**Essay Question 2**

**Chinese consumption decreased from 51% of Gross Domestic Product in 1985 to 43% in 1995, 38% in 2005, and 34% in 2013. By comparison, consumption is around 61% in Japan and 69% in the United States. Regardless of its relative percentage of GDP, China’s consumption has been growing faster than any other economy’s in absolute terms.**

Discuss whether raising domestic consumption as percentage of GDP is the best approach to achieve sustained economic growth. [15]

Introduction

-Definition of sustained economic growth

-State that one of the ways to achieve sustained economic growth is implemented via the method to raise domestic consumption as a percentage of GDP

-meaning of raising domestic consumption as a percentage of GDP  
  
Main Body

1. Explain how an increase in consumption will lead to growth of actual economic growth but little impact on potential growth

* Increase in consumption – increase in AD – via multiplier process (must explain a brief description of the multiplier process)– raise real GDP
* Cannot raise production capacity as it does not induce the expansion of the availability of resources – therefore, does not lead to potential growth
* With limited resources in SR, the increase in consumption will only lead to inflationary condition without increase in real GDP or actual growth
* Draw diagram (increase in AD – increase in real GDP)

2, Why consumption may still lead to potential growth to achieve sustained economic growth

* May still induce increase in production capacity as the producers may have to plan for the supply of more resources if consumption is more permanent.
* Firms may innovate their production – raise efficiency to raise productivity – lower cost of production and cost of production may be lowered – cheaper to produce and AS shift to the right in SR and LR

3. Why other ways is better in achieving sustained economic growth?

3.1 Free trade

- Sustained economic growth can be attained through imports and export as the export demand is part of the AD components and the import demand can help the economy raise more resources for production.

3..1.1 Why this is better approach?

The global market has more consumers and a higher level of affluence and this will help to raise the value of export demand in both quantity and value – this will help to accelerate actual growth – as seen from how Singapore raises its GDP value over the years.

Import will also help to solve the limitations of lack of natural resources as seen in Singapore. Furthermore, the cost of resource is lower as the supply comes from more sources and this is beneficial for a price taker like Singapore.

3.2 Government expenditure

Another approach is conducted through government expenditure like fiscal stimulus on infrastructural development or manpower development which increases the aggregate demand in the SR and the expansion of availability of resources in the LR

3.2.1 how government expenditure attained sustained economic growth

The increase in government expenditure raises AD and this raises economic activities which is further explained by the multiplier process which raises actual economic growth, higher real GDP. For the LR, the implementation of infrastructural development and manpower development will raise the productivity to increase production capacity. It also raises the mobility of resources to expand the availability of resource and grow the production capacity and thus, attaining sustained economic growth.

3.2.2 why this is a better approach

Government stimulus can have impacts not just on AD components and it can help government to achieve other aims like employment.

The government has more control and information on the economic entities and activities – this will help improve the efficiency of utilization and focus on the aims of government.

It has a greater interest in achieving sustained economic growth as it is the primary aims of good governance.

However, it is constrained by the availability of funding and dependency of an efficient administrative and political governance.

Conclusion – stand, opinions, suggestions