UNIVERSITY OF THE PEOPLE

ECON 1580-01-INTRODUCTION TO ECONOMICS-AY2024-T3

WRITTEN ASSIGNMENT UNIT 6

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To evaluate the multiplier effect. First, compute the spending multiplier. The marginal propensity to consume (MPC) determines the expenditure multiplier.

The approximate multiplier formula is 1/(1-MPC). Use the formula to find the corresponding MPC value. Solve it as follows:

Multiplier = 1/ (1-.6)

= 1/.4=2.5

Multiplier = 2.5

This means any independent government spending will result in a final real GDP increase or decrease equal to 2.5.

Approximate the real GDP's final changes:

The final real GDP change equals discretionary spending multiplied by the multiplier.

The total real GDP change = 400,000 X 2.5

The total real GDP change = 1,000,000

Thus, the economy's real GDP has a final change of one million dollars. The additional real GDP change caused by the original four hundred thousand dollars government spending change is the multiplier effect. The multiplier effect = 1,000,000 – 400,000 dollars

The multiplier effect is 600,000 dollars.

The total real GDP change is one million dollars. The multiplier effect is six hundred thousand dollars.