# Chapter 27 – Expenditure Multipliers

**Fixed Prices and Expenditure Plans**

Keynesian model describes the economy in the very short run when prices are fixed.

In a small sense, everything is fixed like price levels and aggregate demand hence determine real GDP

*Expenditure Plans*

The component of aggregate expenditure sums to real GDP:

Y = C + I + G + X – M

Disposable income YD is either spent on consumption goods or saved

YD = C + S

We now have consumption function and saving function as their respective relations to disposable income.

*Marginal Propensities to Consume and Save*

The marginal propensity to consume (MPC) is the fraction of a change in disposable income spent on consumption.

The marginal propensity to save (MPS) is the fractional a change in disposable income that is saved.

**Real GDP with a Fixed Price Level**

Aggregate planned expenditure is planed consumption expenditure plus planned investment plus planned government expenditure plus planned exports minus planned imports

Planned consumption expenditure and imports are influenced by the real GDP.

Consumption expenditure minus imports, which varies with GDP is induces expenditure.

C+I+G+X = autonomous expenditure.

*Actual Expenditure, Planned Expenditure, and Real GDP*

Actual aggregate expenditure is always equal to real GDP.

Equilibrium expenditure is the level of aggregate expenditure that occurs when aggregate planned expenditure equals real GDP.

**The Multiplier**

The multiplier is the amount by which a change in autonomous expenditure is magnified or multiplied to determine the change In equilibrium expenditure and real GDP.

*Why is the multiplier grater than 1?*

The multiplier is greater than 1 because an increase in autonomous expenditure induces further increases in aggregate expenditure.

*The Size of the Multiplier*

The size of the multiplier is the change in equilibrium expenditure divided by the change in autonomous expenditure.

*The multiplier and the slope of the AE curve*

The slope determines the magnitude: