

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

$$k = \frac{1}{MPS}$$

- (b) Use the information in the table to calculate the value of the simple multiplier for this economy. 1

$$k = \frac{1}{0.05} = 20$$

- (c) Outline how the simple multiplier can affect economic activity. 2

The simple multiplier shows the effect of \$1 on the economy. For example if the simple multiplier is 5 and the government spend \$20 then that \$20 has the effect of \$100, as that's how many times it travels the circular flow. The simple multiplier can affect growth and activity through the affect ~~on~~ multiply ~~result from~~ the impact a certain amount of money has.

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## Question 23 (continued)

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

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sustained Economic growth leads to wage increases as employers pass on the benefits of their ~~profits~~ gains to employees. This leads to more disposable income for households, and in turn leads to higher standards of living, as households have the capacity to buy more.

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

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~~Economic growth~~ Ecological Sustainable Development (ESD) refers to the economy growing at a rate that does not lead to environmental damage, and depleted resources. However currently economic growth is occurring at the expense of the environment. This is called market failure. This means that a price mechanism for a good or service does not take into account the environmental cost that it has incurred. Factories continue to produce goods whilst filling the atmosphere with non-environmentally safe gases. The companies are not incorporating the cost to the environment in their prices, as they are not being held accountable. It is the continued push for economic growth that is leading companies to produce more <sup>efficiently</sup> which means environmental sustainability is not an issue for them.

End of Question 23