

# Macroeconomics ECF1200

## Assignment 3 – relates to material covered in Weeks 5-8

This assignment is worth 3% of your final grade.

- Read the questions carefully and in your answers address the concepts and issues associated with each question.
- Use the word limit as a guide to the depth of answer expected.
- **Remember DO NOT PLAGIARISE.** Read the Faculty's policy on plagiarism, which can be found at the beginning of the Unit Book.

**Submit electronically** through Moodle (in section "Assignment Submissions & Feedback").

**Files in only in PDF format are accepted.**

**Word Limit: 500 words total (for the whole assignment).**

**Mark Allocation: Question 1- 1 mark, Question 2- 1 mark, Question 3- 1 mark. Each sub-question is equally weighted.**

**References are not required**

**Use any readable font of sizes 11-12.**

### Question 1

- a) *Explain whether you agree with the following statement: 'The impact of inventory increases on the business cycle depends upon whether they are planned or unplanned.'*

### Question 2

- a) *List four variables that would cause a decrease in real GDP (a recession). Indicate whether changes in each variable increase or decrease aggregate demand or short-run aggregate supply. Next, state four variables that would cause an increase in the price level (short-run inflation). Indicate whether changes in the variable increase or decrease aggregate demand or short-run aggregate supply.*

### Question 3

- a) *Suppose that your bank's reserve ratio is 0.1 and you withdraw \$25 000 from the bank. What is the deposit multiplier? What is the total decrease in deposits in the banking system? What is the change in the money supply?*
- b) *Suppose that during one period, the velocity of money is constant and during another period, it undergoes large fluctuations. During which period will the quantity theory of money be more useful in explaining changes in the inflation rate? Briefly explain.*