Question 20 (Answer: **C**)

- Growth needs an injection to work its way through the economy.
- A *small* multiplier means each injection has little total effect on national income.
- So a weak multiplier limits how much faster real GDP can grow from any given stimulus.

Question 22 (Answer: **A**)

- Deflation is tackled by raising aggregate demand, and a monetised deficit does that strongly.
- The policy's effect is weakened if the extra money is not spent.
- So it works least well when households save the extra income or confidence stays low.

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Question 17 (Answer: **D**)

- A negative output gap means actual output is below potential output.
- That means spare capacity and demand-deficient unemployment.
- So the unemployment rate rises, while growth, confidence and inflation all fall.

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Question 15 (Answer: **B**)

- The natural rate of unemployment is the frictional and structural unemployment left at full employment.
- It falls when the labour market works better – more training, better job information, more mobility.
- Raising aggregate demand only reduces *cyclical* unemployment, so it leaves the natural rate untouched.

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Question 16 (Answer: **B**)

- A positive output gap means the economy is producing above its sustainable capacity.
- Labour is scarce, so wages and prices are bid up and workers work longer hours.
- So leisure time falls, while wages, prices and imports all rise.

Question 19 (Answer: **A**)

- Cyclical unemployment comes from too little aggregate demand.
- A demand-side remedy raises spending directly.
- Government spending on infrastructure is exactly that – an injection that raises aggregate demand.