



Edexcel A - AS Level Economics

Theme 2 – The UK economy – performance and policies

2.4 National income
Revision Notes

Contents

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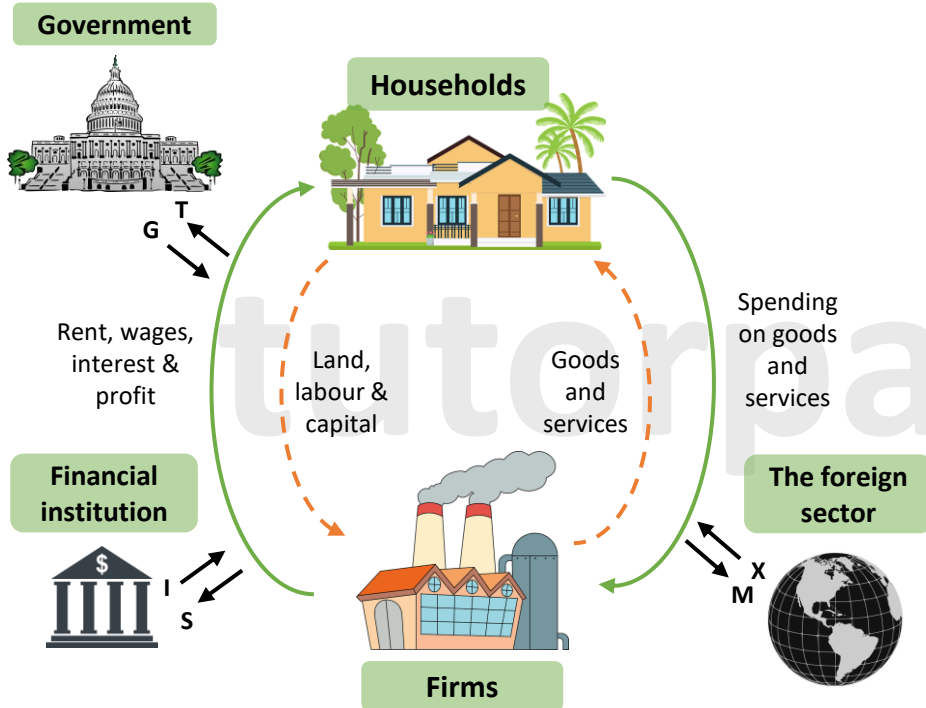
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2.4.1 National income

The circular flow of income

The **circular flow of income** is a model that shows how money moves around an economy, connecting households (people) and firms (businesses).



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2.4.1 National income

The circular flow of income

The Basic Model: A Two-Sector Economy

At its simplest, the economy has **two key players**: **households** (people) and **firms** (businesses that make goods and services).

- **Households** own all the resources, land, labour, and capital. They "lend" these to firms in exchange for income like **wages** (for work), **rent** (for land), **interest** (for savings), and **profits** (for business ownership).
- **Firms** use these resources to produce goods and services, which households then **buy using their income**.
- **Money flows one way** (households paying for goods/services), while **resources flow the other way** (households supplying labour, capital, etc.).
- The result? A cycle where **national output (goods/services produced) = national expenditure (money spent) = national income (money earned by households)**.

Expanding the Model: A More Realistic Economy

A two-sector economy is too simple, so we add other key players to reflect the real world.

