

# Macroeconomics

2018

## Class Questions

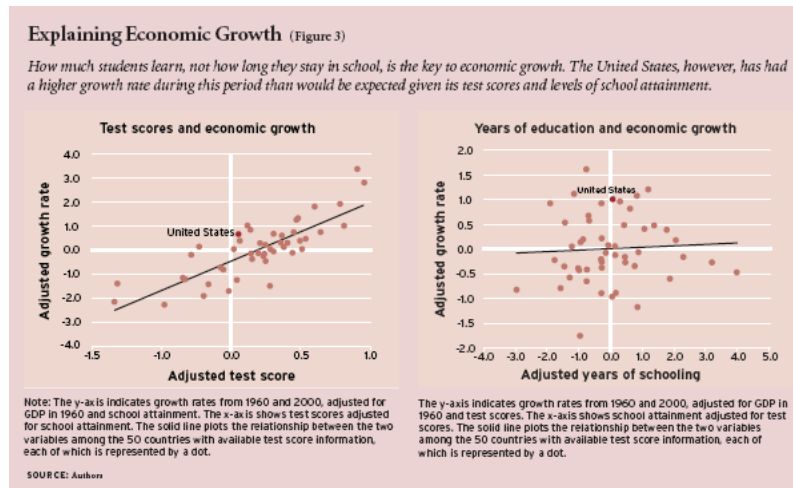
Answers to be Submitted  
on the 10th of April

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### Question 1

Consider the graph below, showing the relationship between education indicators and economic growth in a cross section of countries.

1. Using standard growth theory, explain the linkage between education and economic growth.
2. In the light of your analysis, explain the growth effect of free higher education in South Africa



### Question 2

"we have to acknowledge that we are not growing fast enough to significantly reduce our triple challenges of poverty, inequality and unemployment"

3. Select one policy from the National Development Plan and briefly illustrate, using standard growth theory, how it will contribute to the economic growth of the country.
4. How is the credit rating downgrade suffered recently by South Africa likely to impact the effectiveness of the policy?

### Question 3

*"According to the infamous pass laws, non white workers working in urban areas required a pass, which was revoked if their job was terminate.... South African scholars have debated whether this system lowered profits (by restricting the labour supply) or raised profits (by providing a favorable labour discipline environment)"*

5. Use Stiglitz and Shapiro's model to explain the latter argument.
6. What additional information would you need to determine which position is more nearly correct?

#### **Question 4**

“Regardless of the source of shocks which have led to increased unemployment, hysteresis models imply that policies to decrease the actual unemployment rate, if successful, would probably also lead to decreases in the equilibrium rate. Finally, they suggest that, to succeed, policies must be aimed at re-enfranchising the unemployed, in particular the long-term unemployed”

7. Show, using a simple insider-outsider model, how short run shocks can have long term effects on equilibrium unemployment
8. How would you use this class of models to explain the persistence of South African unemployment?

#### **Question 5**

- (a) According to Blanchard (2010), what are the main causes of the financial crisis started in 2007 in the United States?
- (b) Given your analysis in question (a), which measures would you propose to reduce the possibility of this crisis to be repeated in the future?

#### **Question 6**

- (a) Describe the CC-LM model of Bernanke and Blinder and explain what is the effect of financial uncertainty on the economy
- (b) Using the model, explain how monetary policy can be conducted to reduce the effect of a financial panic.