UNIVERSITY OF DAR ES ALAAM.

BUSINESS SCHOOL.

DEPARTMENT OF FINANCE.

FN101 Principles of microeconomics.

2020-2021 Academic year (April 2021-July 2021).

GROUP NO.9

SEMINA DAY- THURSDAY 1900 hrs TO 2000 hrs

NAME	PROGRAMME	SIGNATURE
Bihemo Neema Wenceslaus 2020-04-00733	Bcom in Finance	
Malisa James Adrian 2020-04-05566	Bcom in Accounting	
Maingu jackline Yohana-2020-04-05347	Bcom in Human resources	
Isidory Prince Felix-2020-04-02511	Bsc in Bussiness information technology	
Esther Allan Shimba -2020-04-04734	Bcom in Marketing	
Annamaria Joseph -2020-04-02873	Bcom in finance	
Lougwana Godlisten Emmanuel-2020-04-04734	Bcom in Banking and finance	
Dina Naftal Sendama -2020-04-11314	Bcom in Banking and finance	

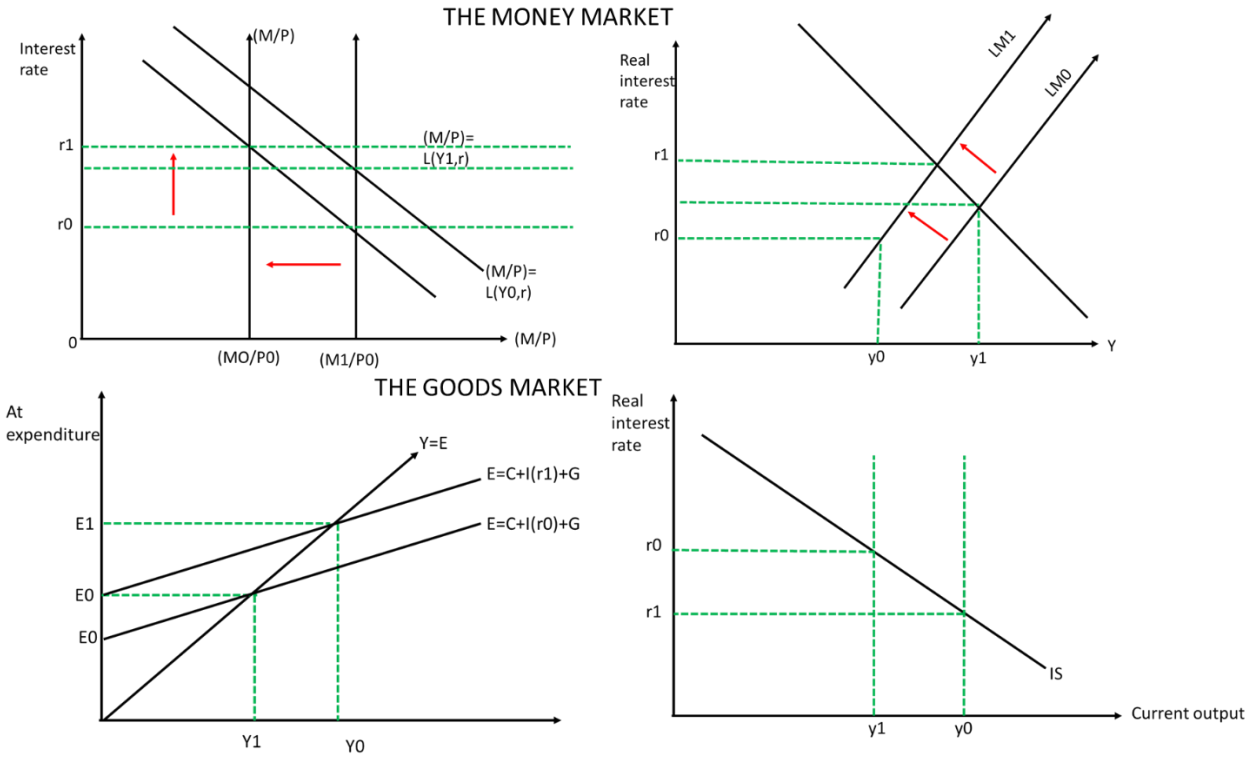
According to the money market model

It includes trade in all assets used as the medium of exchange. Money market transactions are wholesale, meaning that they are for large denominations and take place between financial institutions and companies rather than individuals. Money market funds offer individuals the opportunity to invest smaller amounts in these assets. Institutions that participate in the money market include banks that lend to one another and to large companies and