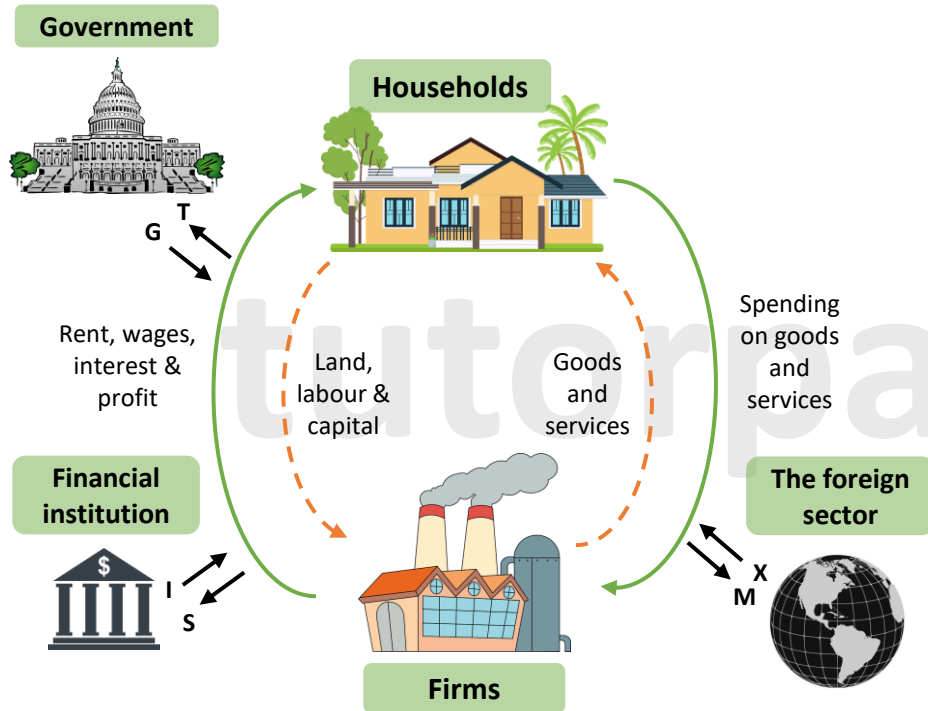
1 The Government 🏛️

- The government collects **taxes (T)** from households and businesses.
- It then **spends (G)** money on public services like education, healthcare, and infrastructure.
- If the government spends more than it collects, it increases the overall flow of money in the economy.

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2.4.1 National income

The circular flow of income



2.4.1 National income

The circular flow of income

2 Financial Institutions

- **Banks and financial markets** act as middlemen in the economy.
- They **inject money** by offering **investment (I)** to businesses for growth.
- They also **remove money** when people choose to **save (S)** rather than spend.

3 Foreign Trade

- The economy is **open**, meaning it interacts with the rest of the world.
- **Exports (X)** – When foreigners buy British goods, money **flows into** the economy.
- **Imports (M)** – When British people buy foreign goods, money **flows out** of the economy.
- The difference between exports and imports is called the **balance of trade**.

2.4.1 National income

Income vs Wealth

- **Wealth** is the total value of everything you own, your **assets**. Think houses, cars, savings, investments, and even that vintage comic book collection. Since wealth is something, you **accumulate over time**, it's considered a **stock** of resources.
- **Income**, on the other hand, is the money that flows into your pocket **regularly**. This includes wages from a job, interest from a savings account, or profits from a business. Because income is something you **earn over a period of time**, it's considered a **flow**.

💡 **Do wealth and income always go together?**

Not necessarily. Some people have **high wealth but low income** (e.g., retirees with lots of assets but little regular income). Others have **high income but low wealth** (e.g., young professionals earning a big salary but with little savings).

While wealth and income are often linked, they don't always move together. A country can have **wealthy individuals** with **low-income inequality**, or **high-income earners** who haven't built much wealth yet.



2.4.1 National income

Income vs Wealth

Continue to the next page...

2.4.2 Injections and withdrawals

Impact of injections and withdrawals

Think of the economy like a giant bathtub. Money flows in (injections), filling it up, and money flows out (withdrawals), draining it. The size of the economy (the water level) depends on how much is coming in versus going out.

Government



G
T

Rent, wages,
interest &
profit

Financial institution



I
S

Households



Land,
labour &
capital

Goods
and
services

Spending
on goods
and
services

The foreign sector



X
M

Firms



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2.4.2 Injections and withdrawals

Impact of injections and withdrawals

Injections (Money Inflows 💰)

These increase the flow of income and make the economy grow:

- **Government spending (G):** When the government spends on things like roads, hospitals, and schools, it pumps money into businesses and wages.
- **Investment (I):** Businesses spending on new machinery, factories, or technology adds money into the economy.
- **Exports (X):** When foreign buyers purchase UK goods and services, money flows into the economy.

Withdrawals or Leakages (Money Outflows 💸)

- These reduce the flow of income and slow down economic growth:
- **Savings (S):** If households and businesses save instead of spending, less money circulates in the economy.
- **Taxation (T):** When the government collects taxes, it removes money from consumers and businesses (unless it reinjects it through spending).
- **Imports (M):** When people and businesses buy goods from abroad, money leaves the UK economy.

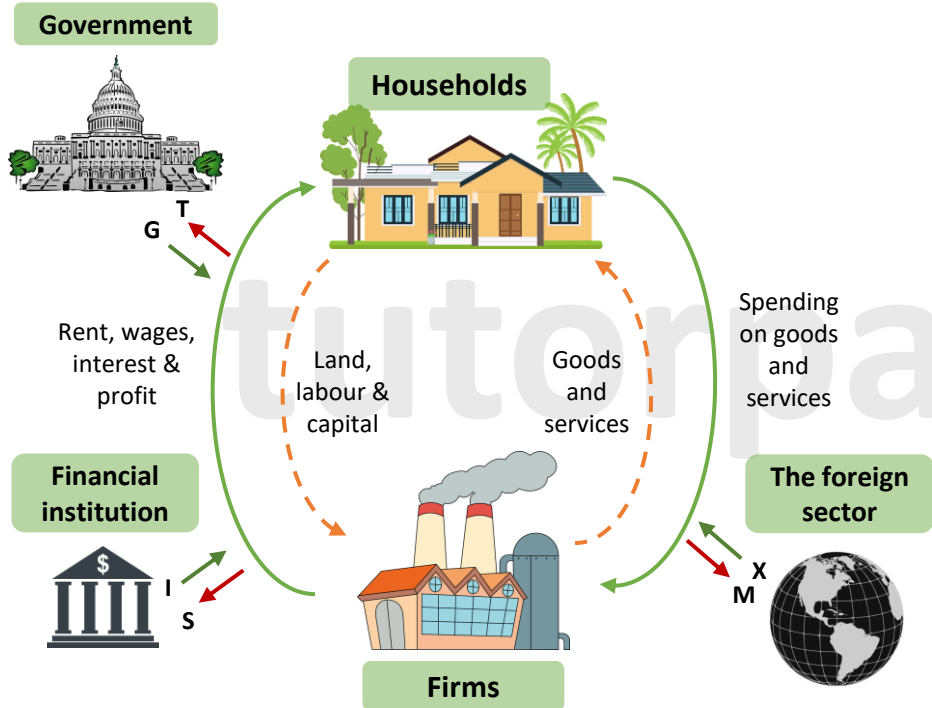
Why Does This Matter?

