

**FISCAL AND  
MONETARY  
POLICY NOTE  
PACKET**

**AD/AS**

**MD/MS**

**Loanable Funds**

**Phillips Curve**

The Professor's Treatise on Multipliers

MULTIPLIER FORMULAS AND TERMS

Marginal propensity to consume (MPC) = change in consumption divided by change in income

Marginal propensity to save (MPS) = change in saving divided by change in income

**Investment Multiplier** =  $1 / (1 - MPC)$  or simply  $1 / MPS$

*How to use the investment multiplier:* change in GDP = change in investment times investment multiplier

*When to use the investment multiplier:* when there is a change in investment such as a new factory or new equipment

**Government Spending Multiplier** =  $1 / (1 - MPC)$  or simply  $1 / MPS$

*How to use the government spending multiplier:* change in GDP = change in government spending times government spending multiplier

*When to use the government spending multiplier:* when there is a change in government spending such as a new road or bridge

**Tax Multiplier** =  $- MPC / (1 - MPC)$  =  $- MPC / MPS$

*How to use the tax multiplier:* change in GDP = change in taxes times tax multiplier

*When to use the tax multiplier:* when there is a change in lump-sum taxes. Remember that the tax multiplier has a negative sign.



Figure 21.2

**Multiplier Table**

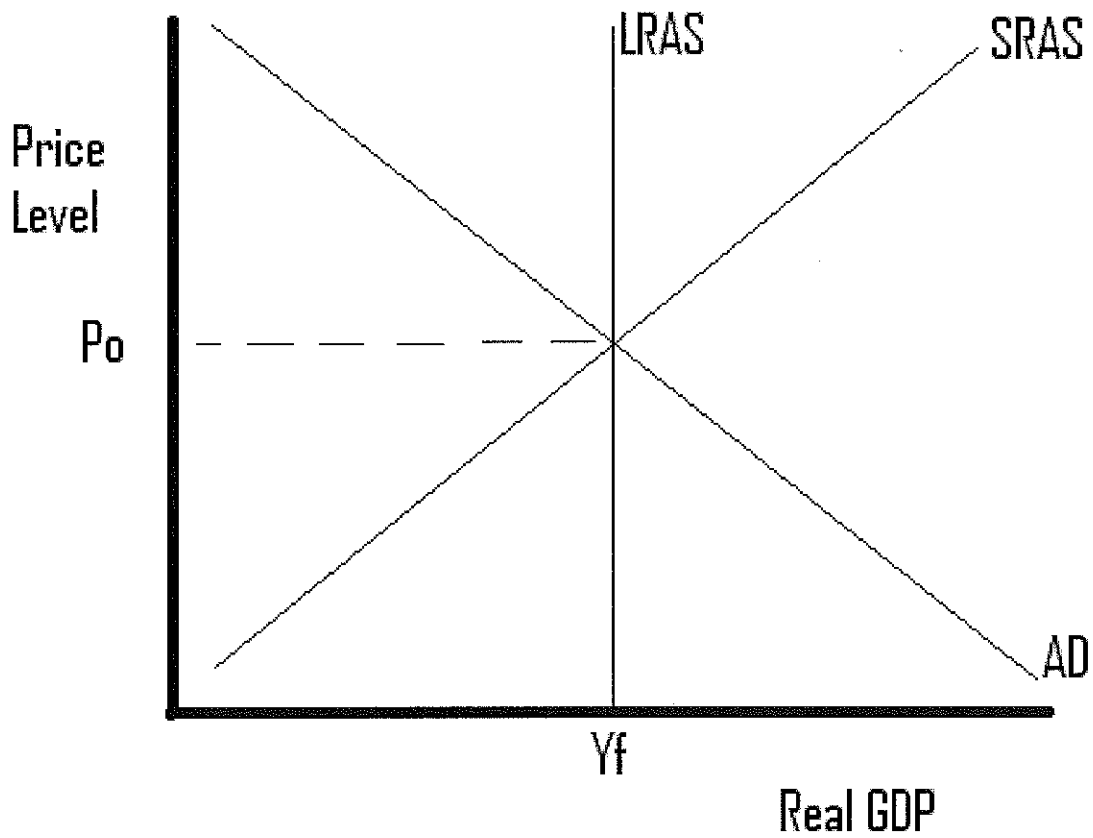
(Derived from using the formulas above)

MPC	Investment Multiplier	Government Spending Multiplier	Tax Multiplier
0.90	10.0	10.0	-9.0
0.80	5.0	5.0	-4.0
0.75	4.0	4.0	-3.0
0.60	2.5	2.5	-1.5
0.50	2.0	2.0	-1.0

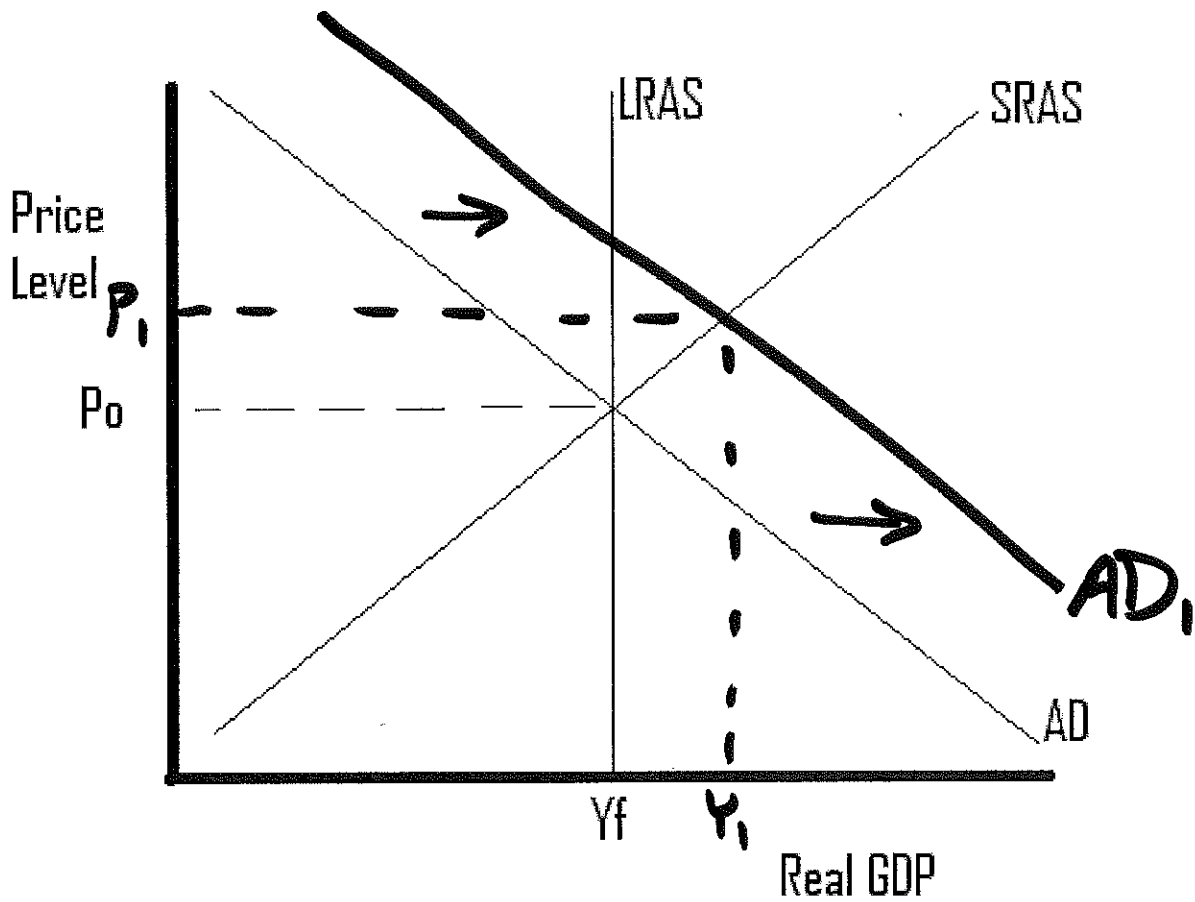
**"ALWAYS" RULES (A surefire way to remember multipliers)**

