**Essay T3 2013 – NID – Q1**

**Explain how an increase in government expenditure will affect the economy?**

Introduction

* Define government expenditure
* State that an increase in government expenditure will affect the economy via the AD-AS analysis

Main Body

**1. Explain how an increase in government expenditure will increase AD and achieve actual growth**

* Increase G 🡪 raise efficiency of industries 🡪 indirectly boost consumption 🡪 increase disposable income 🡪 higher level of purchasing power
* Increase G 🡪 increase AD 🡪 increase NY via k 🡪 raise actual growth

**2. Explain how an increase in government expenditure will increase AS and achieve potential growth**

* Increase G 🡪 infrastructural development and R&D 🡪 expansion of resources 🡪 due to high degree of mobility of resources
* Firms can attain higher efficiency of production 🡪 raise output 🡪 achieve potential growth 🡪 seen by the rightward shift of the PPC

**3. Show how increase in AD and AS will achieve sustainable EG**

* Draw diagram
* Describe diagram

**4. Explain the benefits of increasing government expenditure on the economy**

(a) Improve standard of living

* Increase G 🡪 spillover effects 🡪 improve standard of living 🡪 higher degree of convenience and comfort due to improved infrastructure and public facilities

(b) Higher efficiency of production

* Raise productivity
	+ 🡪 infrastructural development 🡪 raise productivity of industries
	+ 🡪 manpower development 🡪 raise skill competency of workers

**5. Explain the detriments of increasing government expenditure on economy**

(a) Inflationary condition

* Excess increase in AD due to increase in G 🡪 under rising cost condition or full employment condition 🡪 inflationary condition 🡪 increase in general price level 🡪 undermine the aim of fiscal stimulus

**Conclusion**