# Question 18

**Corporate investment, which has been held back due to political uncertainty, is picking up again in Indonesia. Consumption is also likely to pick up further with falling unemployment as the economy continues to expand.**

1. **How far can the information lead you to conclude that the standard of living in Indonesian has risen? (13)**

Introduction (state the economic principles and the requirements of the question)

Standard of living is defined as the quality of life that the citizens of a nation may enjoy and it may be classified in terms of a quantitative or qualitative measurement. The quantitative measurement of standard of living is usually represented by the real per capita income, which reflects the material comfort of the citizens through their purchasing power. The above information may help to explain why standard of living has risen as it can show evidences that the purchasing power of the Indonesian people has risen. However, it may fail to do so when the qualitative measurement of SOL is used and other factors are considered.

Main Body

**Explain why the information may help to explain why SOL has increased**

* 1. Increase in corporate investment will lead to a rise in national income and subsequently, a rise in real per capita income. (Increase I – Increase AD – via K effect – increase NY – increase real per capita income - % of increase in GDP > % increase in price level and population growth)
  2. Consumption is increasing will show that the people are able to enjoy greater material comfort – implies that disposable income has increased – higher purchasing power
  3. Lower rate of unemployment will mean that the Indonesian has the disposable income to make purchase to sustain their livelihood. (low unemployment – demand for labour is higher than supply of labour (tight labour market – increase in wage rate – increase in purchasing power)

**Explain why the information may be insufficient (source : problems in time comparison)**

* 1. Increase in corporate investment may not lead to increase in national income if the economy fails to reap an efficient utilization of resource, national income may not increase to raise the per capita income, undermining the level of standard of living.
  2. Inflationary effect may erode the purchasing power of the consumer and lower down their SOL, especially for those essential goods. This will affect the standard of living of the lower income group more extensively. Real consumption may decrease – decrease in SOL
  3. Increase in employment does not mean an increase in wages of the workers. The wage is likely to be low as production capacity has just increased. Large abundant of previously unemployed will put downward pressure on wage level due to the presence of excess labour supply. This means the workers’ purchasing power is still low.

(problems of time comparison)

* 1. Need to consider how the increase in national income is distributed among the Indonesian people. If the distribution is skewed towards the rich rather than a more equal distribution of income, only a small percentage of the population of the population is enjoying a higher standard of living.

**Explain how the information fails to explain the qualitative aspects of SOL**

1) The information provided does not take into account the negative externalities that undermine the quality of life in areas such environmental problem & traffic congestion.

1. The composition of expenditure is not known and the information is important as it will help to explain whether the goods that are produced will benefit consumers or not. If most of the goods are capital goods, the Indonesian people will not benefit immediately. Or, if the productions of goods are for export, the consumers are not going to enjoy higher level of welfare.
2. The information does not provide an understanding of the qualitative aspects of life such the working hours and stress level of environment.

**Conclusion**

The above information is of little help to explain the level of standard of living of the Indonesian people as it only reflects a limited understanding of the purchasing power of the people, which is only helpful in understanding the quantitative aspects of standard of livings. Therefore, it is not reliable to conclude that the standard of living of the Indonesians is higher based on the above information.