

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 13

Week 18

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 looked at the graphical illustrations of the Keynesian model , types of gap-created and ways to eliminate as well as the multiplier for an open and simple economy.

Lesson Notes (Copy in your note book)

Formula:

- 1. Change in GDP = Change in component (C,I,G,X,M) X Multiplier**
- 2. Change in Taxation = Gap created X 1/ MPC**

Now I will give you related activities based on this income & expenditure analysis that you need to attempt using the lessons we discussed.

Homework (Copy and solve in your activity book)

1. Use the information to answer the questions which follows. **Note: values are (000's)**

$$C = 200 + 0.9 Y$$

$$I = 200$$

$$G = 500$$

$$X = 400$$

$$M = 600$$

- (i) Calculate the GDP using the expenditure approach.

- (ii) What is the slope of consumption function?
- (iii) What special name is given to the slope of the consumption?
- (iv) Calculate the autonomous consumption and net exports.

2. Use the information given below and your knowledge to answer the questions that follows. Consider an economy with the following characteristics.
(All variables are measured in millions of dollars)

$$C = 40 + 0.75Y$$

$$I = 20$$

$$G = 25$$

$$X = 30$$

$$M = 10 + 0.1Y$$

- a. State if this economy is an Open economy or a Closed economy?
- b. Calculate the equilibrium level of Real GDP.
- c. Assume Marginal Tax Rate is $0.3Y$. How much tax revenue was collected by the government?
- d. What is the **slope** of the Consumption Function?
- e. What **special name** is given to the slope of the consumption function?
- f. Derive the **Savings Function**?
- g. Calculate the **Multiplier** of the above economy?
- h. Assume the economy has full employment level at \$500m. **Construct** the Income & Expenditure Model to identify the type of Gap-created?
- i. State **one policy** to eliminate the type of Gap-created in (h) above.

Use the lesson notes and examples to solve the activity..... remember you need to show all workings with the formula and the graph should be fully labeled.

We will discuss this in the next lesson.....Stay Safe