3 Aggregate demand and the multiplier – Part 1 —Answers

Answers

Work through these after you have tried the questions yourself.

2.1 consumption, investment, government spending, and net exports.
2.2 an initial change in spending leads to further rounds of spending, so total output changes by more than the initial amount.
2.3 $\frac{1}{1-0.75} = \frac{1}{0.25} = 4.$
2.4 $4 \times \$20\text{b} = \$80\text{b}.$
2.5 any of: higher consumer confidence, more government spending, lower taxes, higher foreign incomes.