

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

$$k = \frac{\Delta Y}{\Delta C + \Delta S + \Delta I}$$

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

$$k = \frac{200 + 120 + 80 + 0}{0}$$

$$= \underline{\underline{400}}$$

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

Increased levels of consumption & investment is going to put more money into the Australian market. This will increase the level of economic activity. However, an increase in savings will see less consumption by consumers and a slower rate of economic growth.

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Question 23 (continued)

- (d) Explain ONE benefit of economic growth to an economy. 2

One benefit of economic growth to an economy is a decrease in the unemployment rate. High levels of economic growth means that industries need to produce greater quantities in order to meet the consumer demand, as a result that may employ more labour to increase production.

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

Although economic growth is strived for by every economy, it must be sustainable economic growth. If economic growth is not controlled then there are a number of negative impacts on the economy, such as inflation. Therefore, along with economic growth the economy must have sustainable development to minimise large fluctuations in the business cycle.

End of Question 23