

Unit 14 Supplement

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February 23, 2022

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Multiplier Process

Definition: $MPC = \frac{\Delta C}{\Delta Y}$

- The initial increase in spending is $\$x$, from A to B
- B will spend $\$x \times MPC$ back to A
- This process continues, and the total increase in GDP is

$$\begin{aligned} & \$x \cdot 1 + \$x \cdot MPC + \$x \cdot MPC^2 + \dots \\ &= \$x \cdot (1 + MPC + MPC^2 + \dots) \\ &= \$x \cdot \frac{1}{1 - MPC} \end{aligned}$$