- If **injections > withdrawals**, the economy **grows** (GDP increases).
- If **withdrawals > injections**, the economy **shrinks** (GDP falls).

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2.4.2 Injections and withdrawals

Impact of injections and withdrawals



2.4.2 Injections and withdrawals

Impact of injections and withdrawals

The Multiplier Effect

This is like a ripple effect. If the government spends £1 billion on new roads, it pays construction workers, who then spend their wages on groceries, rent, and entertainment. This leads to economic growth that exceeds the initial amount of the injection.

Factors That Influence the Circular Flow of Income

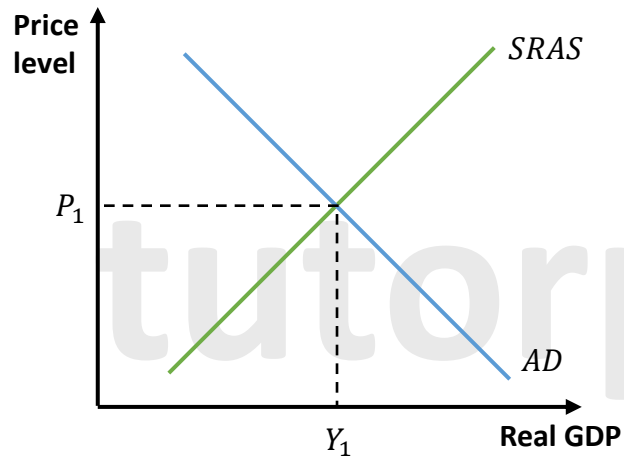
- **Interest rates:** High rates encourage saving (a withdrawal), while low rates encourage borrowing and spending (an injection).
- **Government policy:** Increased taxes reduce disposable income (withdrawal), while increased government spending boosts economic activity (injection).
- **Consumer confidence:** If people feel secure in their jobs, they spend more, keeping money flowing in the economy. If they're worried about a recession, they save instead, slowing things down.

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Short term equilibrium

Real national output equilibrium happens when **aggregate demand (AD)** (the total demand for goods and services) meets **aggregate supply (AS)** (the total production of goods and services in an economy). At this point, the economy is stable, and prices and output are balanced.



Understanding Short-Run Equilibrium

- According to **classical economic theory**, the economy naturally adjusts to reach a **short-run equilibrium**, which occurs at the intersection of AD and **short-run aggregate supply (SRAS)**.
- If **AD increases or decreases** (due to changes in consumer spending, investment, government policies, etc.), the economy moves to a **new short-run equilibrium** with different price levels and output.
- Likewise, shifts in **SRAS** (caused by changes in production costs, wages, or resource availability) also create a **new short-run equilibrium** as firms adjust their supply.



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

- In simple terms, **short-run equilibrium** is where the economy settles temporarily based on current demand and supply conditions. However, this balance isn't fixed, it shifts as economic conditions change.

Long term equilibrium

Economists have different takes on how the economy behaves in the **long run**, particularly when it comes to achieving **equilibrium**, the point where total supply matches total demand.

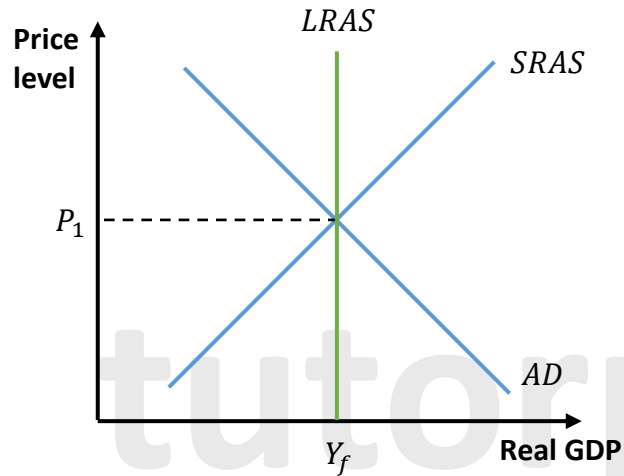
- **Classical economists** argue that, no matter what happens in the short term, the economy will **always** return to its **full potential output** (also called the full employment level of output). The only thing that changes over time is the **price level**, which adjusts to bring the economy back to balance.
- **Keynesian economists**, on the other hand, believe that the economy **can get stuck** at any level of output and may not automatically return to full employment. This means that government intervention, such as increased public spending, might be necessary to help the economy reach its full potential.

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Long term equilibrium

Classical View



◆ Key Takeaways from the Diagram:

- **LRAS (Long-Run Aggregate Supply)** represents the **maximum** output an economy can achieve when all resources are fully used, no extra slack, no spare workers sitting idle.
- The **SRAS (Short-Run Aggregate Supply) curve** meets **AD (Aggregate Demand)** right at **LRAS**, showing that the economy is running at full capacity.
- The economy is producing at Y_f (full employment output), meaning that all those who want a job (at the going wage rate) have one.
- The **average price level** when the economy is at full employment is P_1 .



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

💡 What This Means in Simple Terms:

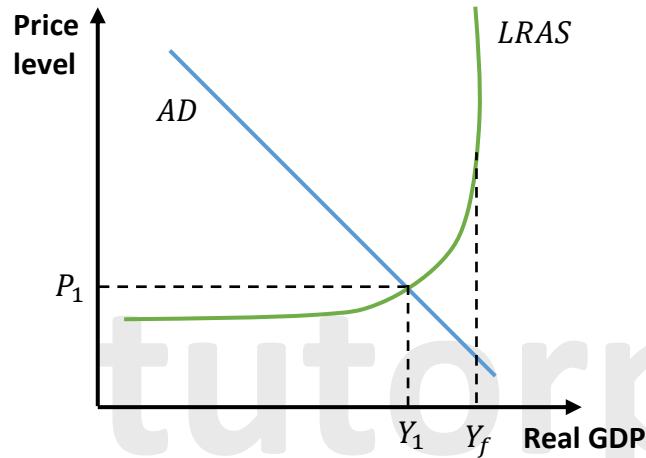
At this point, the economy is like a well-oiled machine, firms are producing as much as they possibly can, workers are fully employed, and supply perfectly meets demand. Any changes in demand (AD) will **only affect prices** in the long run, not output. Classic economists believe that if the economy strays from this equilibrium, it will eventually **self-correct** back to full employment. 🚀

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Long term equilibrium

Keynesian View



◆ Key Takeaways from the Diagram:

- The **vertical part of the LRAS curve** aligns with the **classical view**. At full capacity, the economy **can't** produce more without causing inflation.
- However, before reaching full capacity, the **LRAS curve is elastic (flat)**. This means that when demand is low, firms can **increase output without raising prices**, think of factories with spare machines or unemployed workers who are ready to work.
- Prices **don't fall below a certain point** due to real-world factors like **Minimum wage laws** 🏠 (preventing wages from dropping too low) and **Trade unions** 🧑 (protecting workers' pay).



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

🧐 What's the Big Idea?

- Unlike classical economists, **Keynesians** argue that **real output equilibrium** (when demand = supply) can happen at **any level of output**, not just at full employment.
- If demand is too low, the economy might get **stuck** in a **recession**, needing **government intervention** (like increased public spending) to push demand back up.

💡 **In simple terms:**

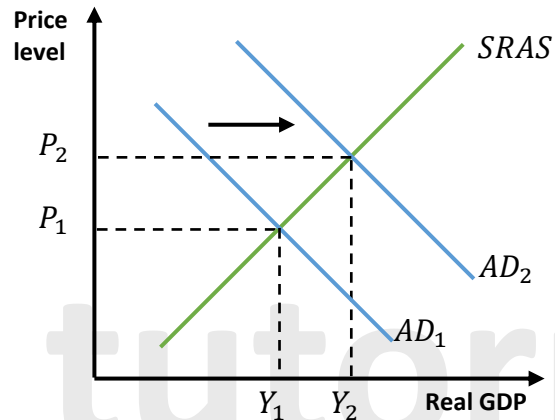
The Keynesian model shows that economies don't always "fix themselves." If demand is weak, unemployment can stay high, and the government may need to **step in** to boost spending and get things moving again.

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Shifts in the equilibrium price level and real GDP

Classical approach - changes in AD



◆ Key Takeaways from the Diagram:

- The economy was in **initial equilibrium** at P_1Y_1 , meaning the price level was P_1 , and real GDP (total economic output) was Y_1 .
- A rise in one or more of the **components of AD** [such as **consumption (C), investment (I), government spending (G), or net exports (X-M)**] shifts AD_1 to AD_2 .
- For example, if consumer spending surges because people feel confident about the economy, businesses will sell more, increasing total demand.



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

The Effects:

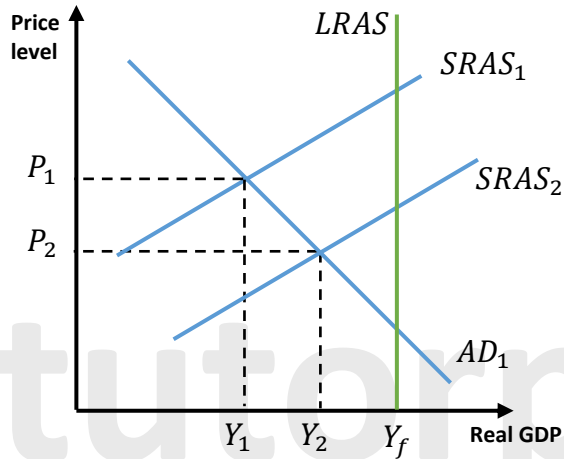
- **Prices Go Up** 📈: The economy reaches a new price level at P_2 .
- **Output Increases** 🏭: Businesses respond to higher demand by increasing production, leading to an increase in **real GDP** to Y_2 .
- **New Equilibrium Formed** ⚖️: The economy settles at a new short-run equilibrium at P_2Y_2 .

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Shifts in the equilibrium price level and real GDP

Classical approach - changes in SRAS



◆ Key Takeaways from the Diagram:

- The economy was initially at P_1Y_1 , meaning that the price level was P_1 and real GDP was Y_1 .
- This represents a **recessionary gap** (negative output gap), where the actual output is below the economy's full potential (Y_f).

What Causes SRAS to Increase?

- An improvement in one of the **determinants of SRAS** (such as **higher productivity, lower wages, or reduced production costs**) shifts the SRAS curve from $SRAS_1$ to $SRAS_2$.
- Example: If new technology makes factories more efficient, businesses can produce more **without increasing costs**.



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

The Effects:

- ✓ **Lower Prices:** The economy reaches a new equilibrium at a lower price level (P_2).
- ✓ **Higher Output:** Businesses **increase production**, raising real GDP from Y_1 to Y_2 .
- ✓ **New Short-Run Equilibrium:** The economy now stabilizes at P_2Y_2 .

Result:

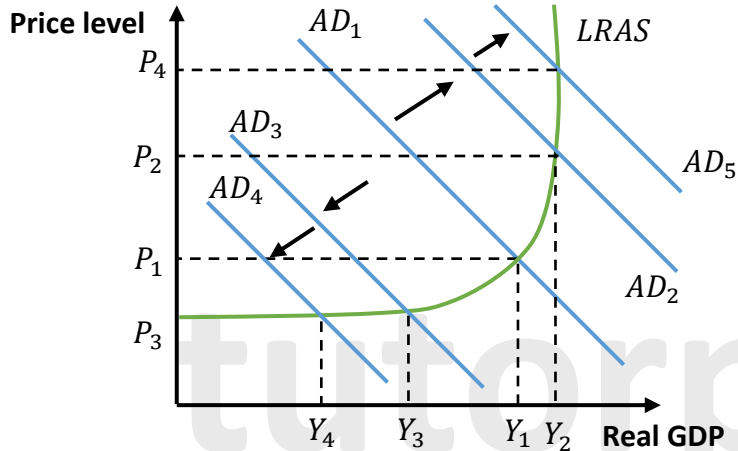
While the **negative output gap** has **shrunk**, output is **still below full employment** (Y_f).

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Shifts in the equilibrium price level and real GDP

Keynesian approach - changes in AD



◆ Key Takeaways from the Diagram:

- The economy starts in **equilibrium**, meaning the total demand for goods and services (AD_1) matches the total supply (LRAS). This happens at **price level P_1** and **real output Y_1** .
- If **AD increases** (e.g., due to higher **investment**, or **consumer confidence**), the AD curve shifts from AD_1 to AD_2 .
- Since the economy is close to **full employment output (Y_2)**, firms **can't produce much more** in response to rising demand.
- **What changes?** **Prices rise significantly ($P_1 \rightarrow P_2$)**.
 Output increases slightly ($Y_1 \rightarrow Y_2$).
 - This happens because resources like **labour, machinery, and raw materials** are already being used efficiently, so firms **can't expand much further**.

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

▼ What Happens When AD Decreases?

- If AD decreases (e.g., due to lower **consumer spending**, **investment**, or **exports**), the AD curve shifts from AD_1 to AD_3 .
- **What changes?** **Real output falls significantly ($Y_1 \rightarrow Y_3$)**.
 Prices fall slightly ($P_1 \rightarrow P_3$).
 - This occurs because **businesses reduce production** when demand drops, leading to **higher unemployment** and economic slowdown.

📉 Further Decline in AD: What If It Keeps Falling?

- If AD **keeps falling** ($AD_3 \rightarrow AD_4$), price levels **barely change**, but **output drops even more** ($Y_3 \rightarrow Y_4$).
- This is because wages and prices often **don't fall easily** due to **contracts, minimum wage laws, and firms trying to avoid pay cuts**.
- The economy enters a **deep recession**, with **low confidence**, **low investment**, and **high unemployment**.

