## Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

**2.1**

- the ratio of the final change in national income to the initial change in injections that caused it (2 for a clear definition; 1 for a partial idea)

**2.2**

- $\frac{1}{1-0.75} = \frac{1}{0.25} = 4$ (2; award 1 for a correct method with the wrong figure)

**2.3**

- any two of: interest rates; expected profit; technology; business confidence (1 + 1)

**3.1 A**

- A higher MPC means smaller leakages, so the multiplier rises

**3.2**

(a)

- multiplier $= \frac{1}{1-0.6} = 2.5$ (2)

(b)

- total rise $= 2.5 \times \$20\text{m} = \$50\text{m}$ (2; allow follow-through from

(a)

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**3.3**

- *[8]* AO1/AO2/AO3 up to 5 + AO4 up to 3. **Useful:** the multiplier shows that an injection raises income by more than itself, helping the government estimate the full effect of its spending on output and jobs. **Limits:** the real MPC is hard to measure and varies, leakages (saving, tax, imports) shrink the effect, and crowding out or full capacity can offset it. Judgement: the multiplier is a useful planning guide but only an estimate — its reliability depends on the size of leakages and spare capacity