

Practice Assessment — Task 5: Business Cycle & the Multiplier (Extended Answer)

This practice task mirrors **Task 5** in the course assessment outline: an extended-response question on the business cycle and the aggregate expenditure model and multiplier. Write a sustained, structured response. Recommended time: 40 minutes (20 marks).

This question rewards a clear cause-and-effect chain and correct use of the multiplier. Define the multiplier, state the formula, and apply it numerically if the question gives you an MPC.

Question (20 marks)

Explain the phases of the business cycle, and analyse how the multiplier process amplifies an initial change in aggregate expenditure to drive an expansion. In your answer, refer to the marginal propensity to consume and illustrate the multiplier process.

Your response

Plan (verb, paragraph points, diagram):

Response:

Marking guide (teacher)

Indicative band: 17–20 thorough, structured, with an integrated multiplier illustration and a correct numerical example; 13–16 sound; 9–12 descriptive; 5–8 fragmentary; 0–4 minimal.

- **Business cycle phases:** expansion (rising real GDP, falling unemployment), peak, contraction (falling output, rising unemployment), trough — fluctuating around the long-term trend.
- **AE link:** aggregate expenditure $AE = C + I + G + (X - M)$; an initial rise in any component (e.g. investment) raises income.
- **Multiplier:** one person's spending is another's income, partly re-spent; the leakage to saving each round shrinks successive rounds; $k = 1 \div (1 - MPC) = 1 \div MPS$.

- **Numerical application:** e.g. with $MPC = 0.8$, $k = 5$, so a \$100m injection ultimately raises output by \$500m. Reward a worked example.
- **Analysis:** connects the amplified rise in output to the move into the expansion phase; may note the multiplier works in reverse for a contraction.
- **Diagram:** the multiplier-rounds illustration or a business-cycle wave, referenced in the prose.