📌 Key Takeaways

- **Near Full Employment?** More demand = **higher prices**, but **not much more output**. You can see this from $AD_2 \rightarrow AD_5$.
- **In a Recession?** Less demand = **big drop in output**, but **prices barely fall**.
- **Severe Recession?** Output **keeps falling**, but **prices stay stuck**.

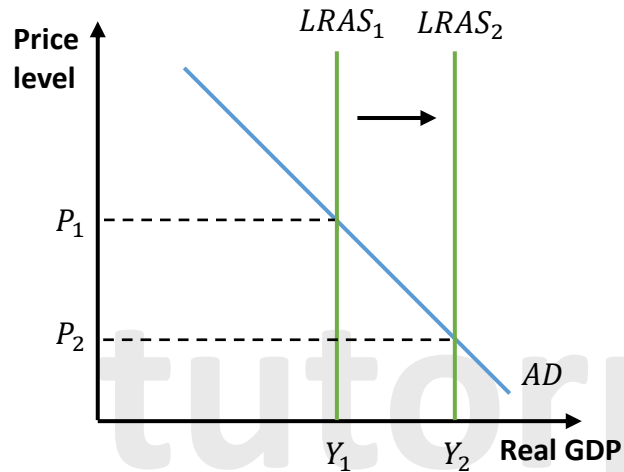
This is why **government intervention** (like **spending and tax cuts**) is often needed to **prevent prolonged recessions** and **stimulate demand**.

2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Shifts in the equilibrium price level and real GDP

Classical approach - changes in LRAS



◆ Key Takeaways from the Diagram:

- Initially, the economy is operating at **full capacity**, with potential output at Y_1 .
- The economy is in **equilibrium** at P_1Y_1 , where **Aggregate Demand (AD)** meets **LRAS**.

⚙️ How Technology Impacts LRAS

- Imagine a country introduces **advanced automation and artificial intelligence (AI)** into its manufacturing sector.
- **New technologies increase productivity**, allowing businesses to produce **more output with the same amount of resources**.
- This **shifts the LRAS curve to the right**, moving from $LRAS_1 \rightarrow LRAS_2$.
- The result? **Higher potential output** at Y_2 , meaning the economy can now produce more goods and services.

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2.4.3 Equilibrium levels of real national output

Real national output equilibrium

📊 What Happens to Prices and Output?

- With **better technology**, businesses **reduce production costs** and become more efficient.
- **Firms pass these savings on to consumers**, leading to **lower average prices** (P_2 instead of P_1).
- As a result, output **expands**, and a **new equilibrium** is established at P_2Y_2 .

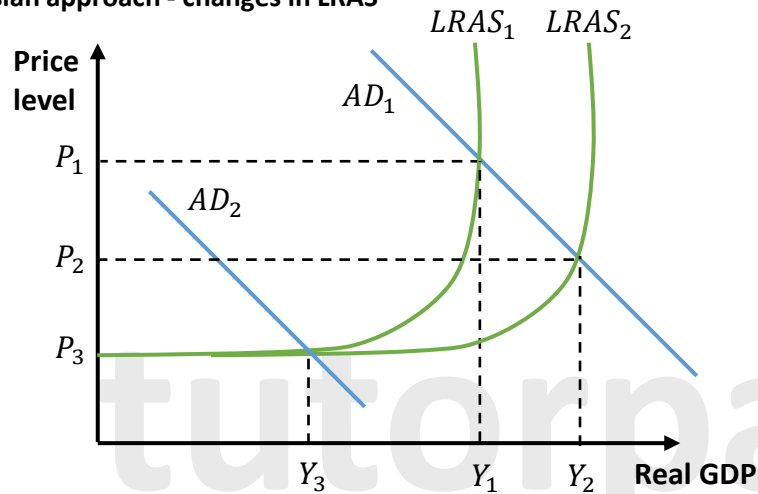


2.4.3 Equilibrium levels of real national output

Real national output equilibrium

Shifts in the equilibrium price level and real GDP

Keynesian approach - changes in LRAS



◆ Key Takeaways from the Diagram:

- The **initial potential output** of this economy is at Y_1 (full employment level of output).
- The economy is in **equilibrium**, meaning that aggregate demand (**AD**) and long-run aggregate supply (**LRAS**) are balanced at P_1Y_1 .
- A **change in technological advancements** can **increase the productivity of labour** and shift the LRAS curve to the right, from $LRAS_1 \rightarrow LRAS_2$.
- This means businesses can produce more goods and services using the same resources.



2.4.3 Equilibrium levels of real national output

Real national output equilibrium

As a result:

- The economy's **productive capacity** increases, moving output to Y_2 .
- **Aggregate demand (AD)** remains in the **vertical portion** of the LRAS curve, so real output increases ($Y_1 \rightarrow Y_2$), and prices fall ($P_1 \rightarrow P_2$).
- However, if the economy had started at an **equilibrium of AD_2Y_3** (where output was already below full potential), the increase in **LRAS alone would not** immediately boost national output.
- In this case, Keynesian economists argue that the economy is **stuck in a recession** (low demand, low output).
- To break free from this stagnation, **aggregate demand (AD) must increase** to stimulate production and growth.

