

# 2.5.4 The Impact of Economic Growth On Consumers

- Benefits:
  - Rising real incomes (this can be evaluated), leading to a greater access to goods and services leading to an increased standard of living
  - Rising incomes, leading to greater access to health leading to prolonged life expectancy
  - There is a degree to which increases in income effect subjective happiness
- Costs:
  - Economic growth can lead to potential increases in rate of inflation,

leading to potential reductions in real wages

- An increase in economic growth may be due to longer working hours, which can cause stress and negative health impacts
- Past a certain point rising incomes do not affect subjective happiness
- Economic growth could lead to health conditions such as obesity and diabetes

## On Firms

- Benefits:
  - Increased household incomes leads to greater demand for a firm's goods and services, leading to an increase in profits
  - Shareholders will receive larger dividends and share value
- Costs:

- Rapid growth can result in large increases in demand for labour and raw materials, causing large increases in wages/material prices causing an increase in costs of production
- Higher incomes can cause a reduction in demand for firms supplying inferior goods

## On The Government

- Benefits:
  - Increased tax revenues
  - These tax revenues could be used to fund merit goods or decrease income inequality
- Costs:
  - Economic growth could lead to increased pollution which the government may be required to intervene in

# On The Economy

- Costs:
  - On the Balance of Trade:
    - People may import more due to increased incomes
    - Firms may be less pressured to export since domestic sales may become more profitable
    - This can lead to a reduction in the balance of trade
    - This is not the case with export-led growth
  - On the distribution of income:
    - The rich may benefit the most from economic growth due to increased profits and dividends whereas wages may not increase
    - Workers may lobby for higher incomes and they may end up gaining some of the benefits of the growth (trickle down)

- On the environment:
  - Economic growth is associated with pollution, overcrowding, stress and social dislocation
  - Higher incomes may allow the government to more effectively target these issues

## **On Current and Future Living standards**

- Benefits:
  - Economic growth can lift people out of poverty
  - Developing countries may gain FDI and see improvements in infrastructure
- Costs:
  - In the short run, consumer goods may be foregone to produce capital goods, leading to a reduction in living

standards. In the long run living standards would still increase