PENANG SANGAM HIGH SCHOOL
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LESSON NOTES

Subject: Economics **Year/Level:** 13

Week 17

Strand	3	Macroeconomics
Sub Strand	3.2	Income and Expenditure analysis
Content Learning Outcome	Analyse the income and Expenditure analysis	

Greetings to all…

In the last lesson we identified the types of Gaps- Created….. Now we will look at ways to eliminate the different types of Gap-created.

Lesson Notes (Copy notes in your note book)

Policies to eliminate Inflationary and Deflationary Gap.

Policies to eliminate Inflationary Gap	**Policies to eliminate Deflationary / Recessionary Gap**
1. **Fiscal Policy** ➢ Contractionary fiscal policy i.e. increase tax or reduce government spending to reduce AD. 2. **Monetary Policy** ➢ Tight monetary policy i.e. increase interest rate to reduce investment in order to decrease money supply and AD	1. **Fiscal Policy** ➢ Expansionary fiscal policy i.e. increase government spending or reduce taxation to increase AD. 2. **Monetary Policy** ➢ Loose monetary policy i.e. reduce interest rate to increase investment in order to increase money supply and AD.

Multiplier

Is the coefficient which relates to a given change in the expenditure to a final changein the level of income**.**

Multiplier effect

Is the notion that an autonomous change in the level of spending will give riseto an even large change in the equilibrium level of income.

Multiplier in Simple Economy

$$\text{Multiplier} = \frac{1}{1 - MPC}$$

For example:

C = 20 + 0.6Y and I = 50 (all values are in $m)

So Multiplier for a Simple economy is

$$\frac{1}{1 - MPC}$$

$$= \frac{1}{1 - 0.6}$$

$$= 2.5 \text{ times.}$$

Multiplier in Open Economy

$$\text{Multiplier} = \frac{1}{1 - MPC(1 - t) + m}$$

Where; t = Marginal propensity to tax (MPT)
m= Marginal propensity to import (MPM)

Example:

C = 10 + 0.2Y
I = $20m
T = 2 + 0.4Y
G = $60m
X = $40m
M = 5 + 0.1Y

$$\textbf{Multiplier} = \frac{1}{1 - 0.8(1 - 0.4) + 0.1}$$

$$= \textbf{1.61 times}$$