time deposit markets; companies that raise money by selling commercial paper into the market, which can be bought by other companies or funds; and investors who purchase bank CDs as a safe place to park money in the short term.

a. How does the contraction of money supply affect the national output?

Contraction of money supply is carried out by the central bank of a country. It can be carried out by selling bonds to the public by the central bank, so the amount of money available in the market decreases. A fall in supply of money leads to an increase in rate of interest which in turn affects the national output negatively, meaning decrease in the national output since the money circulating in the hands of the people is low hence reducing their ability to invest, purchase and conduct different economic activities.

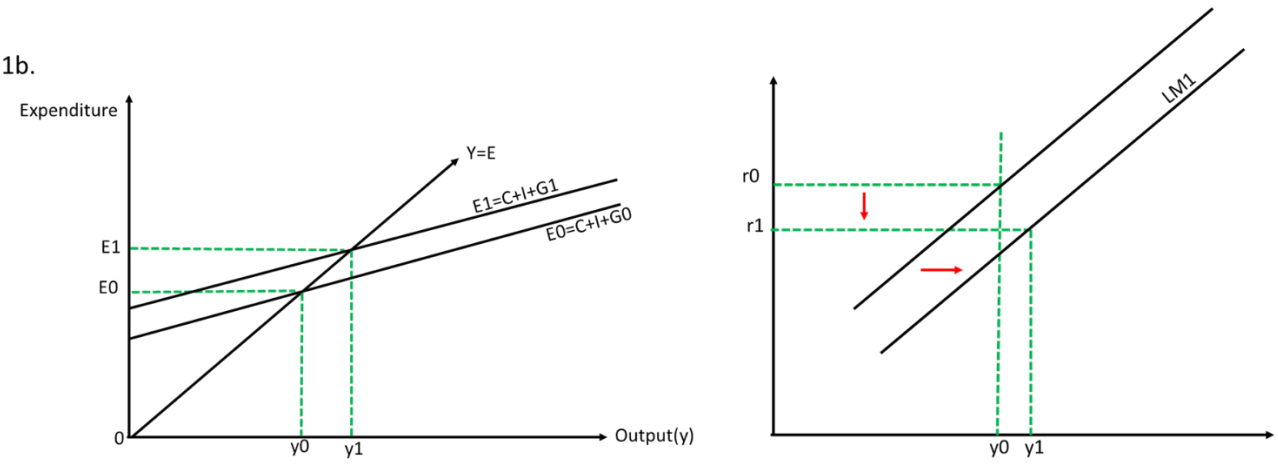
1a.



b. How does increase in national output affect interest rate?

National output which in other words is known as GDP (gross domestic product) of a nation. It measures the value of all the finished goods and services produced in the nation in a year. In case the national output increases the level of interest rate in the nation

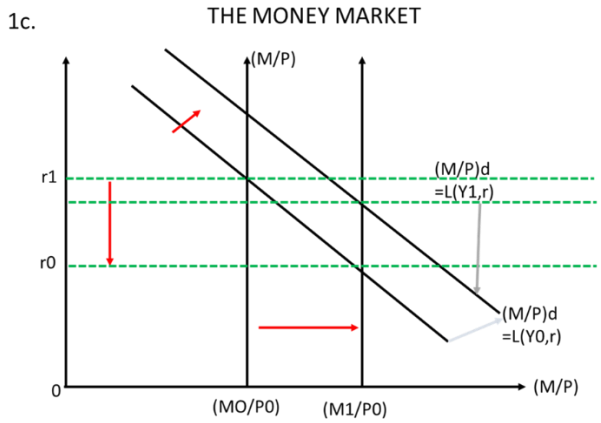
1b.