- The investment multiplier is *always* equal to the same value as the government spending multiplier.
- The investment and government spending multipliers are *always* positive.
- The tax multiplier is *always* negative.

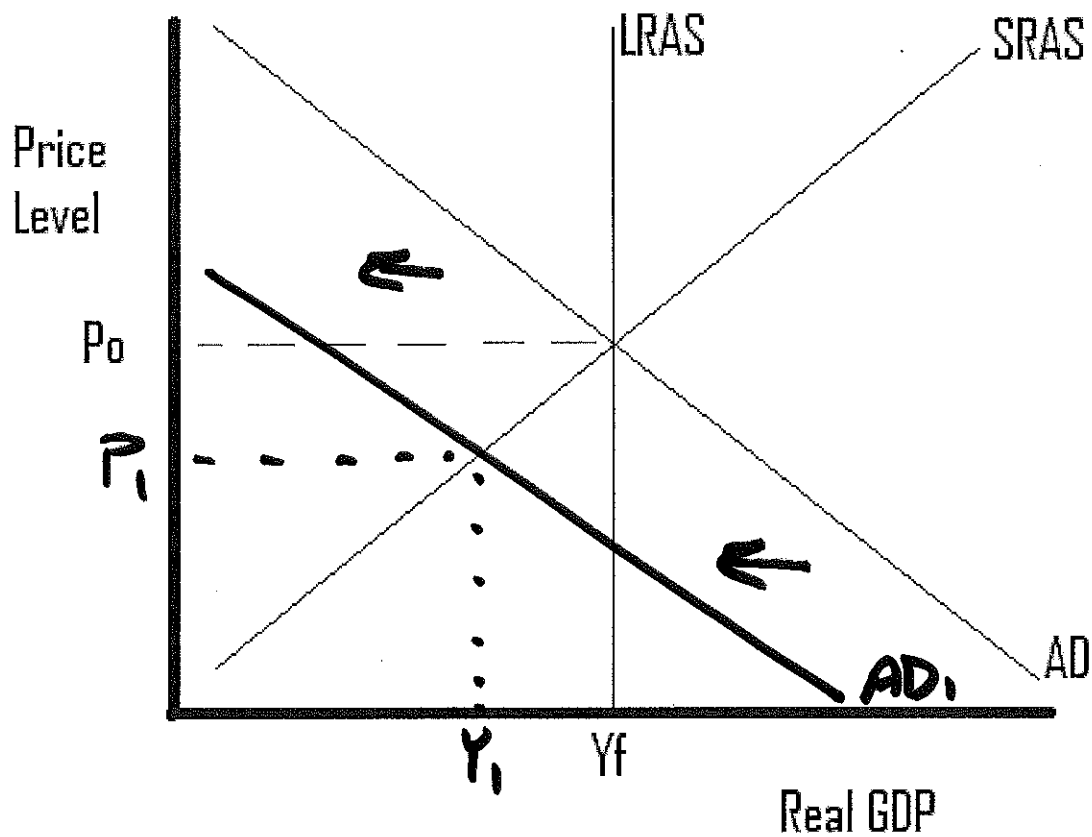
# Equilibrium



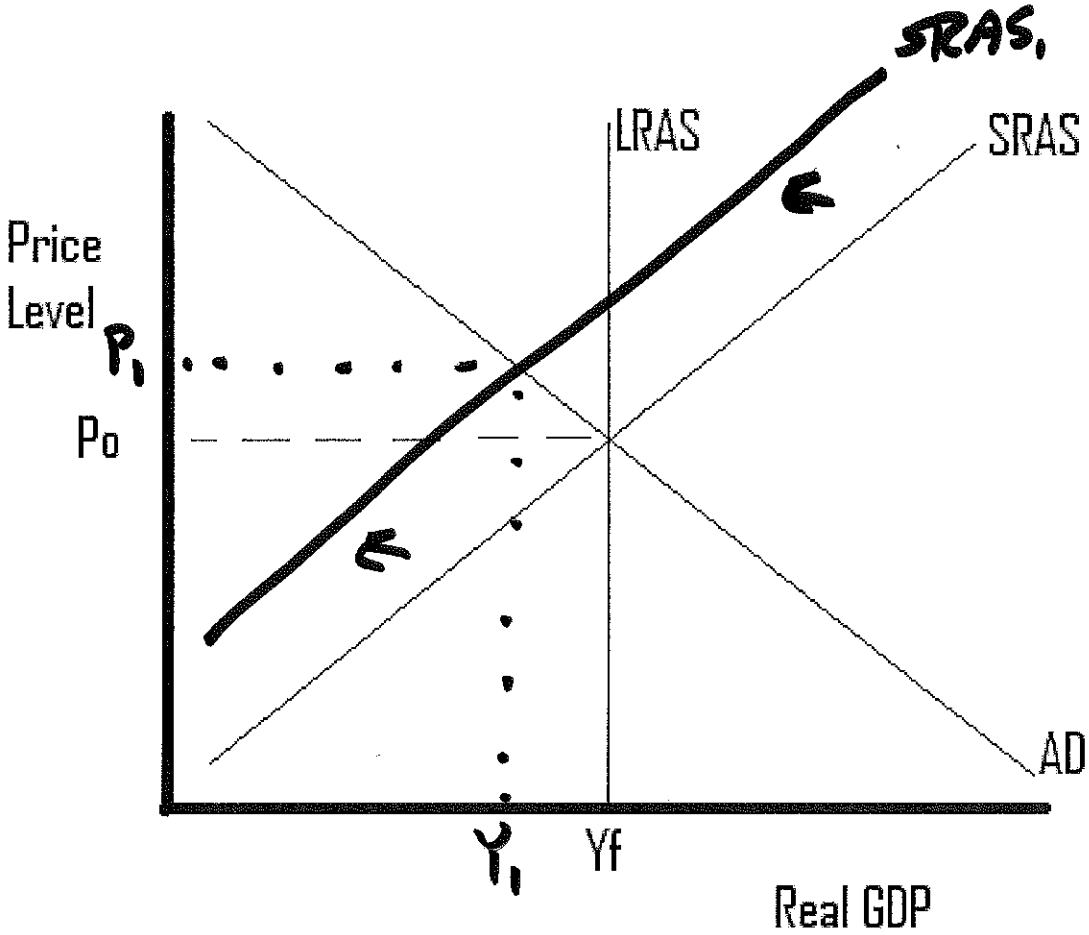
