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Description: Description: RMIT logo 35mm col

**ECON1016 Macroeconomics 1**

**Assignment 3**

Student name:

Student number:

Lecture group:

Date and time of Lecture:

Teacher’s name:

**Assessment Declaration**: This is an individual piece of assessment. That means it must be your own work and you can’t copy or have someone else complete any part of the work for you.

By submitting this assessment you are declaring that you have read, understood and agree to the content and expectations of the [Assessment declaration.](https://www.rmit.edu.au/students/student-essentials/assessment-and-exams/assessment/assessment-declaration)

Student signature and date:

[Note: Students should use this document to complete your assignment questions. Please carefully note all instructions, including the maximum word count for each question. Additional words that exceed the recommended word count for the respective question will not be considered by the examiner. After you have answered the questions, you can delete the questions and instructions within in square brackets and simply retain the section headings and question numbers when you submit your final document. You can save this as a Word or PDF file. It is recommended that you save as PDF to preserve the text formatting of your diagrams and formulas.]

**SECTION A**

[This section contains five questions. This section is worth 20 marks. For each question, explain whether the statement is True, False or Uncertain. Start your answer by stating your answer (“True”, “False” or “Uncertain”) and then provide a clear explanation to support your answer. Present your explanation in 100 words maximum for each question. Be sure that your answer is based on the concepts that we have learnt in this course. Answer all questions.]

**Question 1**

[Consider the effects of a global shortage in microchips that are used in a range of products including personal electronic devices and cars, etc. For a country such as Singapore, this development will, *ceteris paribus*, likely result in a short-run increase in CPI and hamper economic growth. (100 words) (4 marks)]

Your answer: [True/False/Uncertain and explain why]

Q1 word count: xxx

**Question 2**

[Consider a scenario where a firm has taken out a loan to finance the purchase on robots that it will use in production. Assume that the nominal interest rate at the time the loan was created is 8% and the expected rate of inflation was 5%. If inflation ends up running higher than expected at 9% the firm will make a loss and would have been better off not undertaking the investment in robots. (100 words) (4 marks)]

Your answer: [True/False/Uncertain and explain why]

Q2 word count: xxx

**Question 3**

[Governments need to play a role in helping stabilise the economy and furthermore because of their efforts to promote economic growth, this ultimately increases the living standards experienced by everyone in a country in a manner and is more equitable compared to if the government played no role and only market forces prevailed. Discuss. (100 words) (4 marks)]

Your answer: [True/False/Uncertain and explain why]

Q3 word count: xxx

**Question 4**

[Drawing upon the principles of the loanable funds market model, assume that the government slashes its spending while there is no change in taxation and holding constant all other factors in the economy. This policy is likely to have a positive effect on (planned) private investment in the economy. “Private investment” refers to investment in physical capital by firms and residential investment by households. (100 words) (4 marks)]

Your answer: [True/False/Uncertain and explain why]

Q4 word count: xxx

**Question 5**

[Consider a prosperous open economy such as Singapore. If Singapore’s saving rate (gross domestic saving as a % of GDP) is 25%, while its investment rate (domestic investment as a % of GDP) is 20%, the economy will experience a trade surplus, meaning that receipts from exports exceed expenditure on imports. (100 words) (4 marks)]

Your answer: [True/False/Uncertain and explain why]

Q5 word count: xxx

**SECTION B**

[This section is worth 30 marks. Provide a clear answer for each question, including a diagram or numerical calculation if requested. Be sure that your answers are based on the concepts that we have learnt in this course. Answer all questions.]

[Hint for diagrams: If asked to include a diagram, you may create your own diagram using the appropriate tools within your software package. Alternatively, you may paste a relevant already-made diagram into your document as an image, citing the source of your diagram.]

**Question 1**

[The Monetary Authority of Singapore (MAS) conducts monetary policy to help stabilise the economy as it moves through the business cycle.]

