

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

$$MPC = \frac{\Delta C}{\Delta Y}$$

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

$$k = \frac{1}{1 - MPC}$$

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

$$MPC = \frac{\Delta C}{\Delta Y} = \frac{60}{100} = 0.6 \quad \therefore k = \frac{1}{1 - MPC} \quad \therefore k = \frac{1}{1 - 0.6} \quad \therefore k = 2.5$$

- (c) Outline how the simple multiplier can affect economic activity. 2
- The simple multiplier shows the increase proportion of consumption as money circulates around the economy. A small increase in expenditure leads to greater economic activity as ~~and~~ it provides income by another, which is again spent and re-spent. This continuation of the process is what increases aggregate demand for goods and services in the economy, consequently causing greater economic activity.
- increases = ramifications throughout*  
*proportion of spending*  
*more spending*  
*hence ↑*  
*AD*  
*↑*  
*eco. act.*

Question 23 continues on page 14

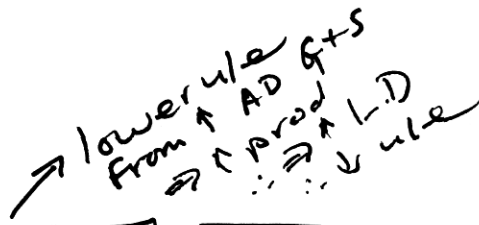
(d) Explain ONE benefit of economic growth to an economy.

2

One benefit is lower ~~un~~ unemployment rates. This arises ~~from~~ as a result of an increase in economic growth which leads to <sup>sees</sup> an increase in aggregate demand for goods and services. Consequently, this leads to an increase in production of such, thus an increase in demand for labour, and hence a decrease in the unemployment rate.

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

Ecologically sustainable development is the sympathetic use of non-renewable resources. Thus satisfying the demands of today, whilst keeping in mind not to detriment economic growth in the future through such exploitation. Consequently, however, economic growth, especially in developing nations, is reliant on the trade, hence depletion of non-renewable resources, like coal, thus economic growth can detriment ecologically sustainable development. Conversely, economic growth, especially with globalisation, has seen an increased awareness of this need, and is seen through the development of the Kyoto Protocol. Thus economic growth may also have a positive impact on ecologically sustainable development, as well as, a negative one.



cause + effect

economic growth  
e.s.d.

which is a benefit.

End of Question 23