

National Income — Worksheet

The circular flow · income and wealth · injections and withdrawals · equilibrium real national output · the multiplier

Name: _____

Class: _____

Date: _____

DEFINE an injection and the multiplier · **CALCULATE** the multiplier and the final change in national income · **DRAW** shifts in AD and AS on an AD/AS diagram · **ANALYSE** how saving and imports affect national income and the multiplier · **DISCUSS** the effects of new government spending on national income · **EVALUATE** the effects of a rise in investment on economic activity

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions on national income

6 marks

Choose one answer for each question.

1. In the circular flow of income, the money flow runs:

- A in the opposite direction to the real flow
- B in the same direction as the real flow of goods and factors
- C only from firms to households
- D only when the government is included

Answer:

2. Which statement about income and wealth is correct?

- A Both income and wealth are flows
- B Income is a stock and wealth is a flow
- C Income is a flow and wealth is a stock
- D Both income and wealth are stocks

Answer:

3. A firm buys shares in another company. In the circular flow this is:

- A investment, because the firm spent money on an asset it will own
- B not investment, because no new capital goods were produced
- C investment, because the shares may rise in value
- D a withdrawal, because the money left the firm

Answer:

4. A government pays a pension each month to retired people. In the circular flow, this payment is:

- A not part of government expenditure, because it buys no output
- B part of government expenditure, because the government paid it
- C a withdrawal, because the government spent the money
- D an injection twice as large as the pension, because the pension is spent again

Answer:

5. Equilibrium real national output is the level of output at which:
- A the economy produces as much as it can with its resources
 - B injections equal withdrawals, so there is no tendency for output to change
 - C every person who wants a job has one
 - D the government's budget is balanced

Answer:

6. A government raises the rate of income tax to pay for extra spending. The effect on the multiplier is that it:
- A falls, because the marginal propensity to tax has risen
 - B rises, because government expenditure has risen
 - C is unchanged, because the two effects cancel
 - D falls to below one

Answer:

DEFINE Task 2 — The meaning of an injection

2 marks

Define the term 'injection'.

injection

EXPLAIN Task 3 — More saving and more investment in Pira

4 marks

In Pira, total injections and total withdrawals are both \$210bn a year. This year, households save \$12bn more, and firms spend \$12bn more on new machines. Nothing else changes.

Explain the likely effect of these two changes on national income in Pira.

CLASSIFY Task 4 — Eight payments in Coria

8 marks

Coria is a country that trades with other countries. Each row is a separate payment.

Classify each payment in Coria as an injection, a withdrawal or neither.

Key: Injection · Withdrawal · Neither

#	Payment in Coria	Injection, withdrawal or neither
1	A car maker in Coria pays a construction firm in Coria for a new factory	
2	Coria's government pays a firm in Coria to build a new bridge	
3	A family from another country pays a hotel in Coria for a week of rooms	

#	Payment in Coria	Injection, withdrawal or neither
4	A teacher in Coria keeps part of her pay in a bank account	
5	A shop in Coria pays tax on its profit to the government	
6	A family in Coria buys a car made in another country	
7	A family in Coria pays a dentist in Coria for a check-up	
8	A firm in Coria pays wages to its workers in Coria	

CALCULATE
Task 5 — A fall in exports in Kavo
4 marks

In Kavo, the marginal propensity to consume (MPC) is 0.6. Buyers in other countries have lower incomes, and Kavo's exports fall by \$22bn. Nothing else changes. The price level does not change.

Using the multiplier formula $1/(1 - MPC)$, calculate the final fall in Kavo's national income after all the rounds of spending.

Kavo's multiplier

Workings

Answer:

Final fall in national income (\$bn)

Workings

Answer:

Work out the multiplier first.

ANALYSE
Task 6 — More saving in Brava
6 marks

In Brava, total injections and total withdrawals are both \$250bn a year. Households in Brava fear that they may lose their jobs. This year, they save \$26bn more of their income. Investment, government expenditure and exports do not change.

Analyse the likely effect of the rise in saving on national income in Brava.

Knowledge — define two economic terms that you use (2)

Application — use the figures for Brava (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section

