

Injections and Withdrawals exercise:

The exercise is fairly self-explanatory. Not all of the questions have a set answer – there should be some debate, which should help to clarify any misunderstandings about terminology.

The Circular Flow

We have looked at the basic circular flow of income and spending that illustrates the macroeconomy. Changes in the components in this model can lead to changes in the level of a country's national income. In the exercise below, consider whether the economic event that is described will lead either to a change in an injection/leakage and whether the effect is likely to cause an expansion (↑) or a contraction (↓) in the level of national income. *For each example, assume ceteris paribus*

Economic event	Which injection or leakage is/are likely to be most affected? X, I, G, S, M, T	On balance - what is the likely effect on the level of GDP – expansion or contraction (circle your answer)
1. A survey finds a fall in confidence for UK manufacturing firms	X G I S M T	(↑) Expansion / Contraction (↓)
2. A property survey finds that homeowners expect average house prices to fall by another 5% in 2015	X G I S M T	(↑) Expansion / Contraction (↓)
3. The pound rises in value by 10% against the US dollar	X G I S M T	(↑) Expansion / Contraction (↓)
4. The government decides to freeze the pay of people working for local councils at a time when price inflation is 3%	X G I S M T	(↑) Expansion / Contraction (↓)
5. China announces a reduction in the size of an import tariff on British-made steel	X G I S M T	(↑) Expansion / Contraction (↓)

Economic event	Which injection or leakage is/are likely to be most affected? X, I, G, S, M, T	On balance - what is the likely effect on the level of GDP – expansion or contraction (circle your answer)
6. The CBI predicts that continued job losses will see unemployment peak at close to 3 million in 2016	X G I S M T	(↑) Expansion / Contraction (↓)
7. The government extends a car scrappage scheme for people buying vehicles more than nine years old	X G I S M T	(↑) Expansion / Contraction (↓)
8. The IMF predicts that world economic growth will rebound in 2017 with an increase in global trade	X G I S M T	(↑) Expansion / Contraction (↓)
9. The government decides to increase the UK road-building programme by £500m for 2014-15	X G I S M T	(↑) Expansion / Contraction (↓)
10. The prices of many consumer goods and services start to fall, and people start to expect further price reductions in the future	X G I S M T	(↑) Expansion / Contraction (↓)
11. The Bank of England's Monetary Policy Committee decides to raise official interest rates from 0.5% to 2% over a period of months	X G I S M T	(↑) Expansion / Contraction (↓)
12. The government introduces a new higher rate of income tax of 50% for people with annual incomes of more than £150,000	X G I S M T	(↑) Expansion / Contraction (↓)

	Economic event	Which injection or leakage is/are likely to be most affected? X, I, G, S, M, T	On balance - what is the likely effect on the level of GDP – expansion or contraction (circle your answer)
13.	The government increases revenues from taxes on high-income earners by £2bn and uses the money to increase spending on welfare payments to low-income families at £2bn	X G I S M T	(↑) Expansion / Contraction (↓)
14.	To reduce the size of the budget deficit, the government increases VAT from 17.5% to 20%	X G I S M T	(↑) Expansion / Contraction (↓)
15.	Improvements in the level of labour productivity causes lower costs and increased profits for car producers located in the UK	X G I S M T	(↑) Expansion / Contraction (↓)
16.	The Chancellor announces a reduction in the rate of national insurance contributions paid on new employees by smaller businesses	X G I S M T	(↑) Expansion / Contraction (↓)

Key summary points for your notes