

**2002 HIGHER SCHOOL CERTIFICATE EXAMINATION**  
**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

*1200                      1260                      240                      600*

- (a) Write the formula for the simple multiplier (k). 1

*simple multiplier (k) =  $\frac{1}{1 - MPC}$  (Marginal Propensity to Consume)*

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

~~$k = \frac{1}{1 - 360}$~~        $k = \frac{1}{1 - 0.84} = 6.25$

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

*The simple multiplier affects economic activity as it shows the amount of revenue that has been shifted through the whole economy through consumption. For example if a consumer purchases a car, this amount paid for the car not only goes to the car dealer, but also to the transportation people, manufactures, parts people etc.*

**Question 23 continues on page 14**

Economic growth is beneficial for an economy as it decreases external debt, the CAD and thus reducing the economy's external instability. Through economic growth, there is an increase in aggregate demand which affects the level of economic activity, thus exports increase and there will be more ~~fracking, etc~~ as exports exceed imports, ~~extern~~ the CAD is reduced and thus

Marks

Question 23 (continued)

(d) Explain ONE benefit of economic growth to an economy. <sup>external debt also reduced</sup> <sup>creating a more stable external environment</sup> 2

~~Economic growth is beneficial for an economy as it increases the standard of living for that economy. Through economic growth, there is an increase in aggregate demand which influences economic activity which in turn influences inflation, employment and external stability.~~

(e) Explain the impact of economic growth on ecologically sustainable development. 4

Economic growth can have major impacts on ecologically sustainable development as, increases in economic growth can also mean the depletion of natural resources and <sup>that there</sup> ~~the~~ <sup>can have</sup> ~~the~~ effects <sup>that</sup> production has on the environment, such as pollution. ~~and~~  
Producers need to take into consideration the natural environment when they are producing their goods and services, so that there will be resources left for future generational use. For example, the replanting of trees etc.

may be bad

End of Question 23