 60 marks]

Question 5. [60 marks] **Classifying Transactions.** Explain how each of the transactions generates two entries – a credit and a debit – in the Canadian balance of payments accounts, and describe how each entry would be classified:

a. [10 marks] A Canadian purchases BMW 5 in Munich and pays for it using euros. He obtained those euros in exchange for dollars at the German bank in Munich airport.

A Canadian purchasing a German-produce car will constitute good import for Canada (debit in the next exports components of the current account). The offsetting transaction is the export of Canadian asset - currency - to a German bank. This transaction we appear in the financial account as a credit.

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b. [10 marks] A Canadian buys a share of German stock, paying the seller with a check on a Canadian bank.

There is a Canadian financial account debit (import of an asset – stock) as a result of the purchase of a German stock by a Canadian. The corresponding credit occurs when the German seller deposits the Canadian check in his German bank account. This is equivalent to an export of Canadian asset (check) abroad, leading to a credit to Canadian financial account.

c. [10 marks] A Canadian buys a share of Japanese stock, paying by writing a check on an account with a Swiss bank.

The purchase of the Japanese stock is a debit (import) in the Canadian financial account. There is a corresponding credit in the Canadian financial account when the Canadian pays with a check on his Swiss bank account because Canadian claims on Switzerland fall by the amount of the check (reduction in the import of an asset from Switzerland). This is a case in which a Canadian trades one foreign asset for another.

d. [10 marks] The Korean government carries out an official foreign exchange intervention in which it uses dollars held in a Canadian bank to buy Korean currency from its citizens.

If the foreign exchange intervention by the Korean government results in no goods or assets crossing borders, then there will be no recording of this transaction in the Canadian or Korean balance of payments. Alternatively, if the Korean citizens who buy the dollars from Korean government use them to buy Canadian goods or Canadian assets, then such intervention by the Korean government will appear on the Canadian balance of payments as follows. First, there will be a Canadian current account credit if Canadian goods are purchased by Koreans; or a Canadian financial account credit, if Canadian assets are purchased by Koreans. Second, since the foreign exchange intervention by the Korean government involves the sale of a Canadian asset – the dollars it holds in Canada – it will thus represent a debit item in the Canadian financial account.

e. [10 marks] A tourist from Ottawa buys a meal at an expensive restaurant in Lyons, France, paying with a traveller's check.

When a tourist pays the French restaurateur for the meal, her payment represents a debit in the Canadian current account (import of a service [meal] from France). A payment with a traveller's check is an export of a Canadian asset – a claim on a Canadian bank that issued the traveller's check – is a credit to Canadian financial account.

f. [10 marks] A Canadian-owned factory in Mexico uses local earnings to buy additional machinery from a Mexican producer.

There is no recording in the Canadian balance of payments of this offshore transaction since no goods or payments crossed the Canadian border.