

25. Factors Affecting National Income

Potential level of national income (Y): Max level of output an economy is capable of producing given its resources

This isn't constant...it depends on **quality of the FOPs** and the **skill/flexibility of the workforce**

Actual Level of National Income Depends on...

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

Income Consumption Investment Government Spending Exports Imports

Trade Balance

C

With your income (**Y**), you either consume/spend it (**C**) or you save it (**S**)

$$Y = C + S$$

What encourages you to spend rather than save?

1. How much you earn
2. The Interest rate
3. Availability of credit facilities

I

Spending by businesses on capital equipment (to replace or add to existing stock)

What encourages you to invest?

1. Expectations
2. The interest rate
3. Availability of credit facilities
4. Return on capital employed

G

Depends on **government resources** (if a government is facing austerity in public expenditure, there won't be much money left to pay for expanding/increasing public expenditure)

X

Depend on **strength of demand for your production abroad**

What makes your exports desirable?

1. Advantageous exchange rate
2. Quality of exports (i.e. Irish beef)
3. Type of exports (what you're selling)

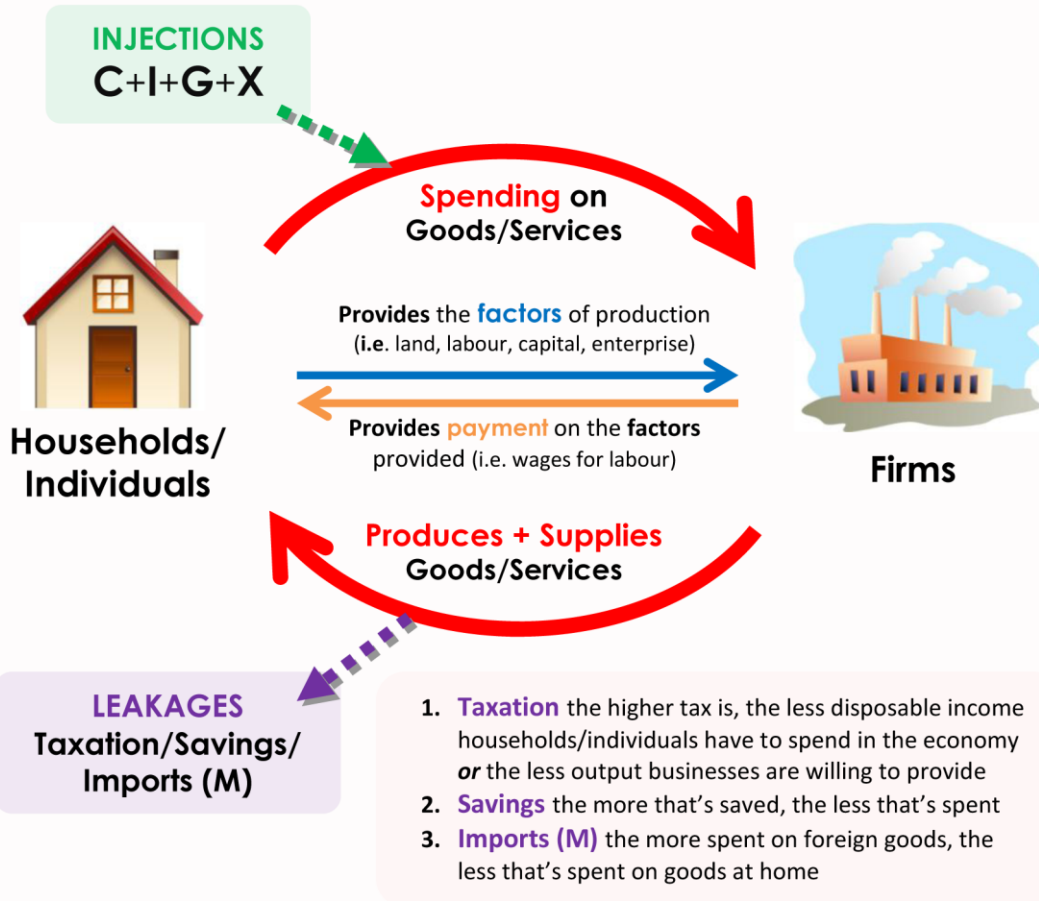
M

Depends on **private sector needs** which **depends on growth (and income!)**

↑ Y (Income) ↑ Imports as ↑ Economic Growth/Output

The Circular Flow of Income

Shows how **different sectors of the macro-economy are linked**



Marginal Propensity to Consume (C) or Save (S)
MPC or MPS

Fraction of extra (marginal) income which is consumed or saved

$$\frac{\Delta C \text{ or } S}{\Delta \text{ Income (Y)}}$$

Marginal Propensity to Tax (T) or Import (M)
MPT or MPM

Fraction of extra (marginal) income which is paid in tax or used to buy imports

$$\frac{\Delta Y \text{ Spend on T or M}}{\Delta \text{ Income (Y)}}$$

MULTIPLIER

Number of times an **injection** results in an $\uparrow Y$

$$\frac{1}{MPS + MPM + MPT} \times \text{Injection}$$