

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

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

..... $k = MPC = \frac{120}{200} = 0.6$

..... $MPS = 0.4$ $\therefore k = \frac{1}{0.4} = 2.5$

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

..... 2.5

.....

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

..... the simple multiplier can affect economic activity

..... as it indicates how easily changes in consumption

..... have an effect of increasing national income

..... for example increases of 20 in consumption in

..... an economy with a multiplier of 5, will result in

..... an increase in national income of $20 \times 5 = 100$

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Question 23 (continued)

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

2

Usually economic growth is that it ~~can~~ leads to an increase in per capita incomes (GNP per capita) which leads to an increase in the standard of living. When we measure the standard of living we take into account how large the GNP per capita is. The larger per capita incomes means people can satisfy more wants and needs, which increases their material wealth.

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

4

Usually economic growth and environment damage occur simultaneously, simply increased economic growth leads to increased environmental damage. Externalities are costs to society not factored into the production ^{costs} of a good or service, for example a motor vehicle. The damage to air quality when you purchase petrol for your car is not factored into the cost of the petrol. The goal of many economies as a result of this trend is that economies seek to grow and expand while not damaging the environment so that future generations may be ~~able to~~ ^{not} hindered by damage incurred to the environment of past generations. This is what we refer to as ecologically sustainable development.

End of Question 23