

**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.

$$AE = C + I \quad \frac{1}{1 - MPC} = \frac{1}{0.75} = 1.33$$

$$MPC = 0.75$$

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.

$$\frac{\Delta Y}{\Delta I} = 1.33 \quad \frac{200}{\Delta I} = 1.33 \quad \Delta I = 150.06$$

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?

Larger because more component

$$A = C + I$$

$$B = C + I + G + X - M$$

B have government export and import include in economy