

2.4 National Income

National Income

- i. What is the circular flow of income?
- ii. Draw the circular flow
- iii. What is the difference between income and wealth?
- iv. What is the opportunity cost of accumulating wealth?
- v. Under what circumstances would increases in income result in an increase in wealth?
- vi. Under what circumstances would increases in wealth result in an increase in income?
- vii. What is the opportunity cost of increased future wealth?

Injections and withdrawals

- i. What is an injection?
- ii. Give 3 injections
- iii. What is a withdrawal?
- iv. Give 3 withdrawals
- v. What happens when injections are bigger than withdrawals (i.e we have net injections)?
- vi. What happens when withdrawals are bigger than injections (i.e we have net withdrawals)?
- vii. What happens when withdrawals = injections?

Equilibrium levels of real national output

- i. What condition must be achieved for real national output to be in equilibrium?
- ii. What are the axes on a AS-AD graph?

The multiplier

- i. The multiplier is a ratio but what is a ratio between?
- ii. Explain the process through which the final change in AD is greater than the initial injection/withdrawal
- iii. Imports are increased by £1m. Would AD end up higher if the multiplier is high or low? (*this may or may not be a trick question*)
- iv. What is the MPS?
- v. What is the MPC?
- vi. What is the MPM?
- vii. What is the MPT?
- viii. What is MPW?
- ix. Give the two formulae for the multiplier