Question 22 (10 marks)

(a)   A hypothetical economy has a simple multiplier of 2.5.

Calculate the change in national income that would result from an increase in   **1**
investment of $100 million.

$$\Delta Y = 100 \times 2.5$$
$$\Delta Y = \$250 \text{ million}$$

(b)   Outline how economic growth in a major trading partner might influence   **2**
economic growth in Australia.

Economic growth would increase in Australia due to an increase in demand for Australian goods and services by the major trading partner. This leads to a rise in Australian real GDP, income levels of Australians, and quality of life for Australians.

(c)   How will an increase in Australia's marginal propensity to save (MPS) affect   **3**
Australia's economic growth?

An increase in MPS leads to a decline in the level of national income through a smaller multiplier. This will lead to lower economic growth as disposable income is reduced, ~~it inabiti natting~~ preventing consumers to spend on unnecessary items. This causes a decline on real GDP, and satisfaction levels of consumers as less goods and services are ~~et~~ available for consumption due to price limits.

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Question 22 (continued)

(d) Explain the effects of a reduced rate of economic growth on the Australian Government budget. **4**

A reduced rate of economic growth will lead to an ~~expensivey~~ expansionary stance along with either a larger budget deficit or smaller budget surplus. This means an increase in government spending though the governments ~~discreasi~~ discresionary policies in order to reduce a deficiency in aggregate demand. The automatic stablisers of fiscal policy will result in lower taxation and higher social welfare payments. An increase in government spending will aim to bolster spending in the economy in order to resolve the deficiency in aggregate demand.

End of Question 22

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