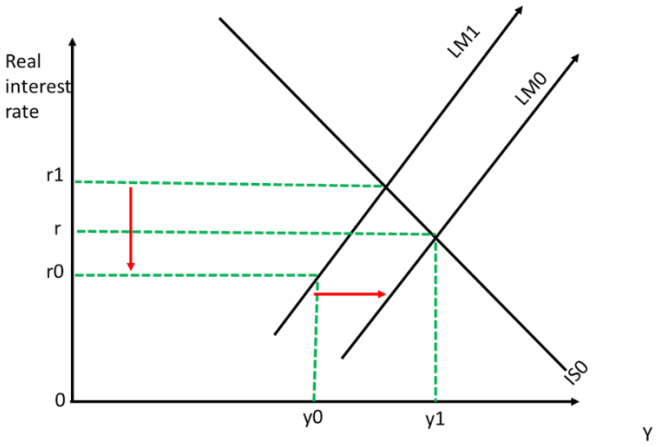
c. Which form of monetary policy is suitable for stimulating the level of economic level and why?

The suitable policy for stimulating the economic level in a nation is the expansionary monetary policy, this is because the expansionary monetary policy is when a central bank uses its tools to stimulate the economy. That increases the money supply, lowers interest rates, and increases aggregate demand. It boosts growth as measured by gross domestic product. It lowers the Value of the currency, thereby decreasing the exchange rate.It is the opposite

1c.



THE IS-LM CURVE



Given ; C = 200 + 2/3(Y – T)

I = 300 – 50r

T = 300, G = 300

Where Y

a) Y = C + I + G

But; I = 300 – 50r

r= 4

I = 300 – (50 X 4)

I =300 – 200

I = 100

Y = 200 + 2/3(Y – T) + 100 + 300

$Y = 600 + 2/3(Y – 300)$

$Y = 600 + 2/3Y – 200$

$Y – 2/3Y = 400$

$1/3Y = 400$

$Y = 400 X 3$

$Y = 1200$

Equilibrium level of Y = 1200

Value of national saving

$Yd = C + S$

Where S is the national saving

$C = 200 + 2/3(Y – T)$

$Yd = Y – T$

$Yd = 1200 – 300$

$Yd= 900$

$C = 200 + 2/3 X 900$

$C = 200 + 600$

b) S = Yd – C

S = 1200 – 800

S = 400

National savings = 400

c) Government spending multiplier = 1/ 1 – b

C = a + bYd

C = 200 + 2/3(Y – T)

By comparing b = 2/3

Government spending multiplier = 1/ 1- (2/3)

= 3

Government spending multiplier = 3

If G = 400

Y = C + I + G

Y = 200 + 2/3 (Y – 300) + 100 + 400

Y – 2/3Y = 700 – 200

1/3Y = 500

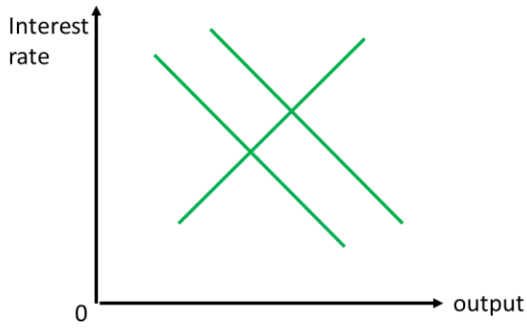
Y = 1500

New equilibrium value of Y = 1500

c) When Y = 0
Y = C + I + G
I = 300 – 50r
0 = 200 + 2/3(0 – 300) + 300 – 50r + 300
50r = 600
r = 12
so when Y = 0, r = 12

