

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

~~1/1-MPC~~ $\frac{1}{1-MPC}$ OR $\frac{1}{MPS}$

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

$MPS = \frac{40}{200} = \frac{2}{5} \rightarrow \frac{1}{\frac{2}{5}} = 2\frac{1}{2}$

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

The simple multiplier can affect economic activity as it shows how much a increase in income exceeds the aggregate demand that caused it. This can have a negative effect as income is exceeded out of proportion to aggregate demand which causes economic activity. This can lead to increased inflation and this slows down economic growth as it creates uncertainty.

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Question 23 (continued)

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

2

One benefit of economic growth is that it creates employment opportunities which can lead to increased GDP and eventually increased living standards. Also high consistent economic growth can change jobs to more highly skilled and paid jobs.

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

4

~~Economic~~ Economic growth can undermine ecologically sustainable development which is a concept of maintaining a quality of economic growth that doesn't undermine environment and deplete limited resources. However ~~even~~ to maintain ^{ecologically} sustainable development this may require many reductions of economic growth in the short term due to implementing more environmental practices to economic growth. However economic growth can undermine this concept as many firms are not willing to reduce their economic growth and revenue in the short term although it may benefit them in the long term, and will ignore this concept and maintain economic growth and undermine the environment and deplete limited resources.

End of Question 23