# Demand-Pull Inflation



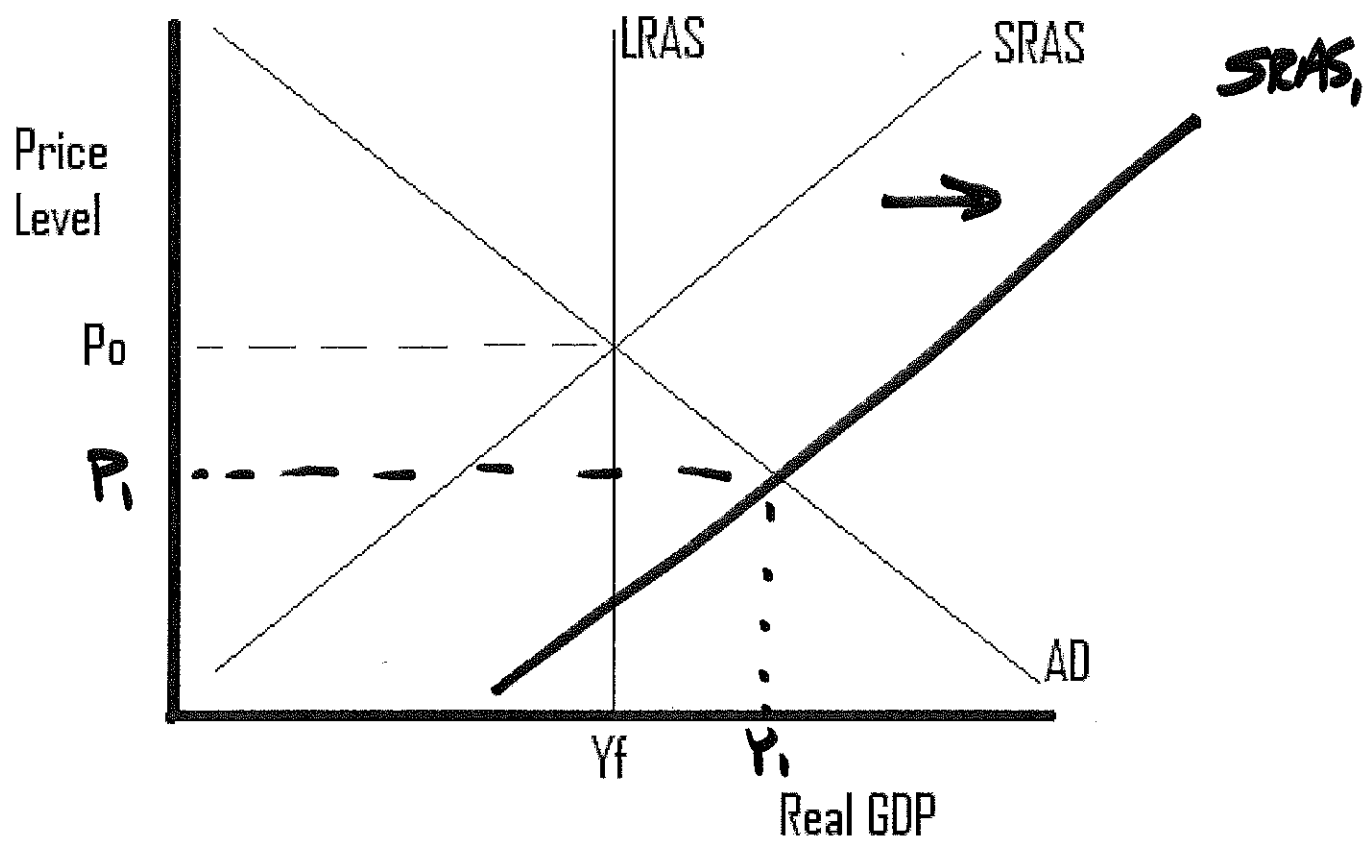
# Recession



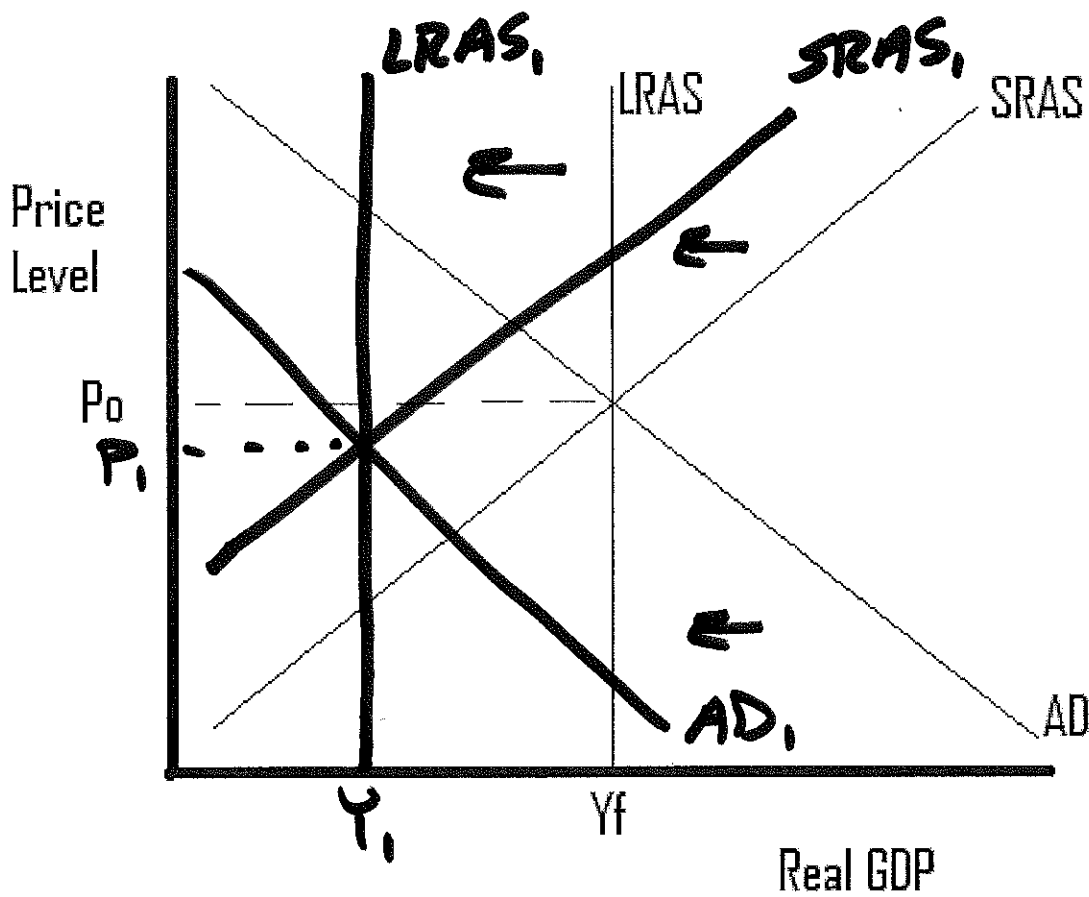
# Cost-Push Inflation



# Deflationary