

CONCEPT OF MULTIPLIER

1. KEYNES PROPOUNDED THE CONCEPT OF MULTIPLIER WITH REFERENCE TO INCREASE IN TOTAL INCOME, DIRECT AS WELL AS INDIRECT, AS A RESULT OF INITIAL INCREASE IN INVESTMENT AND INCOME.
2. THE MULTIPLIER IS THEREFORE THE RATIO OF INCREMENTAL INCOME TO INCREMENTED INVESTMENT
3. $\text{MULTIPLIER} = \text{CHANGE INCOME} / \text{CHANGE IN INVESTMENT}$
GIVEN THAT $\text{MPC}(\text{MARGINAL PROPENSITY TO CONSUMPTION}) = 4/5 = 1.8$

AFTER THE DELTA Y FORMULA

4. BUT THE ABOVE SERIES IS 1 OF GEOMETRIC PROGRESSION. THEREFORE INCREASE IN INCOME
(DELTA Y)=

5. IF DELTA Y STANDS FOR INCREASE IN INCOME , DELTA I STANDS FOR INCREASE IN INVESTMENT WE WRITE THE EQUATION AS FOLLOWS

6. THEREFORE MULTIPLIER = $1/(1-MPC) = 1/MPS$

ALGEBRAIC DERIVATION

IN KEYNESIAN CONSUMPTION FUNCTION

$C = B + AY$

WHERE A IS CONSTANT TERM , B IS MPC WHICH IS ALSO ASSUMED TO BE CONSTANT
THEREFORE CHANGE IN CONSUMPTION OCCUR ONLY IF THERE IS CHANGE IN
INCOME THUS