



Fiscal Policy Multipliers







Smaller



Negative

$$\left( \frac{1}{1-\text{MPC}} \right)$$

$$\left( \frac{-\text{MPC}}{1-\text{MPC}} \right)$$



Government Spending Multiplier

Tax Multiplier

Since  $MPS = 1 - MPC$   
we can also write  
these multipliers as

$$\Delta Y = \Delta G \left( \frac{1}{MPS} \right)$$

$$\Delta Y = \Delta T \left( \frac{-MPC}{MPS} \right)$$

# Fiscal Policy Multipliers

## Government Spending Multiplier

$$\Delta Y = \Delta G \left( \frac{1}{1-MPC} \right) \quad \Delta Y = \Delta G \left( \frac{1}{MPS} \right)$$

Since  $MPS = 1-MPC$   
we can also write  
these multipliers as

## Tax Multiplier

$$\Delta Y = \Delta T \left( \frac{-MPC}{1-MPC} \right) \quad \Delta Y = \Delta T \left( \frac{-MPC}{MPS} \right)$$

An example using both:  
the **spending** multiplier  
and the **tax** multiplier