Output measures, spending and the multiplier

Pearson Edexcel · International A-Level · Economics

Supported transfer: Output measures, spending and the multiplier

Scope and prerequisite teaching

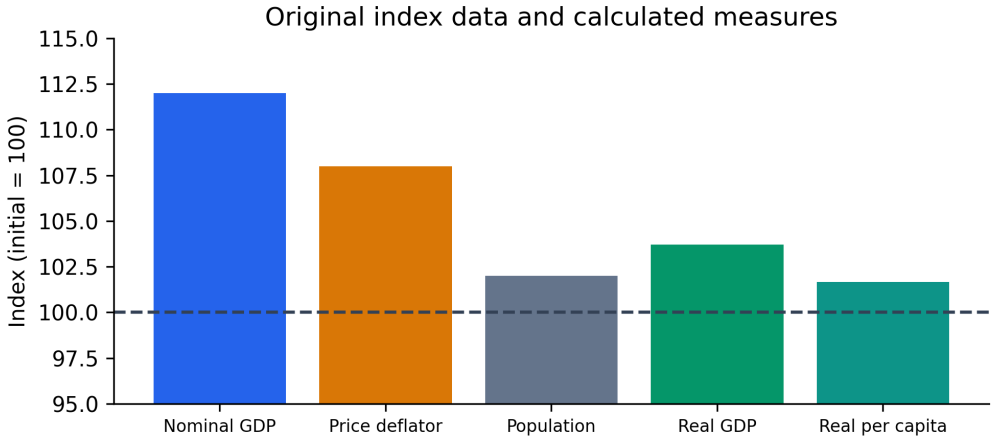
Issue 2, June 2018. All four units have a complete lettered objective map; IAS and IA2 target teaching authored; qualification rubric certified from recent WEC11–WEC14 schemes.

This focused rehearsal adopts the linked native explanations; it does not replace them or certify a whole qualification. Supported objective IDs: 2.3.1.1a, 2.3.1.1b, 2.3.1.1c, 2.3.1.1d, 2.3.1.1e, 2.3.1.1f, 2.3.1.1g, 2.3.1.1h, 2.3.1.1i, 2.3.1.2a, 2.3.1.2b, 2.3.1.2c, 2.3.1.2d, 2.3.1.2e, 2.3.1.2f, 2.3.1.2g, 2.3.1.3a, 2.3.1.3b, 2.3.1.3c, 2.3.1.3d, 2.3.1.3e, 2.3.1.3f, 2.3.1.4a, 2.3.1.4b, 2.3.1.4c, 2.3.2.1a, 2.3.2.1b, 2.3.2.1c, 2.3.2.2a, 2.3.2.2b, 2.3.2.2c, 2.3.2.2d, 2.3.2.3a, 2.3.2.3b, 2.3.2.3c, 2.3.2.4a, 2.3.2.5a, 2.3.3.1a, 2.3.3.1b, 2.3.3.1c, 2.3.3.2a, 2.3.3.3a, 2.3.3.3b, 2.3.4.1a, 2.3.4.1b, 2.3.4.2a, 2.3.4.2b, 2.3.4.2c, 2.3.4.2d, 2.3.4.3a, 2.3.4.3b, 2.3.4.4a, 2.3.4.4b, 2.3.4.4c, 2.3.4.4d, 2.3.5.1a, 2.3.5.1b, 2.3.5.1c, 2.3.5.1d, 2.3.5.1e, 2.3.5.2a, 2.3.5.3a, 2.3.5.4a, 2.3.5.4b, 2.3.5.4c, 2.3.5.4d.

Native prerequisites: 0302, 0303, 0304, 0305, 0306, 0307, 0308, 0309, 0310, 0311, 0312, 0313, 0314, 0315, 0316, 0317, 0318, 0319, 0320, 0321, 0322.

Key terms

nominal GDP ; **real GDP** ; **per capita** ; **aggregate demand** .



Output measures, spending and the multiplier

Nominal GDP includes price changes; real GDP adjusts them; per-capita GDP also accounts for population. GDP and GNI differ in their income boundary. Comparisons need consistent dates, definitions and purchasing-power treatment where applicable. AD includes C+I+G+(X−M); real output response depends on aggregate supply and spare capacity.

Worked case

An original economy's nominal GDP index rises from 100 to 112, its deflator from 100 to 108 and its population index from 100 to 102. Calculate real and real-per-capita changes.

Real GDP growth factor=nominal factor/price factor=1.12/1.08=1.037037. Real growth=(1.037037−1)×100%=3.70%. Real-per-capita factor=real factor/population factor=1.037037/1.02=1.016703. Per-capita real growth=(1.016703−1)×100%=1.67%. Dividing indices avoids treating an approximation as exact. Neither figure gives income distribution, unpaid output or environmental quality. For IAL's simple closed multiplier model, k=1/(1−MPC); with MPC=.75, k=4 and a 10-million-unit injection gives modelled ΔY=4×10=40 million units. This requires the stated model, not a guarantee.

Independent transfer

An economy has spare capacity, but extra spending leaks into imports and saving. Explain the likely adjustment and why the simple multiplier can overpredict domestic output.

Checked original model

An AD increase can raise domestic real output when supply can respond. Saving and imports reduce successive domestic spending rounds; tax leakages may also matter. Draw an appropriate AD/AS shift and label output and price level, qualifying the size of each response by spare capacity and bottlenecks. The simple closed model omits imports and taxes, so its k is not an unconditional domestic forecast. IGCSE work does not add the IAL multiplier as a mandatory extension.

Evidence and assessment limits

The tasks and marking points here are original, not official questions or mark schemes. The essay rubric follows the actual WEC11–WEC14 schemes (20-mark essays: 12 KAA + 8 evaluation, with Level-3 caps for missing diagram or context).