Grade 9 EMS Worksheet

How savings contribute to economic prosperity and growth

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]

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Suggested Solutions

Question number	Possible marks	Solution
1	10	a) Inflation is a general and continual increase in prices measured over a specific period, usually a year. [1 mark] b) When households enter into too much debt they are spending money they don't have. They will have to pay the money back with interest, which reduces their cash flow even further. If they cannot meet their debt repayments they could lose the assets they acquired on credit, such as a car or home. [2 marks] c) The money that is saved with banks is lent out to businesses. Businesses use the money to develop or buy infrastructure, capital goods and supplies, or to hire more people, etc. All these things help businesses expand. [2 marks] d) When the people who do not contribute to retirement funds do retire, they will have to receive Government grants. The income of Government comes from the taxpayers. If too many people have to receive grants, taxes will have to be increased. Also, it would be a negative experience for these people to be dependent on Government aid rather than being financially independent. It would affect their standard of living, since Government grants are usually small. (any two facts) [2 marks] e) Savings help keep inflation down. Savings put more money into the economy, which brings about economic growth. Savings help people be less dependent on Government upon retirement, and allow them to still participate in the economy. Savings prevent people from entering into debt. Savings help people be prepared for unforeseen circumstances. (any three) [3 marks]