(a) [We learned in class that monetary policy works mainly through the Aggregate Demand side of the economy in the short run. Show using relevant diagrams, how the decision by the MAS to implement a counteracting monetary policy when the economy is entering a recession is transmitted to ultimately impact Aggregate Demand and help stabilise the business cycle. Also show the impact this policy may have on the exchange rate (2 marks). Discuss the effectiveness of monetary policy in counteracting a recession. In your answer address the benefits and limitations associated with monetary policy for an open economy such as Singapore. (70 words total) (2marks)]

Your answer:

Q1a word count: xxx

(b) Suppose that Singapore’s national saving rate (savings as a % of GDP) is 45% prior to the economy entering a recession. Assume the economy enters recession and that national income falls by $100 billion with falling consumption expenditure constituting 60% of the overall fall. Use these figures presented to calculate the value of the multiplier both prior to the recession and after entering the recession. Present your calculation formula and all of your workings. Write a clear sentence explaining how to interpret the multiplier value(s) shown. (2 marks) Next, interpret what the value of the multiplier means for the economy and government policymakers considering a fiscal response to the recession. If the multiplier value has changed be sure to comment on whether it has changed in a manner you would expect as an economy enters recession. (50 words total) (2 marks)]

Your answer:

Q1b word count: xxx

(c) [Suppose the Singapore Government implements a fiscal stimulus package to counter the recession by increasing government spending by $90 billion. Using the information presented in Question 1 part (b), calculate your forecast of the overall impact of the government’s stimulus package once the full effects are circulated throughout the economy. Be sure to show all your workings and calculation formulae. You can round off the value of the multiplier to 2 decimal places, and present your final answer rounded off to 2 decimal places. Finish your answer by explaining how to interpret this final number and also comment on how the phenomenon of crowding out would potentially impact the analysis. (50 words total) (2 marks)]

Your answer:

Q1c word count: xxx

**Question 2**

[We learned in class, that policymakers are interested in bolstering the country’s economic long-term productive capacity, which contributes towards stronger economic prosperity and enhanced social and individual well-being.]

(a) [A nation’s economic prosperity is strongly dependent on the productive capacity of its economy. What are the main factors (or “ingredients”) that determine the productive capacity of a nation’s economy? Are there any limitations to these sources of growth and productivity? (120 words) (5 marks)]

Your answer:

Q2a word count: xxx

(b) We know that technological progress (innovation, ideas, knowledge breakthroughs) can help overcome barriers to economic growth as discussed in Question 2 part (a). Identify two sustainable development goals (SDG’s) and discuss how technological progress can assist in progress towards goal achievement. (120 words total) (5 marks)]

Your answer:

Q2b word count: xxx

**Question 3**

[Consider how the prioritisation by the Singaporean government to act on climate change (though measures such as agreeing to targets that reduce countries’ greenhouse gas emissions) has economic impacts in both the short and long run.]

(a) [Illustrate the short-run impact of cutting greenhouse gas emissions for the Singaporean economy using the Aggregate Demand -Aggregate Supply (AD-AS) model. Assume that the economy was initially in operating at its potential level of output represented by Y\*. Explain what is happening in your diagram and highlight any trade-offs the economy faces between growth and meeting carbon reduction targets in the short run. (70 words) (4 marks).]

Your answer:

Q3a word count: xxx

(b) [Consider the longer-term impacts for the Singaporean economy in becoming fully clean and carbon neutral. Illustrate the long-run impact of cutting greenhouse gas emissions for the Singaporean economy again using the AD-AS model. Explain what is happening in your diagram and highlight any longer-term trade-offs the economy faces between growth and meeting carbon reduction targets. (50 words( 2 marks)]

Q3b word count: xxx

(c) [Based on the analysis presented in parts a) and b) and also desktop research you undertake, formulate and articulate your position either in favour of or against government action on climate change. Address why international agreement and consensus on climate targets is important for a country such as Singapore. Remember to focus your answer on the economic arguments relevant to this issue. (100 words) (4 marks).]

Your answer:

Q3c word count: xxx

(End of assessment) 😊