1. National Income - Formula Map

3. Income Determination - MPC, MPS & Multiplier

Relationship	Formula / Meaning
Consumption function	C = a + bY
MPC	Change in Consumption / Change in Income
MPS	Change in Saving / Change in Income
Identity	MPC + MPS = 1
Investment multiplier	k = 1 / (1 - MPC) = 1 / MPS
Simple equilibrium	Aggregate demand = Aggregate output/income

Mini examples

• If MPC = 0.8, then MPS = 0.2 and k = 1 / 0.2 = 5.

• If investment rises by 100 and k = 4, the simplified model implies equilibrium income rises by 400.

• If autonomous consumption is positive, consumption can remain positive even when current income is zero.

Common mistake: using 1/MPC for the multiplier. In the simple model, use 1/MPS or 1/(1-MPC).

4. Government Budget - Core Structure

Revenue receipts

• Do not create a liability and do not reduce assets.

• Examples include tax revenue and non-tax revenue.

Capital receipts

• Either create a liability or reduce assets.

• Examples can include borrowings and recovery of loans.

Revenue expenditure

• Generally does not create assets or reduce liabilities directly; includes routine government expenditure.

Capital expenditure

• Generally creates assets or reduces liabilities.

Deficits - remember the logic

• Revenue Deficit = Revenue Expenditure - Revenue Receipts

• Fiscal Deficit = Total Expenditure - Total Receipts excluding borrowings

• Primary Deficit = Fiscal Deficit - Interest Payments

5. Balance of Payments - Current vs Capital/Financial Side

Current account

• Exports and imports of goods.

• Services.

• Income flows.

• Transfers, depending on the accounting classification used in the syllabus.

Capital / financial flows

• Transactions that change international assets or liabilities, such as investment and borrowing/lending flows.

• Do not confuse a current export receipt with a capital inflow simply because foreign currency enters the country.

Exchange rate idea

• Demand for foreign exchange may arise from imports, foreign travel, investment abroad and other external payments.

• Supply of foreign exchange may arise from exports, foreign investment inflows, remittances and other external receipts.

• In a flexible market, changes in demand/supply can change the exchange rate; policy regimes may modify this process.

6. 20-Minute Final Revision Checklist

Area	Recall without notes
National Income	Gross/net, domestic/national, MP/FC, NFIA, depreciation, NIT
Money & Banking	Functions of money, central bank roles, credit creation logic
Income Determination	MPC, MPS, k, consumption function, equilibrium
Government Budget	Receipts/expenditure classification, RD, FD, PD
BOP	Current vs capital/financial transactions, forex demand/supply

• Write formulas once from memory.

• Solve one National Income conversion numerical.

• Solve one multiplier numerical.

• Classify five budget items.

• Classify five BOP transactions.

• Review only mistakes after that - do not reread everything.

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