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### 2.8 KEYNESIAN MULTIPLIER <sup>HL</sup>: EXAM PRACTICE QUESTIONS

Answer the questions that follow.

#### 1. IB ECONOMICS HL PAPER 3 EXAMINATION QUESTIONS

##### Question One

[25 marks]

- Without referring to a formula, explain how changes in the Keynesian multiplier effect real GDP. [3 marks]
- Outline why policy-makers need to consider the multiplier in spending decisions. [1 mark]
- Outline what injections and leakages (withdrawals) are in the circular flow model of income and expenditure, and how they relate to the size of the Keynesian multiplier. [4 marks]
- An economy has an MPC (marginal propensity to consume) of 0.80; outline the meaning of this. [2 marks]
- With an MPC of 0.80, calculate the change in real GDP caused by an increase in government spending of \$300 million. [3 marks]
- Outline the meaning of MPT (marginal propensity to tax). MPS (marginal propensity to save) and MPM (marginal propensity to import). [3 marks]
- State the relationship between the value of MPC (marginal propensity to consume) **and** the values of MPS (marginal propensity to save), MPT (marginal propensity to tax) and MPM (marginal propensity to import). [1 mark]

- h. In country A the  $MPT + MPS + MPM = 0.25$ , and real GDP is \$500 billion. Global recession leads to the value of exports decreasing by \$40 billion. Ceteris paribus, calculate the new level of real GDP. **[3 marks]**
- i. Given that country A has real GDP of \$500 billion and the government would like to increase the figure by \$50 billion through increased government spending, calculate the amount of new government spending that is required to achieve this goal. **[2 marks]**
- j. Draw an appropriate Keynesian AD/AS model that shows the impact of the Keynesian multiplier on both aggregate demand and real GDP. **[3 marks]**

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