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**College of Administrative and Financial Sciences**

**Assignment-2**

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| Course Name: Macroeconomics | Student’s Name: |
| Course Code: ECON201 | Student’s ID Number: |
| Semester: II | CRN: |
| Academic Year: 1441/1442 H | |

**For Instructor’s Use only**

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| --- | --- |
| Instructor’s Name: | |
| Students’ Grade: / **5** | Level of Marks: High/Middle/Low |

**Instructions – PLEASE READ THEM CAREFULLY**

* The Assignment must be submitted on Blackboard (**WORD format only**) via allocated folder.
* Assignments submitted through email will not be accepted.
* Students are advised to make their work clear and well presented, marks may be reduced for poor presentation. This includes filling your information on the cover page.
* Students must mention question number clearly in their answer.
* Late submission will NOT be accepted.
* Avoid plagiarism, the work should be in your own words, copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).
* Submissions without this cover page will NOT be accepted.

**Assignment 2 Question-Chapters: 12, 13, 14 & 15:** - **[2.5 Marks]**

**Q1**: Saudi Arabia’s Ministry of Human Resources recently announced an increase to the monthly minimum wage from 3000 SAR to 4000 SAR for full-time Saudi workers in April 2021, and introduced a Labor Reform Initiative (LRI) scheduled to take effect on 14th March 2021.

1. Discuss the implications of the above topic.
2. Will this impact unemployment in the country? How?

**Q2**: Three students have each saved $1,000. Each has an investment opportunity in which he or she can invest up to $2,000. Here are the rates of return on the students’ investment projects:

**[2.5 Marks]**

Harry 5 percent

Ron 8 percent

Hermione 20 percent

a. If borrowing and lending is prohibited, so each student uses only his or her saving to finance his or her own investment project, how much will each student have a year later when the project pays its return?

b. Now suppose their school opens up a market for loanable funds in which students can borrow and lend among themselves at an interest rate r. What would determine whether a student would choose to be a borrower or lender in this market?

c. Among these three students, what would be the quantity of loanable funds supplied and quantity demanded at an interest rate of 7 percent? At 10 percent?

d. At what interest rate would the loanable funds market among these three students be in equilibrium? At this interest rate, which student(s) would borrow, and which student(s) would lend?

e. At the equilibrium interest rate, how much does each student have a year later after the investment projects pay their return and loans have been repaid? Compare your answers to those you gave in part (a). Who benefits from the existence of the loanable funds market—the borrowers or the lenders? Is anyone worse off?

**Answer:**