

Big Question:  
How did Keynes explain his multiplier argument?

**Webnote 225**  
Grade weight 3  
Syllabus: item 91

**SYLLABUS REFERENCE 2.2: An Example of a Keynesian Multiplier (HL)**

Multiplier shows how an increase in planned injections into the economy increase output / income: the size of the multiplier depends on MPC

$$AD = C + I + G + X - M$$


Injections into the Macroeconomy can have a greater effect on National Income than the amount of the original injection (J)

example	Income The government has an income of \$100	Expenditure The government pays Mr. Bird \$100 for building a bridge
A	Mr Bird earns \$100	Mr Bird purchases from the chemist items worth \$50
B	The chemist earns \$50	The chemist purchases items worth \$25 from the baker
C	The baker earns \$25	The baker purchases items worth \$12.5 from the butcher

D	\$12.50	\$6.25
E	\$ 6.25	\$3.125
F	\$3.125	\$1.5625
G	\$1.5625	\$.78125
H	\$.78125	\$.390625
I	\$.390625	\$.1953
J	\$.1953	.....

The process continues until funds are exhausted. However the process from A to J has resulted in total income of \$200. The multiplier is therefore 2. G of \$100 has resulted in total national income of \$200.

**K**

$Y = (\text{change in } J) + (\text{change in } J \text{ multiplied by MPC}) + (\text{change in } J \text{ multiplied by MPC squared or...})$

$$100 + (100 \times .5) + 100 \times .25 + 100 \times .125 + 100 \times 0.0625 \dots$$

In this case with an injection of 100 and an MPC of .5 Y increases to \$200.