

Introductory Macroeconomics

Assignment #1

Due Wednesday April 14

Instructions. You can but do not have to do this assignment in a group. If you work in a group, it can have at most three people. The assignment is due by 4pm on Wednesday April 14.

The submission process will have two steps:

- (i) *Group formation*: Students wanting to submit as a group will first need to form their assignment group through the Canvas LMS site (under the People tab), further details to be provided in an LMS announcement during the week commencing 29 March. Students completing the assignment alone do not need to form a group. Assignment groups must be formed no later than 10am on Monday April 12. This is a strict deadline and cannot be extended for any student. Students can form an assignment group with any other students (up to a group size of three), they do not have to be from the same tutorial group.
- (ii) *Submission*: Assignments can only be submitted after group formation has closed, i.e., from 10am, April 12. Assignments are submitted through the Assignments section of the Canvas LMS site, details to be provided in an LMS announcement beforehand.

Late assignments. Late assignments *will not be accepted*. Please apply for Special Consideration if for some documented reason you cannot submit by the due deadline.

Marking criteria. The tutors will mark the assignment according to the following criteria:

- Ability to use material discussed in lectures, tutorials, and other sources to answer the assignment questions in a logical and coherent fashion (10 marks total: 3 marks Question 1 and 7 marks Question 2).
- Overall presentation of the assignment. This includes spelling, grammar, correct construction of diagrams, etc. (1 mark).
- The maximum assignment length is 800 words.
- Please note that the University and the teaching staff take academic integrity seriously. Please be aware that plagiarism and collusion are unacceptable. Further details can be found in the subject guide.

Questions.**1. Measuring GDP** (3 marks).

The following table contains some data from the Australian economy that was sourced from the Australian Bureau of Statistics.

Table 1: **Growth Rates of Selected Variables**

Variable	1970-1990	1990-2019
nominal GDP	12.7	5.6
real GDP	3.1	3.4

Consider the data contained in the table, and the statement in italics below.

Nominal GDP growth has declined in recent decades (post-1990) when compared to growth in earlier periods (pre-1990). This indicates that growth in market activity has declined in recent decades. This is concerning because, although market activity is not a measure of welfare, it is correlated with welfare.

Do you agree or disagree with this statement? Explain your reasoning.

2. The COVID-19 Pandemic (7 marks).

The past year witnessed significant challenges for health and economic policy. The global pandemic required Australian authorities to shut down certain industries to protect public health. With close to 1 million jobs lost in April and May 2020, this shutdown in economic activity led to a dramatic fall in consumers' and firms' confidence to spend and invest.

Use a Keynesian model of the macroeconomy to describe what effect the fall in confidence had upon output in the Australian economy. Be specific and describe what components of expenditure are affected and why. Discuss the adjustment process associated with moving from an initial equilibrium (before the onset of the pandemic) to a new equilibrium (after the significant job losses). In particular, discuss the mechanism that leads to a change in output and include a relevant diagram. Explain what the multiplier is and the role it has in explaining the fall in output. What policy actions can restore aggregate demand to its initial level?

