

**Question 9** Answer the following questions.

**Country A is a closed economy with no government.** The marginal propensity to save in the country is 0.25.

9.1 Calculate the value of the (investment) multiplier.

$$MPS + MPC = 1 \rightarrow 0.25 + MPC = 1 \quad MPC = 0.75$$

$$\frac{1}{1-MPC} = \frac{1}{1-0.75} = \frac{1}{0.25} = 4$$

9.2 Due to the initial investment made by firms and the multiplier effect, the (equilibrium) output in the economy has increased by \$200m. Calculate the value of the initial investment.

$$\frac{\Delta Y}{\Delta I} = 4 \quad \therefore \text{if } Y \text{ increase by 1 unit } I \text{ increase 4 unit}$$

$$\text{if } Y \text{ increase by 200 unit } I \text{ increases } 4 \times 200 = 800 \text{ unit}$$

**Country B is an open economy with government.**

9.3 Do you think the multiplier effect in Country B will be larger than that of Country A? Why or why not?

.....I think the multiplier effect in Country B will be larger than Country A because Country B.....  
 .....open economy with gov't, country B will has import, export and income tax.....