

a. To find the change in national income we use the formula $me = \Delta Y / \Delta E$, so $\Delta Y = me * \Delta E$, where ΔE - deficiency of aggregate expenditure of \$4bn, ΔY - change in national income, me - multiplier.
 $me = 1 / (1 - (c - im) * (1 - t))$, where c - marginal propensity to consume, t - marginal tax rate, im - marginal propensity to import.

$$me = 1 / (1 - (0.8 - 0.25) * (1 - 0.3)) = 1 / (1 - 0.55 * 0.7) = 1 / 0.615 = 1.626$$

$$\text{So, } \Delta Y = 4 * 1.626 = \$6.5 \text{ bn}$$

b. As we can see the government's forecast that the \$2bn in extra state spending is sufficient to remove the deflationary gap and restore full employment was true, so this extra spending will result in \$6.5 bn increase in national income with the help of only extra \$2 bn.