

Economics

Section II (continued)

Marks

Question 23 (10 marks)

The table gives selected data for a closed economy.

Year	Income (Y) (\$m)	Consumption (C) (\$m)	Savings (S) (\$m)	Investment (I) (\$m)
1	400	360	40	200
2	500	420	80	200
3	600	480	120	200

- (a) Write the formula for the simple multiplier (k).

1

$k = \frac{1}{1-MPC}$

- (b) Use the information in the table to calculate the value of the simple multiplier for this economy.

1

$MPC = \frac{\Delta C}{\Delta Y} = \frac{60}{100} = 0.6$
 $\frac{1}{1-0.6} = 2.5 \quad k = 2.5$

- (c) Outline how the simple multiplier can affect economic activity.

2

The simple multiplier illustrates how a small change in income, consumption and investment is multiplied throughout the rest of the economy. This is known as the multiplier effect.

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Question 23 (continued)

- (d) Explain ONE benefit of economic growth to an economy.

2

Economic growth in an economy may mean an increase in per capita income. This may mean that the standard of living within that economy also increases. This benefits that society and the people within.

- (e) Explain the impact of economic growth on ecologically sustainable development.

4

Ecologically sustainable development means activities carried out to meet our current goals must not be at the expense of future generations. Economic growth may mean using production methods in the cheapest and most efficient way. However this may not always be the best thing for an environment. This is where we may affect where activities must be carried out in order to protect the environment etc.

End of Question 23