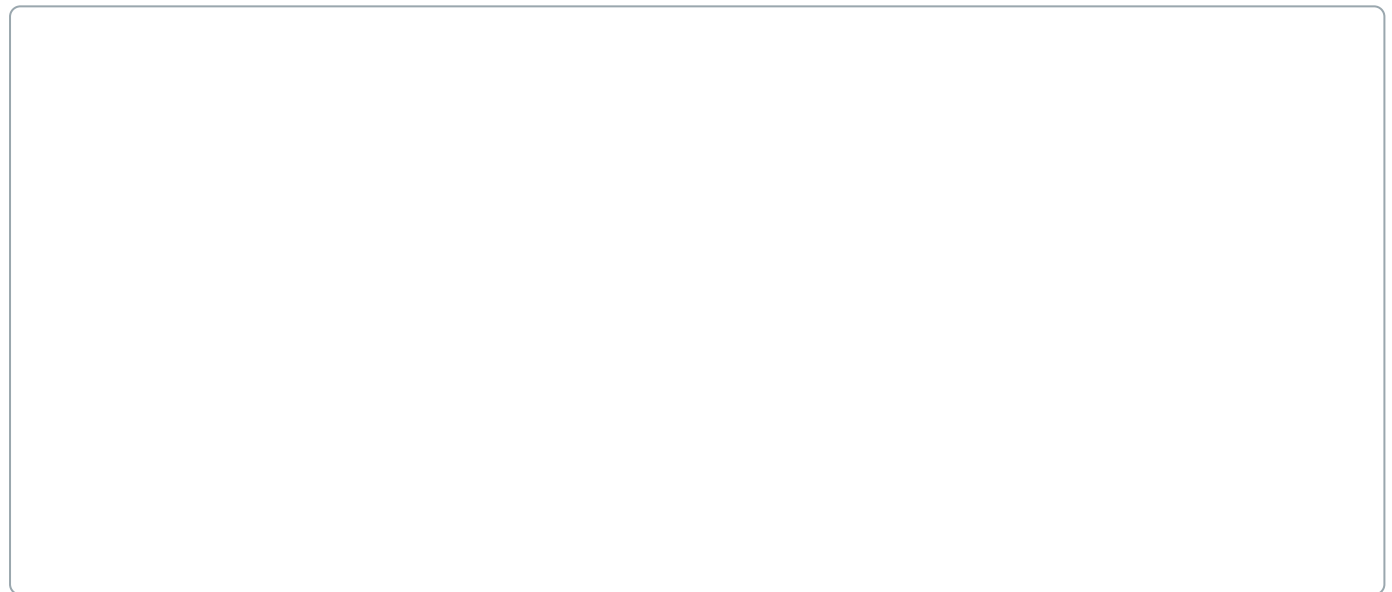
74 marks

DRAW Task 7 — New hospitals in Lomir

4 marks

Lomir's government spends \$15bn more on new hospitals. Lomir's multiplier is 3. Lomir has some spare capacity, so its AS curve has an upward slope. Nothing else changes.

Draw an AD/AS diagram that shows the likely effect of this spending on Lomir's price level and real national output.



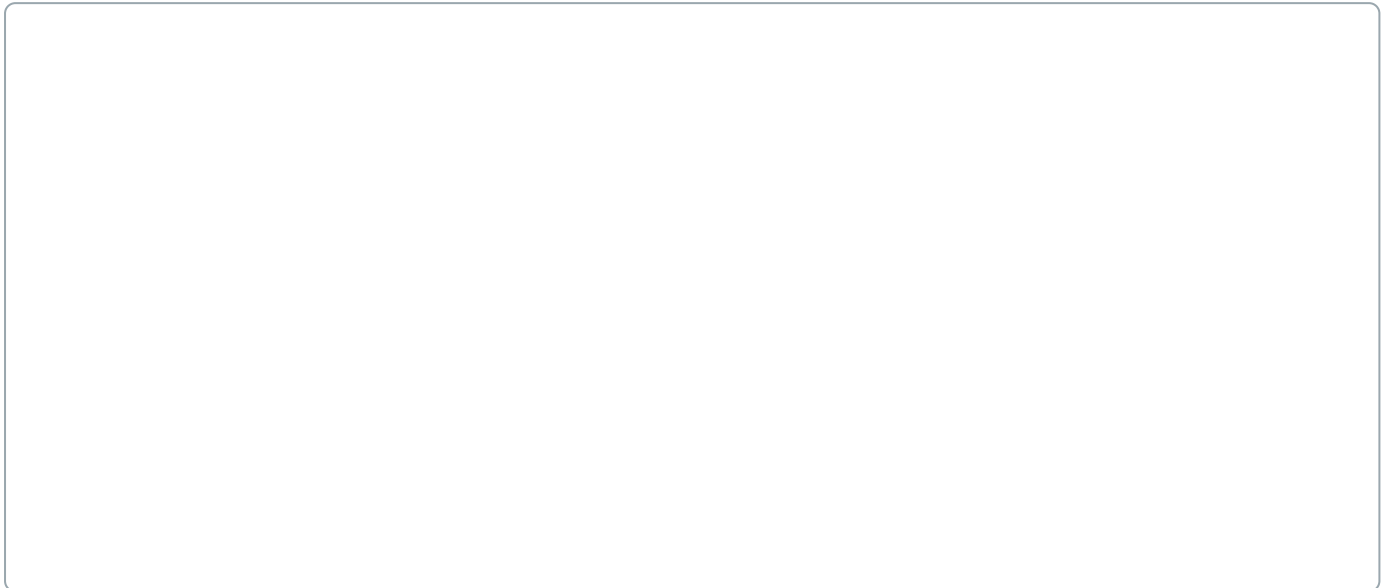
Label how far the AD curve shifts.

