

9.1 The circular flow of income

Name: _____ Class: _____ Date: _____ Total: 19 marks

KEY WORDS multiplier 乘数 • marginal propensity to save 边际储蓄倾向 • investment 投资
• accelerator 加速数 • leakages 漏出

Objective

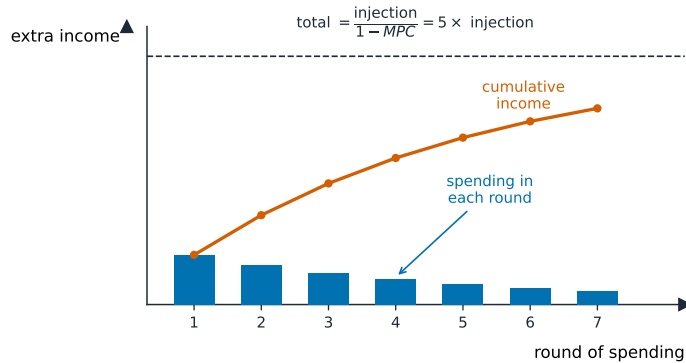
Build the skills to answer exam questions on **the circular flow of income** 收入循环流 at A Level — the **multiplier** 乘数, the **accelerator** 加速数, and what drives **consumption, saving and investment** 消费、储蓄与投资.

You must be able to:

- calculate the multiplier from the MPC
- explain the accelerator
- analyse the determinants of consumption, saving and investment

1 Worked examples

■ The multiplier

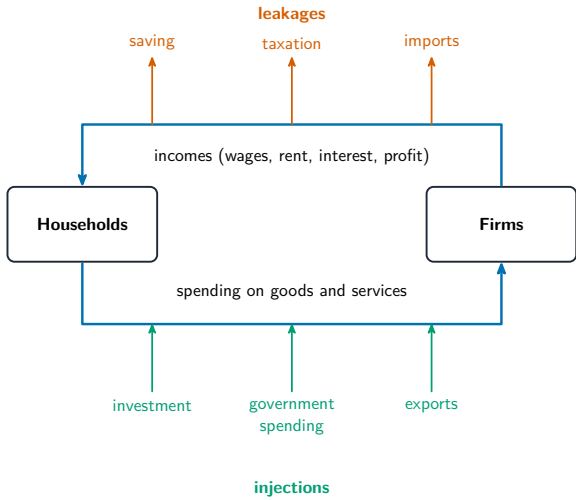


$$k = \frac{1}{1 - MPC} \cdot \text{successive spending rounds}$$

Each round of spending is smaller by the MPC

$$\text{multiplier} = \frac{1}{1 - MPC}$$

- **Worked:** if $MPC = 0.8$, multiplier = $\frac{1}{1 - 0.8} = 5 \rightarrow$ a \$10m injection raises income by \$50m.
- A **bigger MPC** (smaller leakages) gives a bigger multiplier.



The multiplier works inside the circular flow: an injection circulates as repeated spending

- **Accelerator** 加速数: investment depends on the **rate of change** of output.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 Define the term *multiplier*. [2]

2.2 The marginal propensity to consume is 0.75. Calculate the multiplier. [2]

2.3 State two factors that influence the level of investment. [2]

3 Exam-style questions

3.1 The value of the multiplier rises when: [1]

- A

B

C

D

A the marginal propensity to consume rises

B the marginal propensity to save rises

C the marginal propensity to import rises

D the tax rate rises

3.2 The MPC is 0.6 and the government raises spending by \$20m.

(a) Calculate the multiplier. [2]

(b) Calculate the total rise in national income. [2]

3.3 Discuss the usefulness of the multiplier concept for a government planning to increase its spending. [8]