Expansion

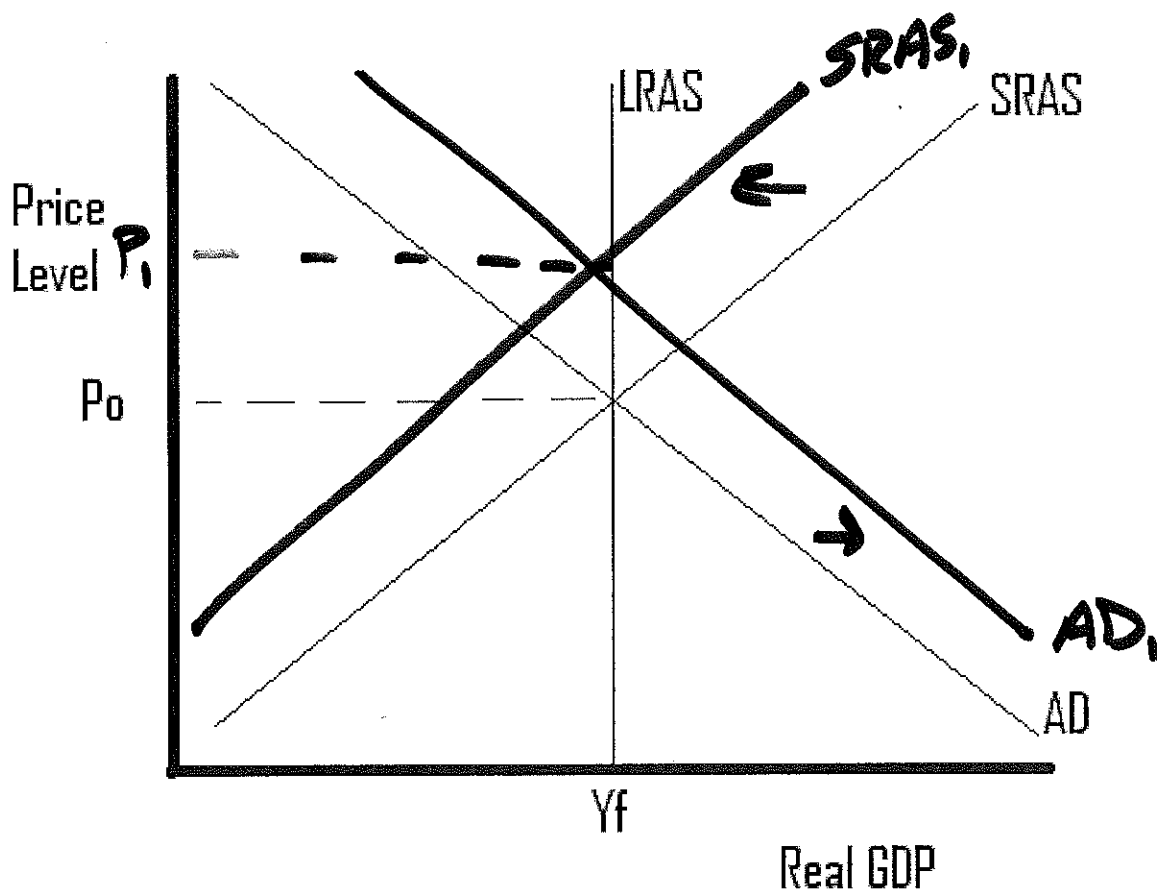


# Depression

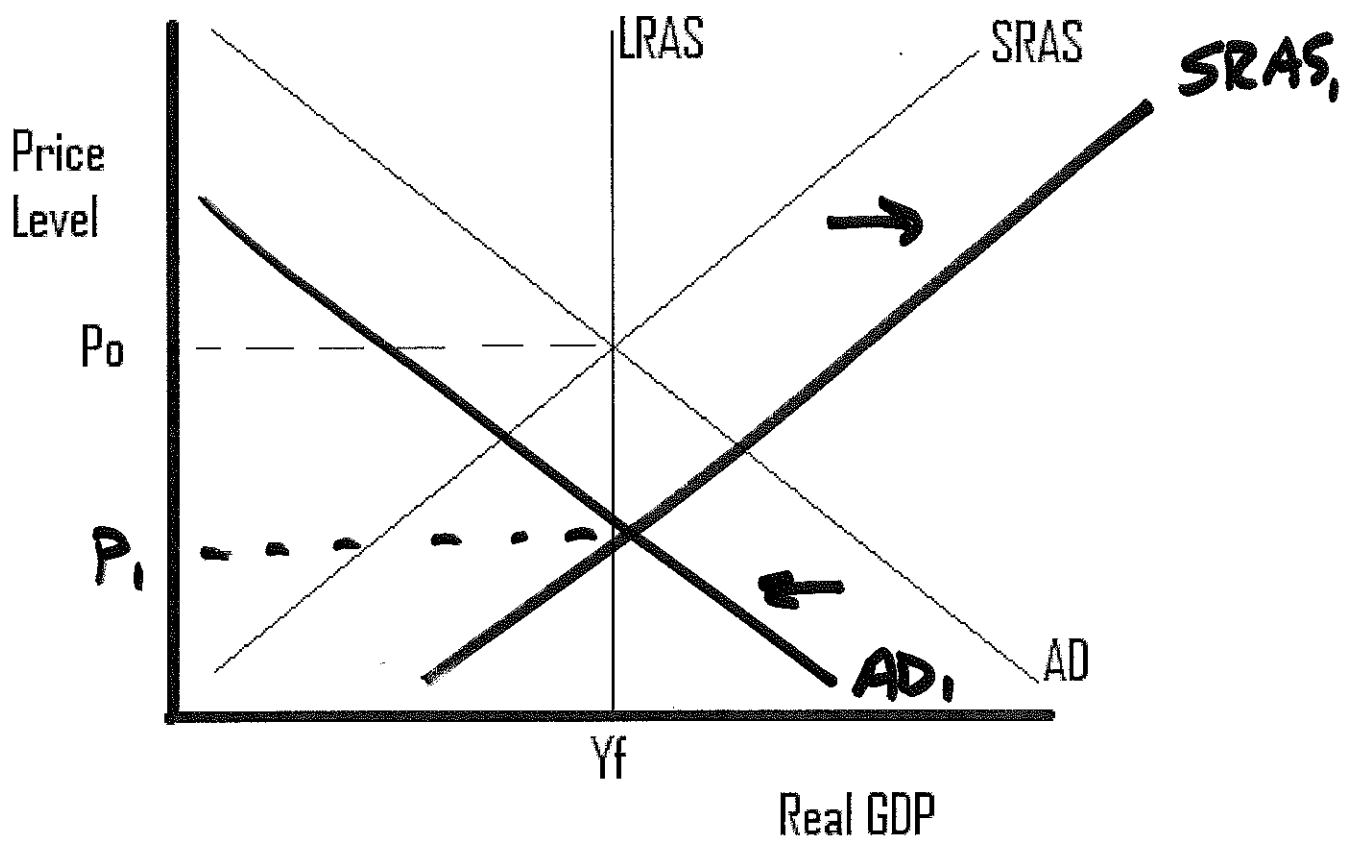




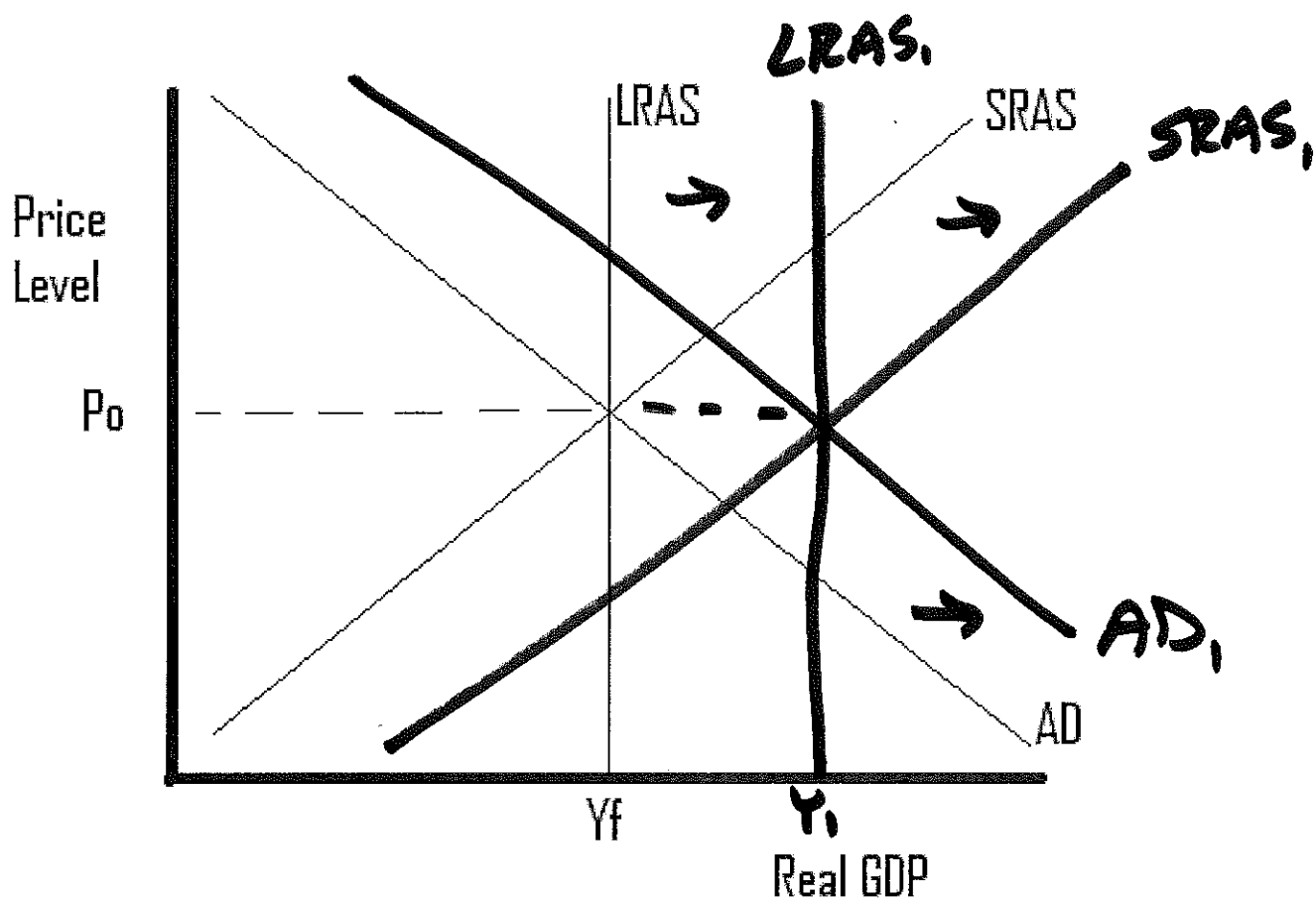
