



8: National income

- 1 (a) The MPC refers to the proportion of an increase in income that is spent. [2]
- (b) **Correct answer: B** An increase in welfare payments to the poorest households. [1]

$$(c) K = \frac{1}{1-MPC} = \frac{1}{0.55} = 1.82 \quad [2]$$

- 2 (a) The MPM refers to the proportion of an increase in income that is spent on imports. [2]

$$(b) 1.29 \quad [K = \frac{1}{MPW}]$$

$$\text{Therefore } 1.6 = \frac{1}{x}$$

So $x = 0.625$. Given that MPM has increased by 0.15 then MPW is now 0.775 and so the multiplier is 1.29.] [2]

- (c) **Correct answer: B** A decrease in unemployment in China [1]

- 3 **KAA:** 16 marks; **EV:** 9 marks

Analysis: A decrease in consumer confidence is likely to cause a fall in consumer spending; since consumption is a component of AD, then the AD curve will shift to the left causing a decrease in real output and a decrease in the price level.

Lower consumption is likely to cause firms to postpone or reduce investment. This will cause a fall in AD via the multiplier effect (and to a further fall in real output and in the price level). In the long-run it could also result in a fall in LRAS.

Evaluation:



The impact on AD may be offset by increases in government expenditure and/or an improvement the net trade balance; the effect on real output also depends on the elasticity of the AS curve e.g. if AS is perfectly inelastic there will be no effect on real output but the price level will fall; the impact on real output and price level also depends on the amount by which AD falls. [25]