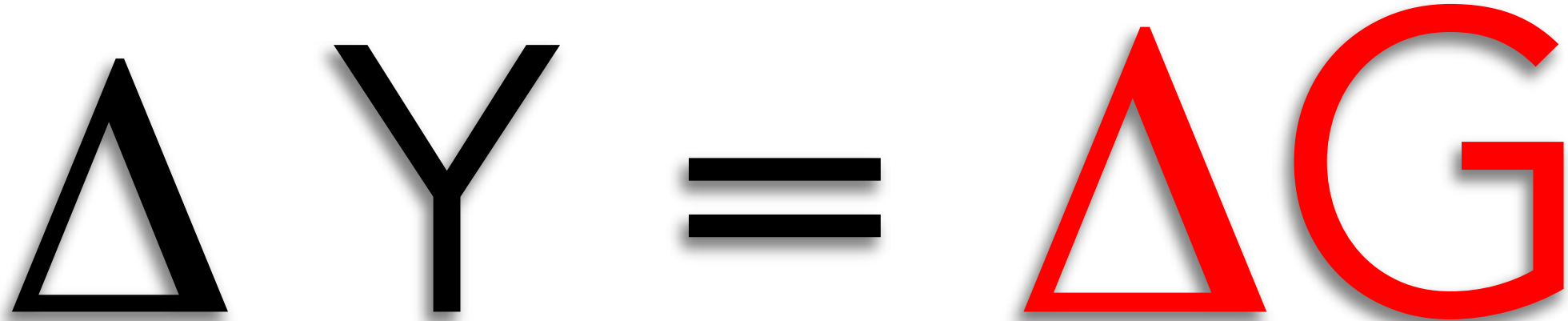
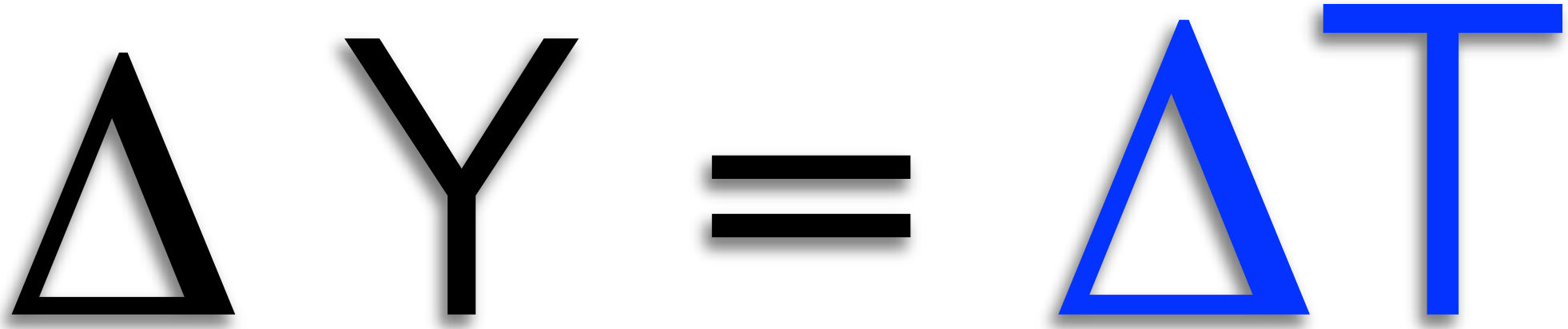
Fiscal Policy Multipliers

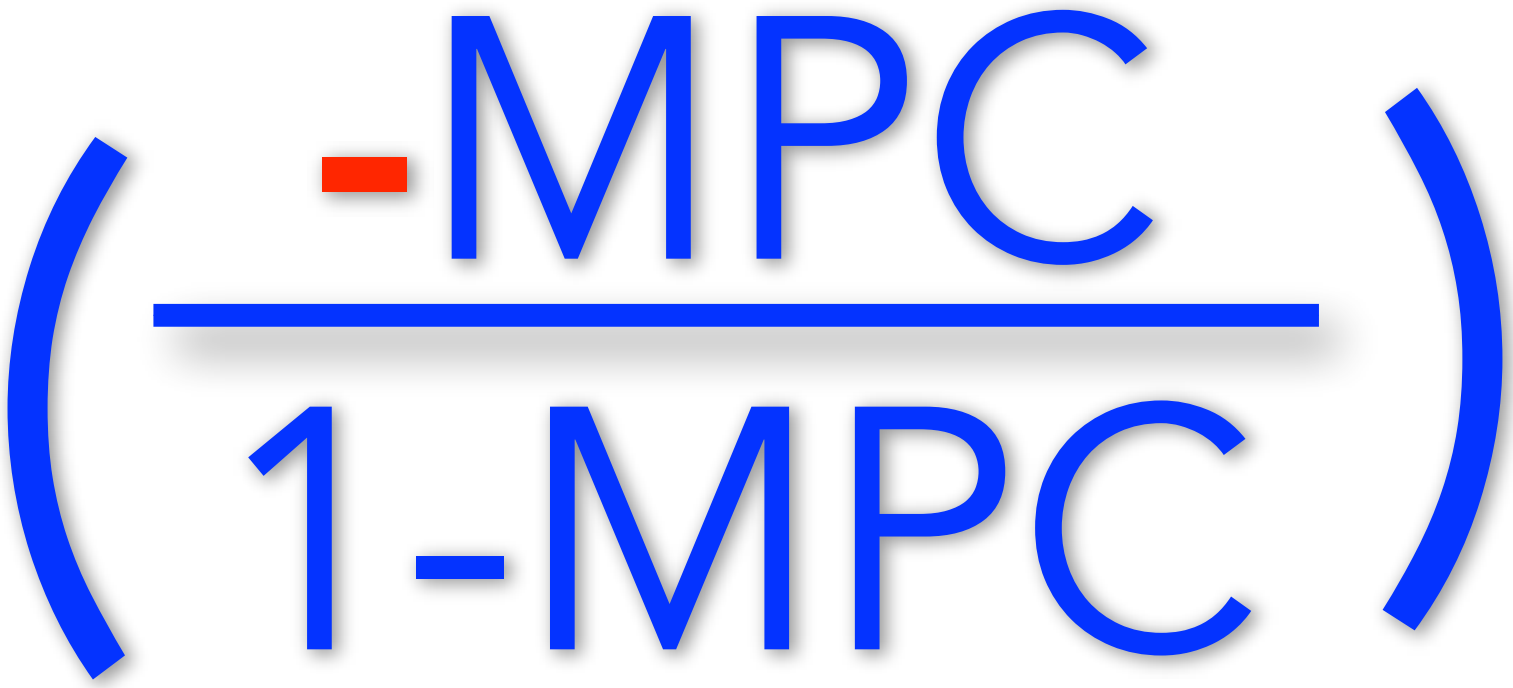

ΔY = ΔG


Δ Y = ΔT

Smaller

Negative

1
1-MPC


-MPC
1-MPC

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

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

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

Tax Multiplier

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