2.9 National Income Determination and the Multiplier: 10-minute Pack

Total Marks

AQA 7136 · Calculators not allowed · about 10 minutes

Name: _____ Date: ____ / ____ / _____

Answer all questions. Full sentences are required for questions worth 4 marks or more and for the 25-mark essay. No calculator is allowed. Show your working for every calculation.

1 State the condition for equilibrium in the circular flow of income in terms of injections and withdrawals, using symbols.

(Total for Question 1 is 1 mark)

2 Briefly explain how leakages (saving, tax, imports) limit the size of the multiplier effect.

(Total for Question 2 is 2 marks)

3 Calculate the value of the Keynesian expenditure multiplier given the marginal propensities MPC = 0.55, MPT = 0.20 and MPM = 0.10. Then calculate the total eventual change in national income if government spending increases by £5 billion. Show your working.

(Total for Question 3 is 4 marks)

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Mark scheme · 2.9 National Income Determination and the Multiplier: 10-minute Pack

Question 1

the equality written as I + G + X = S + T + M or injections = withdrawals	**B1**

Answer: Equilibrium condition: I + G + X = S + T + M (injections = withdrawals).

Question 2

states that leakages reduce the proportion of income that is respent domestically each round	**B1**
explains that because each round of respending is smaller due to leakages, cumulative additional income is limited and multiplier size falls	**B1**

Answer: Leakages remove part of each income round from domestic respending, making each subsequent round smaller so the cumulative multiplier effect is limited.

Question 3

calculate marginal propensity to withdraw, MPW = MPS + MPT + MPM = 0.15 + 0.20 + 0.10	**M1**
MPW = 0.45	**A1**
multiplier = 1 / MPW = 1 / 0.45	**M1**
multiplier = 2.222..., total change in national income = 2.222... x £5 billion = £11.11 billion, awrt £11.1 billion	**A1**

Answer: MPW = 0.45; multiplier = 1 / 0.45 = 2.22 (awrt). Total change = 2.22 x £5bn = £11.11bn, awrt £11.1bn.

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