Big Question:
How did Keynes explain his multiplier argument?

Multiplier A

Webnote 365
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)

	Income The government has an income of $100	Expenditure The government pays Mr. Bird $100 for building a bridge
example		
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 contiues 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.

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Y= (change in J) + (change in J multiplied by MPC) + (change in J multiplied by MPC squared or…

100 + (100 x .5) + 100 x .25 + 100 x.125 + 100 x 0.0625….

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