

Question 22 (10 marks)

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Band 2/3  
Sample 1 Question 22

- (a) A hypothetical economy has a simple multiplier of 2.5.

Calculate the change in national income that would result from an increase in investment of \$100 million. 1

$$\frac{2.5}{1-0.2} \times \frac{100}{1} = 300$$

- (b) Outline how economic growth in a major trading partner might influence economic growth in Australia. 2

Having to partner up with a ~~trading~~ reliable country may benefit Australia as they would have access to the country's comparative advantage that Aus may not have such as the resource of ~~what Aus may not produce~~ that from Japan that Aus can't produce.

- (c) How will an increase in Australia's marginal propensity to save (MPS) affect Australia's economic growth? 3

As Aus marginal propensity to save increases, it would lower the cycle of economic growth as government does not spend on basic resource or other basic needs from and may decrease the living standard. This may help Aus deal with financial debts as money is ~~ready~~ has need to demand ~~debt~~ ~~to~~ such as foreign debt or financial debt.

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- (d) Explain the effects of a reduced rate of economic growth on the Australian Government budget.

As Government budget tend to show within the next year, through budget surplus, ~~the~~ economic growth tend to decrease as money is not spent on infrastructure such as education, day care or hospital. As Australia \$A ~~depreciates~~ depreciates, Investments may be ~~for~~ decrease, foreign debt may not be paid off causing Australia turn into a global financial crisis and decrease in purchasing power.

End of Question 22