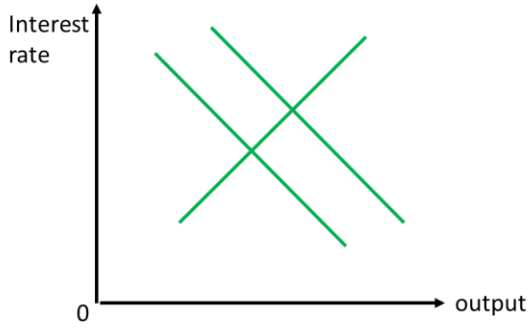
3.a. businesses become more optimistic about the future demand for their goods

- Output increase
- Is shift to the right



b.Our major trading partner eliminates *"tariffs"* previously imposed on our exports

- Increase in supply hence more output(output increase)
- IS shifts to the right

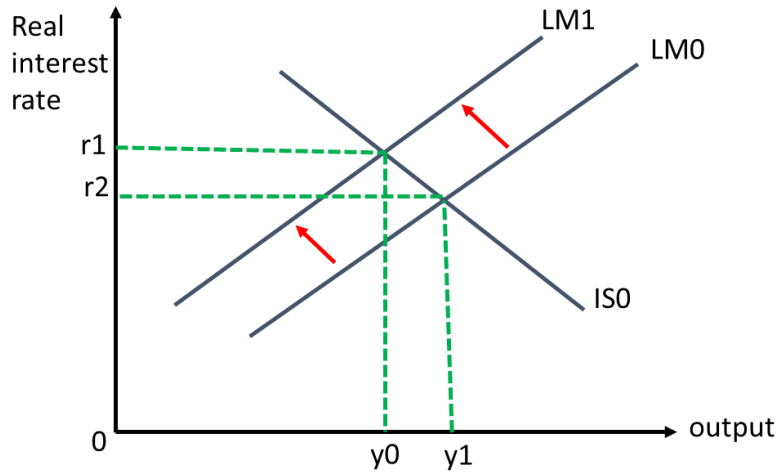


c."Stock prices" drop by 20 per cent.

LM curve shift leftwards

Interest rate increases from r^0 to r^1

Output decreases from Y^1 to Y^0



d.The government and the central bank agree to boost output without changing the interest rate.

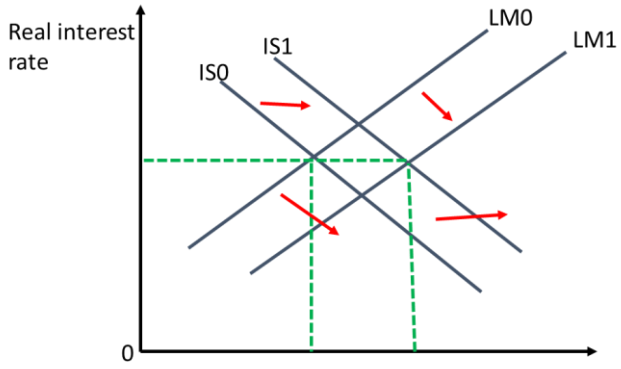
LM curve shift to the

right IS curve shift to the

right Output increases

from Y^0 to Y^1

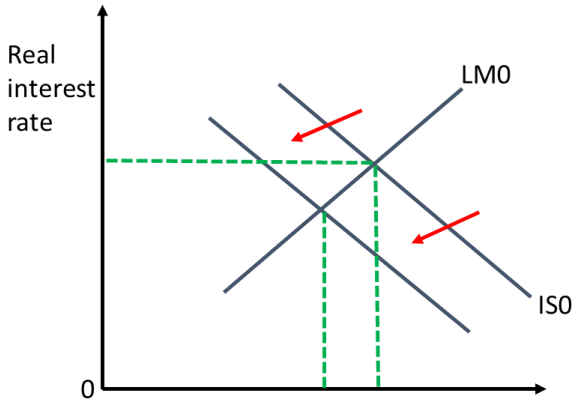
Interest rate remains constant



e. Interest rate go up in the rest of the world.

IS shift to the left

Output decreases from Y^0 to Y^1


Real
interest
rate
LM0
IS0
0