# Extreme Demand - Pull Inflation



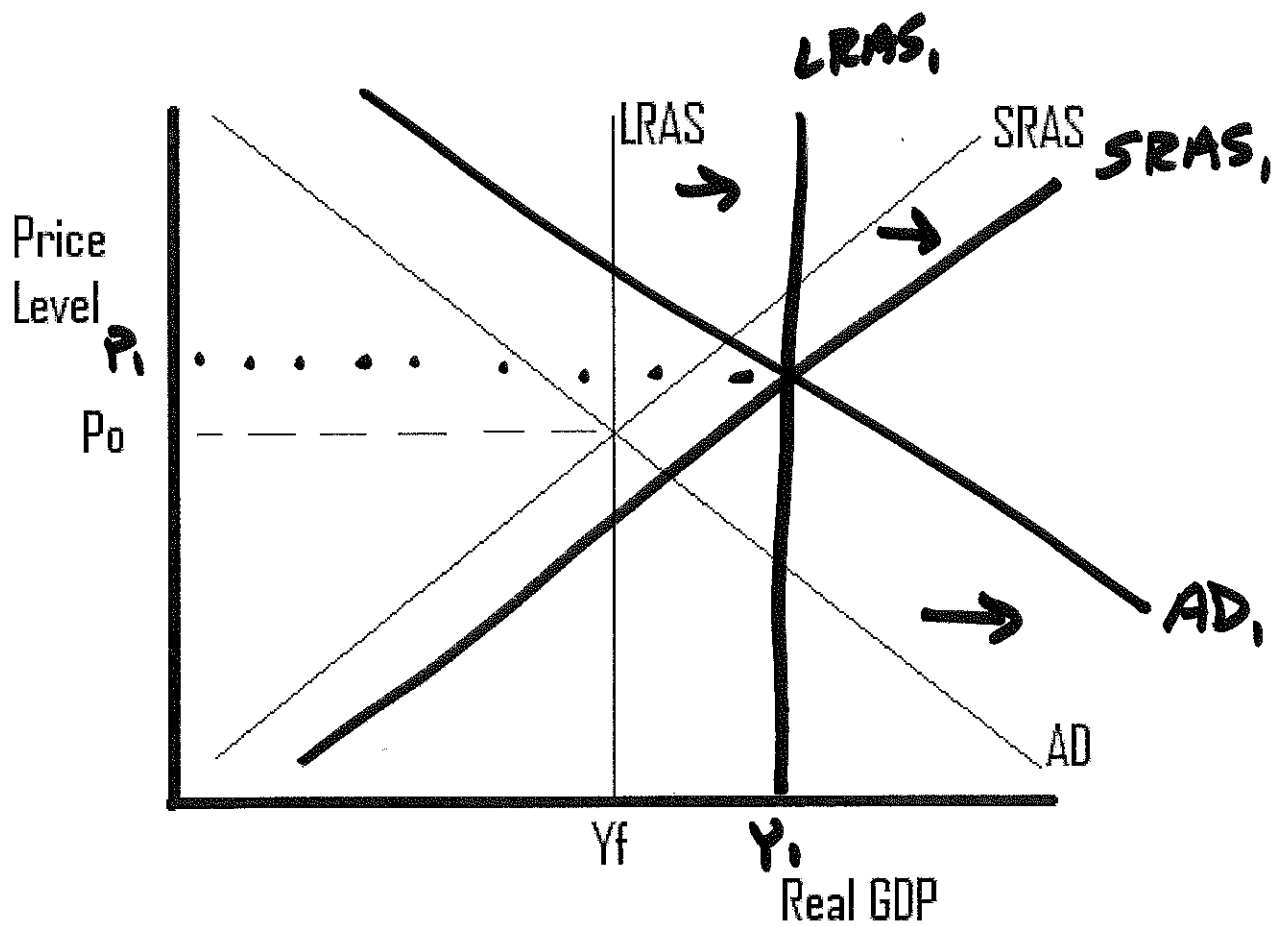
# Deflation



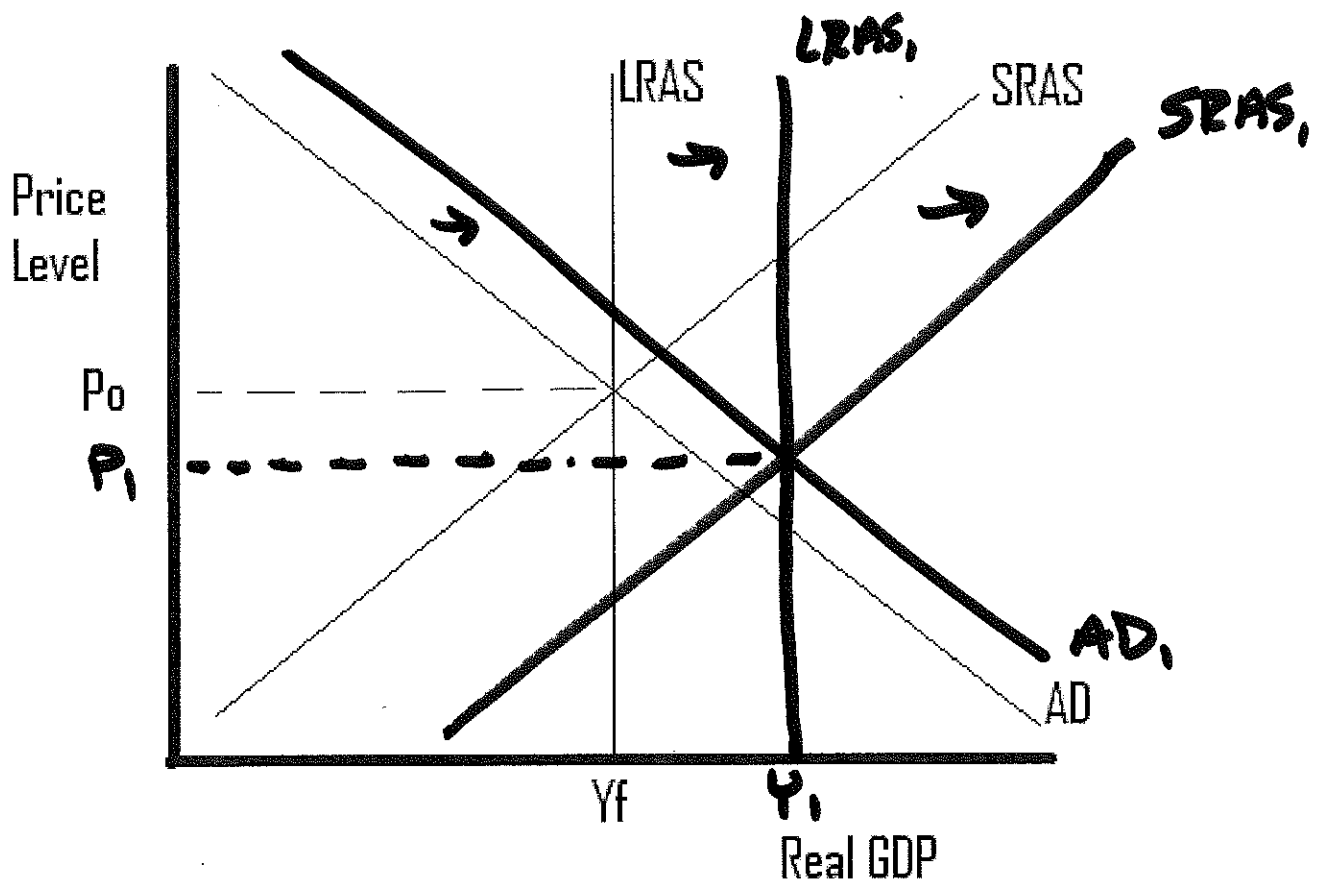
# Non-Inflationary Growth



