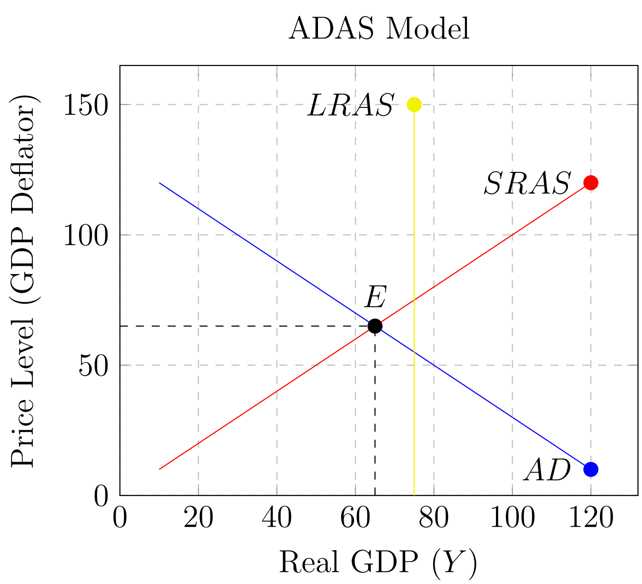
Notes — Week 7

Michael Brodskiy
Instructor: Mr. Bremer

Period 3



1. The Multiplier Effect means that when a certain amount of money is spent, a certain amount proportional to the amount spent is contributed to the economy

    - How much will a given change in spending cause real GDP to change?

2. Two things could be done with a dollar:

    (a) Save it

    (b) Spend it (consumption)

    - Consumption + Savings = Income OR Savings = Income - Consumption

3. $MPC = \frac{\text{Change in } C}{\text{Change in Disposable Income}}$

4. $MPS = \frac{\text{Change in } S}{\text{Change in Disposable Income}}$

5. $MPC + MPS = 1$

6. The spending multiplier is: $\frac{1}{1-MPC}$ OR $\frac{1}{MPS}$

7. The Tax Multiplier is: $\frac{-MPC}{1-MPC}$

    - The Tax Multiplier is always one less than the spending multiplier, and negative