DRAW Task 8 — Cheaper energy in Osla

4 marks

Most firms in Osla use energy that is imported. The world price of this energy falls, so firms' costs of production fall. Aggregate demand does not change.

Draw an AD/AS diagram that shows the likely effect of the fall in energy prices on Osla's price level and real national output.

**CALCULATE Task 9 — A cut in road spending in Ostra**

4 marks

In Ostra, the marginal propensity to save (MPS) is 0.1, the marginal propensity to tax (MPT) is 0.15, and the marginal propensity to import (MPM) is 0.15. Ostra's government spends \$14bn less on new roads. Nothing else changes. The price level does not change.

Using the formula $1/MPW$, calculate the final fall in Ostra's national income after all the rounds of spending.

Ostra's multiplier

Workings

Answer:**Final fall in national income (\$bn)**

Workings

Answer:

EXPLAIN Task 10 — Pay, saving and wealth in Tesh

4 marks

Omar works for a bus company in Tesh. His pay is \$3,000 a month, and each month he keeps \$500 of it in a savings account. On 1 January, his savings were worth \$9,000.

Explain how Omar's saving links his income and his wealth.

EXPLAIN Task 11 — National income in Darra

4 marks

In Darra, national income is \$900bn a year. Total injections are \$140bn. Withdrawals are 20 cents of each dollar of income, so they are \$180bn. Nothing else changes.

Explain why national income in Darra is likely to fall.

Source: The economy of Tamsa

- 1 Tamsa is a small island economy. Many of its jobs are in hotels that sell stays to visitors from other countries. In 2025, incomes fell in the countries that most of these visitors come from. The number of visitors fell, and Tamsa's exports fell from \$72bn to \$48bn (Figure 1).
- 2 Tamsa imports most of the goods that its people buy, such as food, fuel and phones. In 2025, many hotel rooms were empty, and unemployment rose from 5% to 9%. The marginal propensities in Figure 1 did not change.
- 3 The government plans to spend \$10bn on a larger airport, so that more visitors can come. Building the airport will take three years. Building firms say that they will import most of the machines and materials. The government will pay for the airport by raising income tax. After the rise, it will take 25 cents in tax from each extra dollar earned, not 15 cents. The tourism minister says: 'Because of the multiplier, the airport will raise national income by much more than \$10bn.'

Figure 1: Economic data for Tamsa, 2024 and 2025

Measure	2024	2025
Visitors from other countries (millions)	2.4	1.6
Exports (\$bn)	72	48
Unemployment (share of the labour force)	5%	9%

Measure	2024	2025
Marginal propensity to save (MPS)	0.05	0.05
Marginal propensity to tax (MPT)	0.15	0.15
Marginal propensity to import (MPM)	0.6	0.6

DEFINE Task 12 — The meaning of the multiplier

2 marks

Define the term 'multiplier' (paragraph 3).

multiplier

EXPLAIN Task 13 — Lower exports and national income

4 marks

With reference to paragraph 1, explain why the fall in exports is likely to reduce Tamsa's national income.

ANALYSE Task 14 — Imports and the multiplier in Tamsa

6 marks

With reference to Figure 1, analyse how Tamsa's marginal propensity to import affects the size of its multiplier.

Knowledge — define two economic terms that you use (2)

Application — use figures from Figure 1 (2)

Analysis — your chain of reasoning (2)

EXAMINE Task 15 — The fall in exports**8 marks**

With reference to the source, examine the likely effect of the fall in exports on Tamsa's price level and real national output.

Knowledge — explain two economic ideas that you use (2)

Application — use two figures from the source (2)

Analysis — your chain of reasoning (2)

Evaluation — say what the answer depends on (2)

DISCUSS Task 16 — The airport plan**14 marks**

With reference to the source, discuss the likely effects of the airport plan on Tamsa's national income.

Knowledge — explain two economic ideas that you use (2)

Application — use two facts or figures from the source (2)

Analysis — two chains of reasoning (4)

Evaluation — weigh the effects and say what they depend on (6)

EVALUATE Task 17 — New investment in Rudania

20 marks

"Firms in Rudania plan to spend an extra \$36bn next year on new factories and machines." Rudania's multiplier is estimated at 1.5. Unemployment in Rudania is 3%, and many firms say that they cannot find workers. Most of the new machines will be imported.

Evaluate the likely effects of this rise in investment on economic activity in Rudania.

Knowledge — define two economic terms that you use, and explain one other idea (3)

Application — use the facts about Rudania (3)

Analysis — two chains of reasoning (6)

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Write the one sentence that answers Task 17's question.



Revision 9e2cbbdf