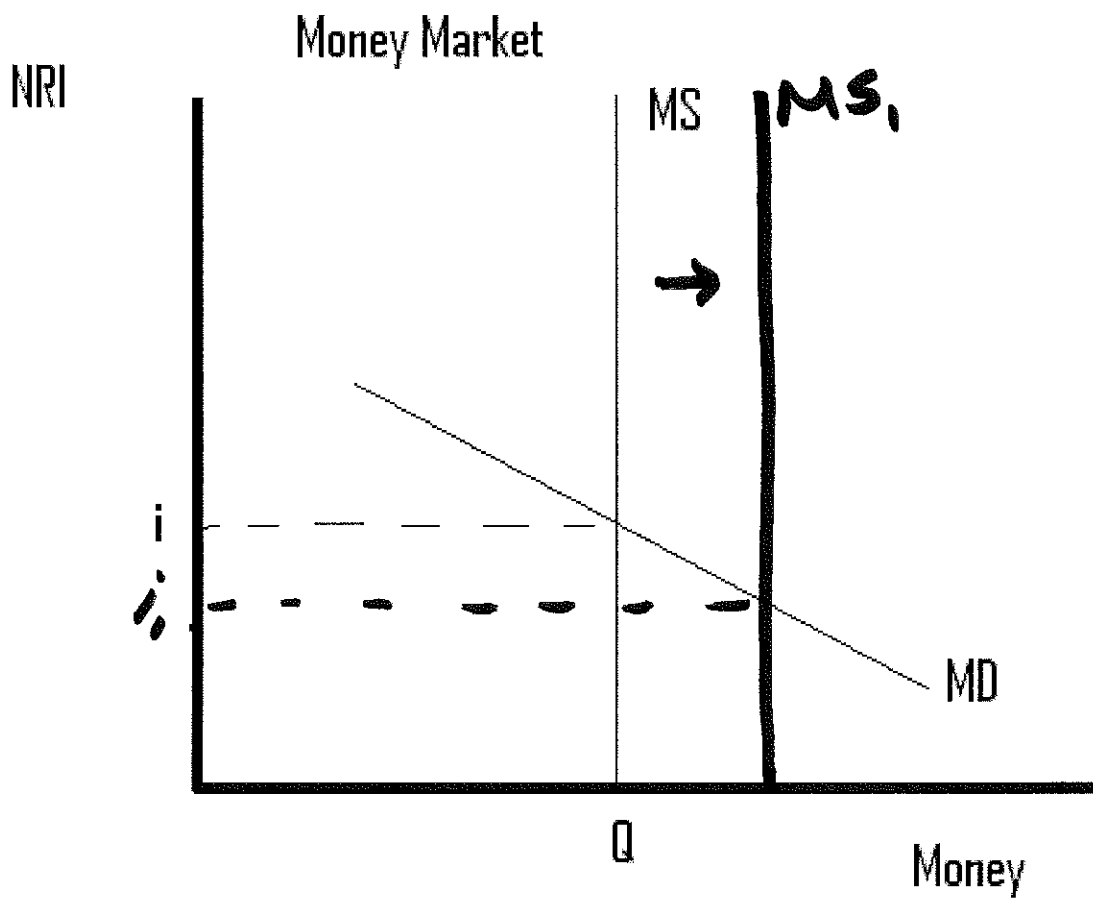
# Inflationary Growth



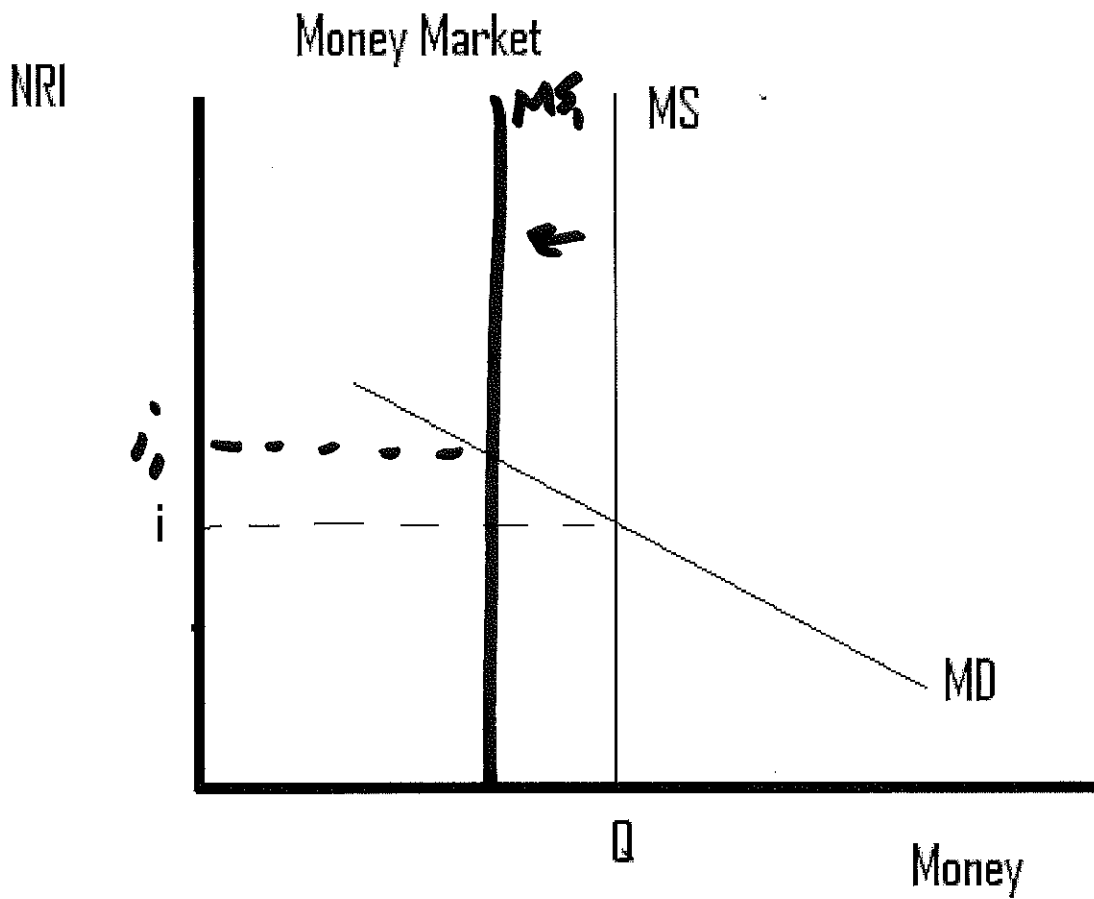
# Deflationary Growth

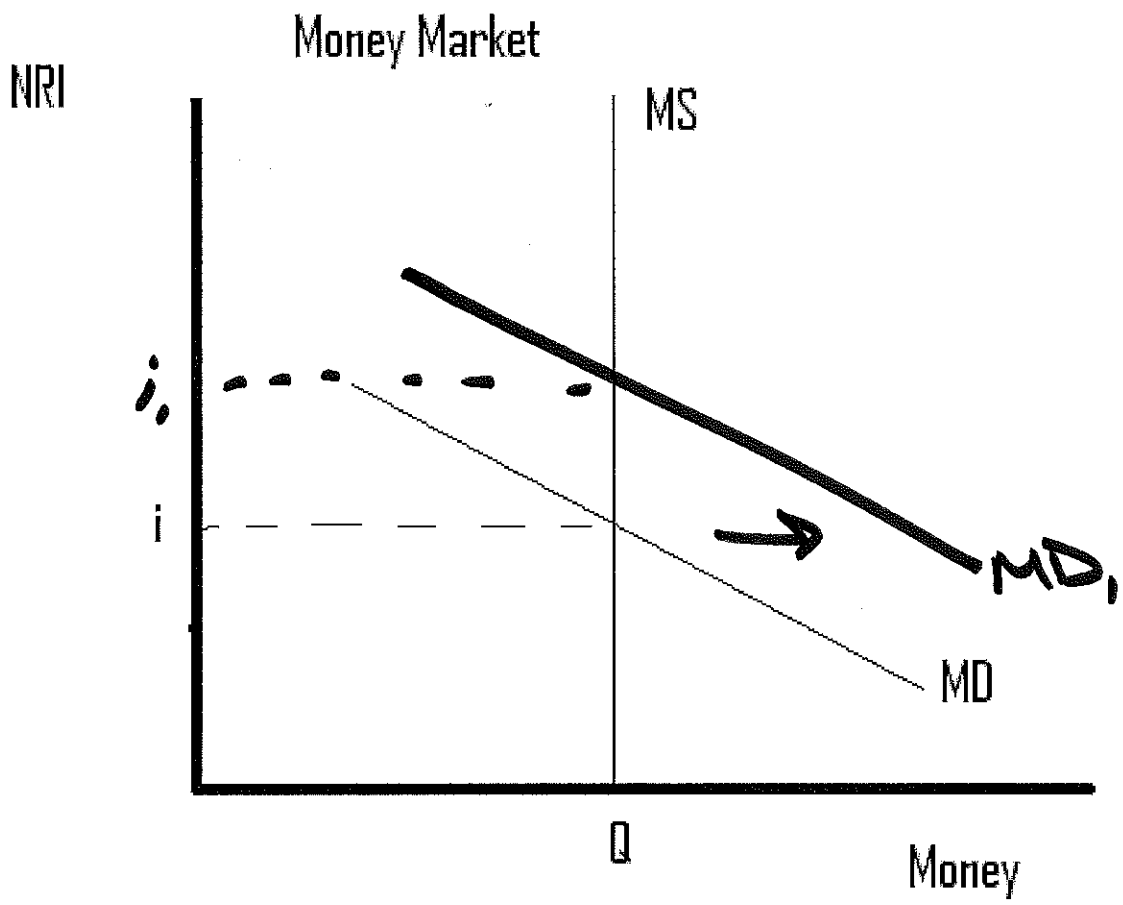


