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**

Yr 1 = 10   Yr 2 = 6·25   Yr 3 = 5

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

The real income level would affect the amount of real income being spent and saved. Those of lower income generally do not save as much because most of it would be spent on basic necessities. Whereas higher income earners would tend to be able to save more creating less economic activity. Income inequality affects the level of economic activity

Question 23 (continued)

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

Economic growth leads to an increase in aggregate demand hence an increase in economic activity and decreasing interest rates and unemployment rate. Higher economic growth allows an economy to expand its production of goods and services.

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

Economic growth increases must consider ecologically sustainable development during the process of growth. Economic growth must not produce negative externalities or harm to resources ie: the depletion of resources, not preserving any resources for future generations. In expanding growth the effects must be considered in the long term rather than short term.

End of Question 23