

Economic Growth
Assessment Task

How savings contribute to economic prosperity and growth (Individual activity) (LO2 AS3)

Read the information below and answer the questions that follow.

South Africans are good spenders and bad savers. We have a reputation for going into debt and spending beyond our means. Spending on credit (debt) pushes up demand, which leads to price increases. This fuels inflation.

A high level of consumer debt can be disastrous. The recent credit crunch in many countries was caused by the fact that consumers could not repay their debt. Many households got into financial trouble. This led to a drastic fall in demand, which reduced economic growth.

When people save money, more money is available for banks to lend out. This money is used to expand businesses, by investing it in capital, labour or other factors of production. This increases production and therefore profitability in the business. The bigger the profitability of a business, the more income it generates, thus bringing about growth. In this way savings help grow the economy.

When people save towards their retirement it allows them financial freedom at a time of their lives when they no longer have the energy to work fulltime. Only about 5 million South Africans contribute to some form of retirement fund. The rest of the work force of the country will depend on Government grants when they retire, making them a burden to the economy.

Acquiring good savings habits will help us be better prepared for unforeseen circumstances, such as sudden illness or the loss of a job. When you do not have money saved up to cover unexpected expenses, you will have to go into debt to cover such expenses. The higher the debt burden in the country, the more the economy suffers.

- a) What is inflation? [1 mark]
- b) Explain why it can be disastrous for households to get into too much debt. [2 marks]
- c) How do savings help expand businesses in the economy? [2 marks]
- d) Why is it a problem that so few people contribute to retirement funds? [2 mark]
- e) List three ways in which savings contribute to economic prosperity and growth. [3 marks]

[Total: 10 marks]