2.4.4 The multiplier

The multiplier ratio and process

The **multiplier ratio** measures **how much real income increases** in response to an **initial injection** of spending into the economy.

Formula:

$$\text{Multiplier} = \frac{\text{Total change in Income}}{\text{Initial Injection}}$$

👉 Example:

If the UK government **injects** £10 million into the economy through government spending, and this leads to a total increase in national income of **£25 million**, then the **multiplier value is 2.5** (since £25m ÷ £10m = 2.5).

How Does the Multiplier Process Work?

- The **multiplier process** is the cycle where **one person's spending becomes another person's income**, leading to multiple rounds of increased spending. This creates a ripple effect in the economy, causing the **final increase in income** to be larger than the original injection.

🎯 Step-by-step example:

1. A new restaurant opens in town, and the owner **hires chefs and waiters**.
2. The employees **spend their wages** on groceries, rent, and entertainment.
3. Local **grocery stores and cinemas** see more business and **hire more workers**.
4. These workers also spend their earnings, **keeping the cycle going!**

💡 **The key idea?** The **more people spend rather than save**, the **greater the impact on the economy**.



2.4.4 The multiplier


The multiplier ratio and process

What Affects the Multiplier Size?

Not all money stays in the economy, some **leaks out**, weakening the multiplier effect. These are called **leakages**.

▼ Leakages include:

- **Savings** – If people **save too much**, less money circulates.
- **Taxes** – If the government **heavily taxes** incomes, businesses, or goods, people have **less to spend**.
- **Imports** – If people buy **foreign goods** instead of local ones, money flows **out** of the economy.

The bigger the leakages, the weaker the multiplier effect. 

How the Multiplier Shifts Aggregate Demand (AD)

✅ **An initial injection** (like government spending, exports, or investment) **shifts the AD curve to the right**.

🔄 The **multiplier effect** causes an even **bigger secondary shift**, meaning total economic growth could be **double** the initial change.

👉 **Example:** A country **hosts the Olympics**, and billions are spent on **stadiums, hotels, and transport**.

→ Thousands of **workers are hired** → These workers **spend their wages** → Businesses grow → The economy **booms**.

Can the Multiplier Work in Reverse?

Yes! 📉 If injections **decrease** (e.g., government cuts spending or businesses invest less), the **multiplier works in reverse**, causing a bigger economic slowdown than the initial reduction.

2.4.4 The multiplier

The multiplier ratio and process

Can the Multiplier Work in Reverse?

Yes. 📉 If injections **decrease** (e.g., government cuts spending or businesses invest less), the **multiplier works in reverse**, causing a bigger economic slowdown than the initial reduction.

📊 Example of a negative multiplier:

A car factory **shuts down** due to low demand.

→ Hundreds of **workers lose their jobs**.

→ They **cut spending** on restaurants, travel, and clothes.

→ **Local businesses suffer** and might lay off even more workers.

💡 **The lesson? One company closing can impact an entire town.** That's why governments sometimes **step in to prevent mass layoffs**.

2.4.4 The multiplier

Marginal propensities and their effects on the multiplier

What are Marginal Propensities?

Marginal propensities tell us **how people use their extra income** when they earn an additional dollar (or pound, or euro). They help economists understand **how money moves** in an economy.

Every time you earn extra money; you have a few choices:

- **Spend it** (buying stuff = boosting businesses!)
- **Save it** (keeping it in the bank)
- **Pay taxes** (governments love this one 💰)
- **Buy imports** (spending money on things from other countries)

These choices impact how strong the **multiplier effect** is in a country.

Example: Germany vs. Brazil

- **Germany** is known for having a **high savings rate**, meaning people prefer to **save more and spend less**.
- **Brazil** has a culture of **higher spending**, meaning money circulates faster because people spend more.
- **Result? Brazil has a higher multiplier!** When people spend more, businesses earn more, and the economy keeps growing.



2.4.4 The multiplier

Marginal propensities and their effects on the multiplier

Breaking down the marginal propensities

Term	What it means	Formula	Real life example
Marginal Propensity to Consume (MPC)	The proportion of extra income that people spend on goods and services. More spending = a stronger multiplier. 🛒	MPC = $\Delta C / \Delta Y$ (Change in Consumption / Change in Income)	If you get a £100 bonus and spend £80 on a nice dinner, your MPC is 0.8 (80/100).
Marginal Propensity to Save (MPS)	The proportion of extra income that people save instead of spending. More saving = a weaker multiplier. 🏠	MPS = $\Delta S / \Delta Y$ (Change in Savings / Change in Income)	If you get a £100 bonus and save £40 , your MPS is 0.4 (40/100).
Marginal Propensity to Tax (MPT)	The proportion of extra income that goes to taxes . More taxes = less money circulating. 💰	MPT = $\Delta T / \Delta Y$ (Change in Taxes / Change in Income)	If you get a £100 bonus and the government takes £20 , your MPT is 0.2 (20/100).
Marginal Propensity to Import (MPM)	The proportion of extra income spent on imports (buying goods from other countries). More imports = money leaving the economy. 🇫🇷	MPM = $\Delta M / \Delta Y$ (Change in Imports / Change in Income)	If you get a £100 bonus and spend £30 on imported French wine 🍷, your MPM is 0.3 (30/100).

