The Multiplier

- Shows the precise relationship between an initial injection into the circular flow of income and the eventual total increase in national income.
- Eg.
- *An in injection of 3 million may increase the NI by 6 million (multiplier = 2)*

Formula

$$\frac{1}{MPS + MPM + MPT}$$

or

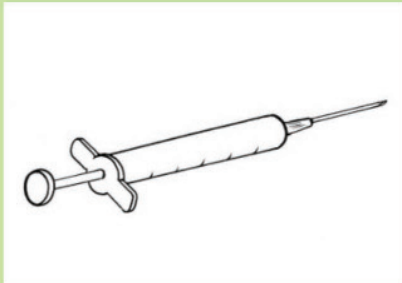
$$\frac{1}{1 - (MPC - MPM - MPT)}$$

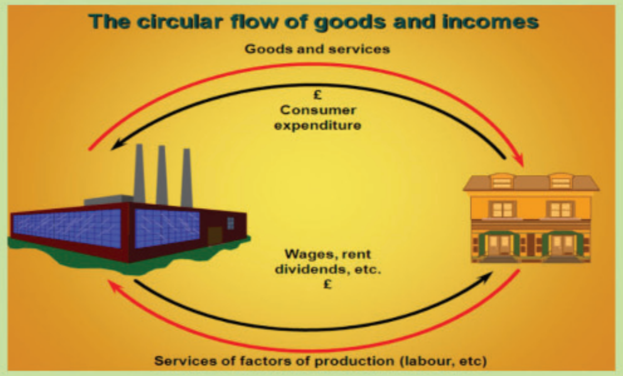
Note: A closed economy will have no imports

MPC

- Marginal Propensity to Consume.
- This is the portion of each additional unit of income which is spent.

$$MPC = \frac{\text{change in consumption}}{\text{change in income}}$$





MPM

- Marginal Propensity to Import.
- This is the proportion of each additional unit of income which is spent on imports.

$$MPM = \frac{\text{change in imports}}{\text{change in income}}$$

MPS

- Marginal Propensity to Save.
- This is the proportion of each additional unit of income which is saved.

$$MPC = \frac{\text{change in savings}}{\text{change in income}}$$

MPT

- Marginal Propensity to Tax.
- This is the proportion of each additional unit of income which is taxed.

$$MPC = \frac{\text{change in tax}}{\text{change in income}}$$