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Answers

Exam-style questions

Questions on economic data for selected countries

David Horner

This resource provides answers to the questions posed in the Exam-Style Questions column, in the September 2023 issue of ECONOMIC REVIEW.

Question 1

Using only data from Table 1, calculate an estimate for the value of China's gross national income (GNI) to the nearest \$ billion. (2 marks)

Answer

$\$11,890 \times 1.412 \text{ billion} = \$16,789 \text{ billion}$

Question 2

Using evidence from Table 1, to what extent do the data show that increased GNI per capita leads to increases in economic development? (4 marks)

Answer

There appears to be a clear link between the GNI per capita figure and the HDI score:

- Switzerland has highest GNI per capita out of the selected countries at \$90,360, and highest HDI score of 0.997.
- Eritrea has lowest GNI per capita at \$600, and lowest HDI score of 0.492.

There is only a partial link between GNI per capita and expected years of schooling (Iraq being the example that does not 'fit', with second-lowest GNI per capita but second-highest expected years of schooling).

Question 3

With the help of a diagram, explain how increases in investment in education may contribute to increased economic development. (9 marks)

Answer

Diagrams: *AD/AS* model with either:

- increased *AD* (as a result of increased spending on education), or
- increased *LRAS* (as a result of increased productive potential due to increased productivity or reduced occupational immobility)

Increase investment in education may lead to:

- increased GNI/GDP, i.e. short-run growth
- increased potential GDP, i.e. long-run growth (increased human capital)
- more business start-ups
- more inward FDI
- multiplier effects on GNI/GDP

All these factors contribute to economic development.

Question 4

Evaluate the extent to which increases in national income always lead to economic development. (25 marks)

Answer

Increases in national income **leads to** economic development:

- increased income leads to growing business activity, expanding output and productive capacity
- increased national income leads to employment opportunities
- tax revenue should increase, allowing government to spend more on infrastructure and social facilities (schools, hospitals, etc).
- increased incomes will attract foreign businesses
- increased incomes will lead to development of financial systems to accommodate increased surpluses of income for individuals and enterprises

Increases in national income **do not lead to** economic development:

- development is multi-dimensional and requires other aspects to be in place
- corruption may prevent development taking place
- poor infrastructure may prevent development
- property rights will need to be established, especially if FDI is to be attracted

Issues for evaluation:

- economic growth will help achieve development, but must be sustained and be significant enough over a period of time
- it will depend on what the government does with the increased income flows
- aid and FDI may also be necessary to reach development
- what is causing the rise in income may also be an issue: depletion of natural resources (e.g. oil, metals) may mean that development is not achieved as the increased income remains in the hands of only a few and is not widespread and cannot be sustained