

## Significant and Sustainable Economic Growth

**Significant growth is large growth** that would in this case help to close the income gap between NZ and Australia.

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**Sustainable economic growth is** when growth is being achieved, but is also not destroying a resource while doing it, so not only can the present generation enjoy the effects also future generations can use both the resources and benefit from the effects of the plan.

### Policy 1

The first policy is to lower income tax, **by...**

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This will produce economic growth because this will increase the amount of disposable income for the average household leading to an increase in consumption, **and...**

This increase in aggregate demand will result in a higher level of scarcity for commodities, **so the price level will increase and therefore output will increase from Y to Y1.**

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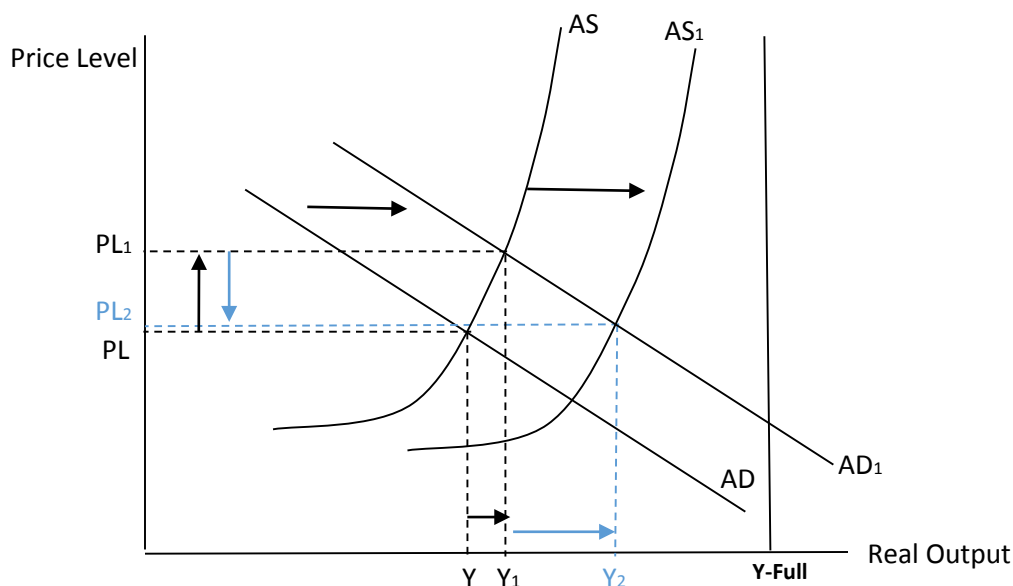
A higher level of output is needed to satisfy the increase in aggregate demand and **so AD moves right to AD1 and price level and output increases as you can see on the graph below.**

This policy will affect **inflation** by increasing it, because the increase in AD causes the price level to rise, **e.g....** because households are able and willing to buy more.

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As for **unemployment**, it will decrease because firms need more resources in order to produce a higher level of output. **More resources are employed and the equilibrium moves closer to Y full as shown on the graph.**

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### Policy 2

The second policy is creating incentives for more research and development (R&D); this will be achieved by the government paying for all a firm's research costs as long as the research and development will **increase aggregate supply, by...**

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This means that firms will want to invest in more R & D and that **will increase AS to AS1 as shown on the graph above.**

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Because R&D encourages more efficient and productive use of resources, **therefore...**

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Its effect on **inflation** is that it will decrease because there is more competition in the market so they will have to lower their prices and that decreases inflation, therefore the combined policies will help price level remain relatively constant because...

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The impact on **employment** is that it will decrease because with new technology they may be able to replace some of their workers with machinery or only employ skilled operators and technicians for maintenance. Therefore, real output increases due to improved efficiency and productivity, and there may not be much of an increase in demand for labour.

### Policy 3

The third policy is to increase welfare-spending, e.g....

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This will produce economic growth because the lower income earners will have more income, this means that they can spend more on goods and services and therefore increase AD to AD1, which leads to an increase in output from Y to Y1, which leads to an increase in economic growth.

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The effect on **inflation** is that it will increase because with increased AD comes an increase in price level... The effect of this policy on **employment** means it will increase because firms need more resources in order to produce a higher level of output, because...

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### Summary

So all of these policies as a whole will increase economic growth significantly because all the policies produce economic growth and some have other positive effects such as increasing employment.

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So overall, I think these policies will increase economic growth as well as being sustainable, because...

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