2.4.4 The multiplier

Calculations of the multiplier

The **multiplier effect** shows how much the economy grows when extra money is injected. But how do we actually **calculate** it?

There are **two ways** to find the multiplier:

1. Using the Marginal Propensity to Consume (MPC) – how much of extra income people **spend**.

Formula:

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

2. Using Withdrawals (Leakages) – how much of extra income people **don't spend** (because they **save, pay taxes, or buy imports**).

Formula:

$$\text{Multiplier} = \frac{1}{\text{MPW}} = \frac{1}{\text{MPS} + \text{MPT} + \text{MPM}}$$

Which Method is Better?

Both methods give you the **same multiplier**, but they just look at it from different angles:

- ✓ **MPC method** focuses on **spending** and how much stays in circulation.
- ✓ **MPW method** focuses on **leakages** and how much is lost.

💡 **Big takeaway:** If you want a **strong multiplier effect**, encourage **more spending and less saving, taxing, and importing**. 🎉

2.4.4 The multiplier

Calculations of the multiplier

Worked Example

The government wants to **boost the economy** by investing in **renewable energy** (like building solar farms ☀️ and wind turbines 🌬️). They decide to spend **£50 million** on these projects.

In this economy:

- People **save 5%** of their additional income (**MPS = 0.05**)
- The government **takes 30% in taxes** (**MPT = 0.30**)
- **20% of spending** goes on **imports** (**MPM = 0.20**)

1) Calculate the size of the multiplier.

2) How much will the GDP increase in total because of this government investment?

2.4.4 The multiplier

Calculations of the multiplier

Answer:

1) Calculate the multiplier.

Use:

$$\text{Multiplier} = \frac{1}{\text{MPS} + \text{MPT} + \text{MPM}}$$

$$\text{Multiplier} = \frac{1}{0.05 + 0.30 + 0.20} = \frac{1}{0.55}$$

$$\text{Multiplier} = 1.82$$

So, every £1 injected into the economy creates £1.82 of total economic activity.

2) Calculate the total GDP increase.

$$\text{Total impact on GDP} = \text{Injection} \times \text{Multiplier}$$

$$\text{Total impact on GDP} = £50\text{m} \times 1.82$$

$$\text{Total impact on GDP} = £91\text{m}$$

Therefore, £50 million investment will result in a total economic boost of £91 million.



2.4.4 The multiplier

The significance of the multiplier for shifts in AD

Let's say the government decides to **invest in public transport**, building new railway lines 🚆, buying electric buses 🚌, and improving metro stations. This spending **increases Aggregate Demand (AD)**, but how much impact it has **depends on the economy's spare capacity** (how much room there is for extra production).

What Affects the Multiplier's Impact?

1) There Must Be Spare Capacity

If the economy has **plenty of unemployed workers and idle factories**, then businesses can **easily increase production** when demand rises. This means the **multiplier effect will be strong**. The initial spending on transport will lead to **even greater economic growth**. ✅

- 🎯 **Example:**
If there are lots of skilled workers looking for jobs, the government's transport investment will create **new employment**. Those workers will **spend their wages**, leading to **further increases in AD**, a strong **multiplier effect**.

2) If the Economy is at Full Capacity, Prices Go Up Instead

But what if the economy is already **running at full speed**? 🚦 If there are **no extra workers, no unused machines, and no spare land**, then businesses **can't produce more**, they'll just raise prices instead.

- 🎯 **Example:**
If all construction workers are already employed, the government's transport project will **drive up wages and material costs** instead of increasing output. This means the **multiplier effect is weak**, and the only real result is **higher prices (inflation)**.



2.4.4 The multiplier

The significance of the multiplier for shifts in AD

Elasticity Matters...

- **If supply is elastic** (meaning businesses **can easily expand production**), the **multiplier boosts output** more than prices.
- **If supply is inelastic** (meaning businesses **can't expand much**), then the **multiplier mainly raises prices** instead of increasing GDP.

Why Does This Matter?

- The **government** needs to understand the multiplier so they can **predict how much economic growth their spending will create**. If they invest in education, infrastructure, or healthcare, they need to know:

- ✅ **Will it generate a big impact on GDP?**
- ✅ **How long will it take for the effects to be felt?** (Multipliers take time.)

Please see the '2.4 National Income Worked Examples' pack for exam style questions.

For more revision notes, tutorials, worked examples and more help visit www.tutorpacks.com

