

# Writing assignment 3

Literature, Russian Literature



Writing Assignment Lecturer: Economic growth entails an increase/expansion in capacity of a country to produce goods and services. It may be determined by making a comparison between the Gross National product for the current year with that of the previous year. On the other hand, Long run economic growth entails a period of growth where aggregate demand and supply tend to increase. The biggest factor that is responsible for long-run economic growth is technological innovation and creativity (Coombs & South Australian Centre for Economic Studies, 2001).

2). Market interest rates entail the cost incurred by the investor/borrower whereby, the borrower pays back the principle amount and additional cost for borrowing (interest rates). Therefore, an increase in market interest rates influences incentives to invest in numerous ways. For example, it makes the cost of borrowing to an investor to increase and hence, discouraging borrowing and investment. Further, increase in market interest rates causes the aggregate demand to shrink which further discourages spending and investments. In addition, higher interest rates may lead to higher monthly payments on mortgages. This reduces consumer's levels of disposable income making it difficult for consumers to have something to invest. Therefore, however, it can be observed that higher interest rates discourage investment as it increases the cost of accessing loans. This influences incentives to invest (DSouza, 2008).

3).

Loanable funds model

Interest Rates

Supply for loanable funds

## Equilibrium

Demand for loanable fund

Quantity

Source: Author

Based on the above model, it can be observed that large government budget deficits year after year will have an impact on the equilibrium interest rate.

This is because large government deficit causes the amount of loanable funds supplied to be below the equilibrium point. This means that the quantity of loanable funds demanded will be higher than quantity supplied. This in turn causes an automatic increase in interest rates (DSouza, 2008).

4). The reason why McKinsey Global Institute conclude that long-term fiscal sustainability is important for economic growth is because long-term fiscal sustainability helps to pull together required amount of financial resources that may be utilized for investments and establishing long term economic growth (DSouza, 2008).

## References

- Coombs, G., & South Australian Centre for Economic Studies. (2001). Essays on regional economic development. Rundle Mall, SA, Australia: South Australia Centre for Economic Studies in association with Wakefield Press.
- DSouza, E. (2008). Macroeconomics. Delhi: Pearson Education.