

National Income and Price Determination – The Multiplier

Terms	
Multiplier Average Propensity to Consume Average Propensity to Save	Marginal Propensity to Consume Marginal propensity to Save

Watch The Multiplier Effect – Macro 3.9B <https://www.youtube.com/watch?v=RqWYmQQzXxs&t=92s>

- If you find a \$100 bill on the ground there are only two things you can do with. List them:
 - 1.
 - 2.
- Marginal propensity to consume (MPC) is the percentage of how much you would _____ if you get additional money
- Marginal Propensity to save is the percentage of additional money you would _____.
- If MPC is .75 then MPS is _____.
- The formula for the spending multiplier is _____
- In example #2 Assume the MPC is .9 and the government wants total spending to increase by \$20 billion:
 - How much is the multiplier?
 - How much initial spending must the government do to achieve the goal?
- The higher the MPC the larger _____.

YOU DO NOT HAVE TO LEARN THE TAX MULTIPLIER OR MONEY MULTIPLIER YET!

Watch MPC & multiplier/Macroeconomics/Khan academy: https://www.youtube.com/watch?v=O_Oozju3RRI

Follow along with the video's example of an economy with only two people, the farmer and the builder.

- In this example the Marginal Propensity to consume (MPC) is _____. If someone in this economy finds another _____ in their pocket, they will spend _____ of that.
- When the farmer discovers a big pile of dollars in his sock he spends _____ doing repairs to his buildings.
- When the builder receives \$1000 and his MPC is 60% how much will he spend?
- When the farmer receives \$600 he will spend 60% of that. It can be expressed as $\$600 \times .6 = \underline{\hspace{2cm}}$.
- When the Builder gets his next sum of money it will be \$_____. He will spend 60% of that money which can be expressed as $\$ \underline{\hspace{2cm}} \times .6 = \underline{\hspace{2cm}}$.

The Key question is: From that incremental increase of spending of \$1,000, how much total new production and spending happen in this economy?

Remember the economy is circular: one person's expenditure turns into another person's income

The video overly complicates the math --- here is the simplified version.

- Total Output = $\$1,000 \times \frac{1}{1 - 0.6}$ (also expressed as $\frac{1}{1 - \text{MPC}}$) OR Total Output = $\$1,000 \times \frac{1}{.4}$ (also expressed as $\frac{1}{\text{MPS}}$) OR Total Output = $\$1,000 \times 2.5 = \$ \underline{\hspace{2cm}}$?
- Whatever the marginal propensity to consume is will drive the _____.