# Expansionary Monetary Policy

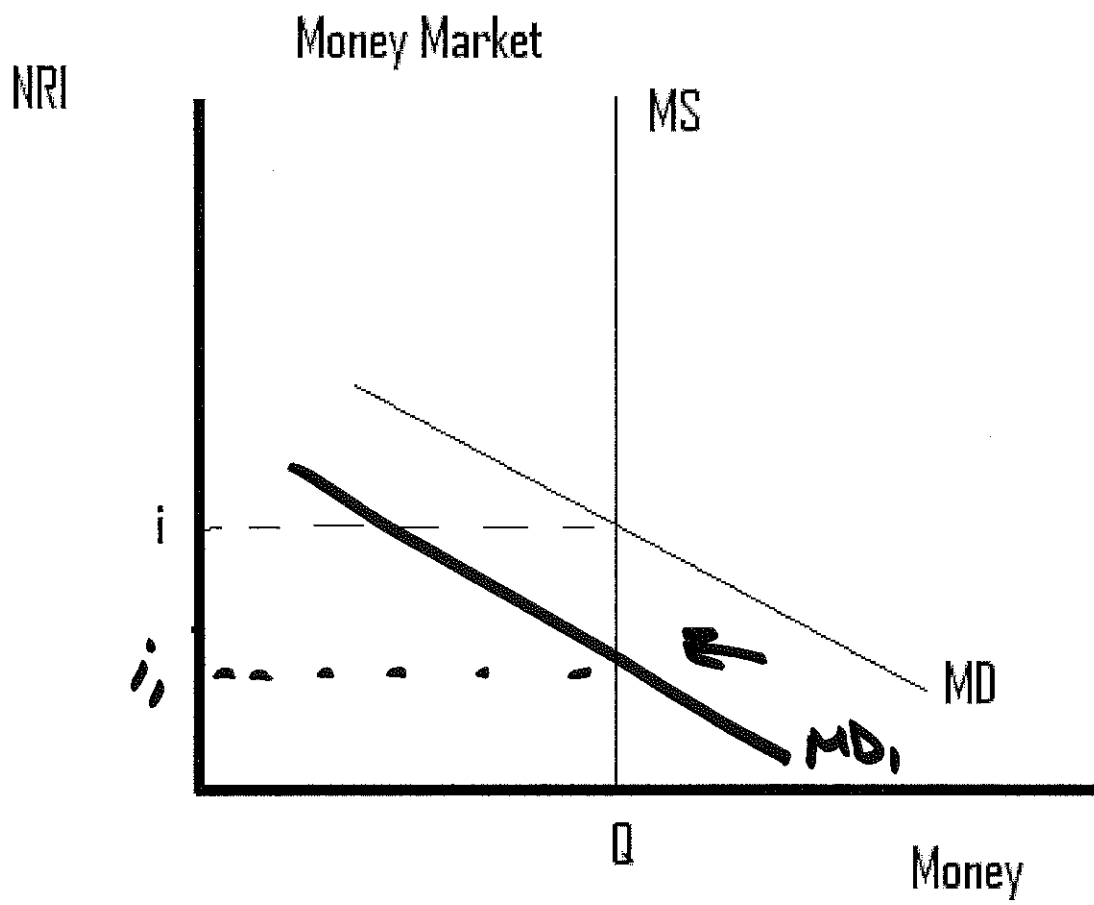


# Contractionary Monetary Policy



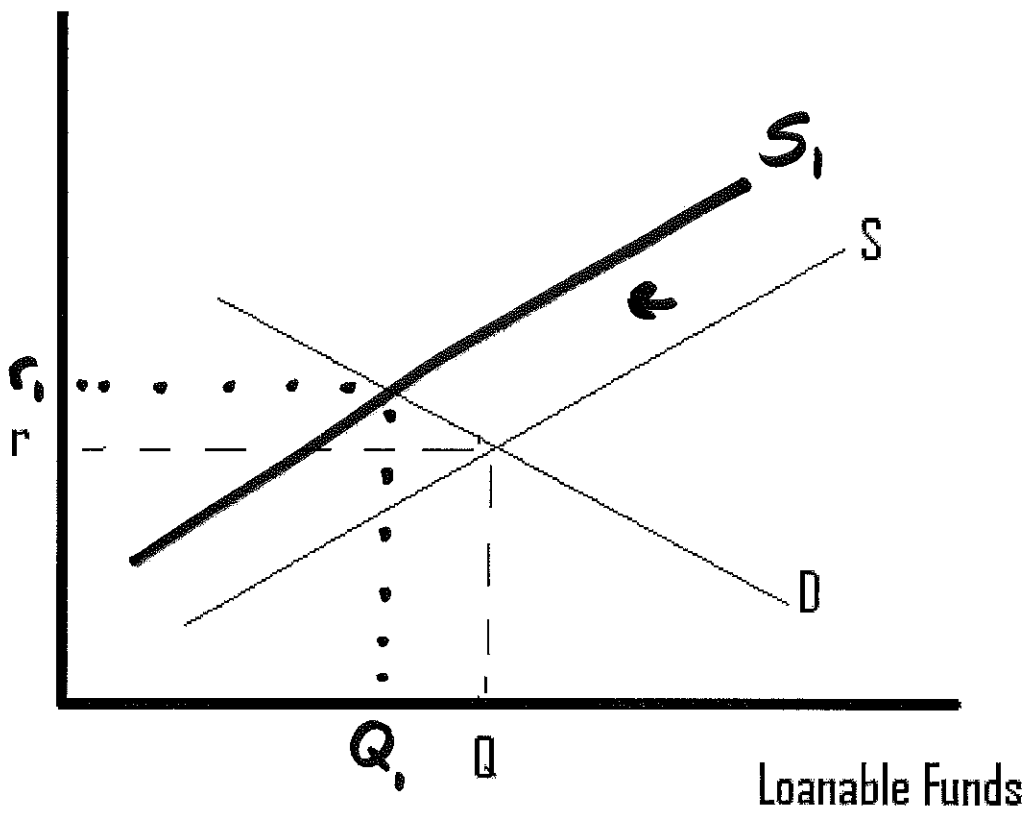






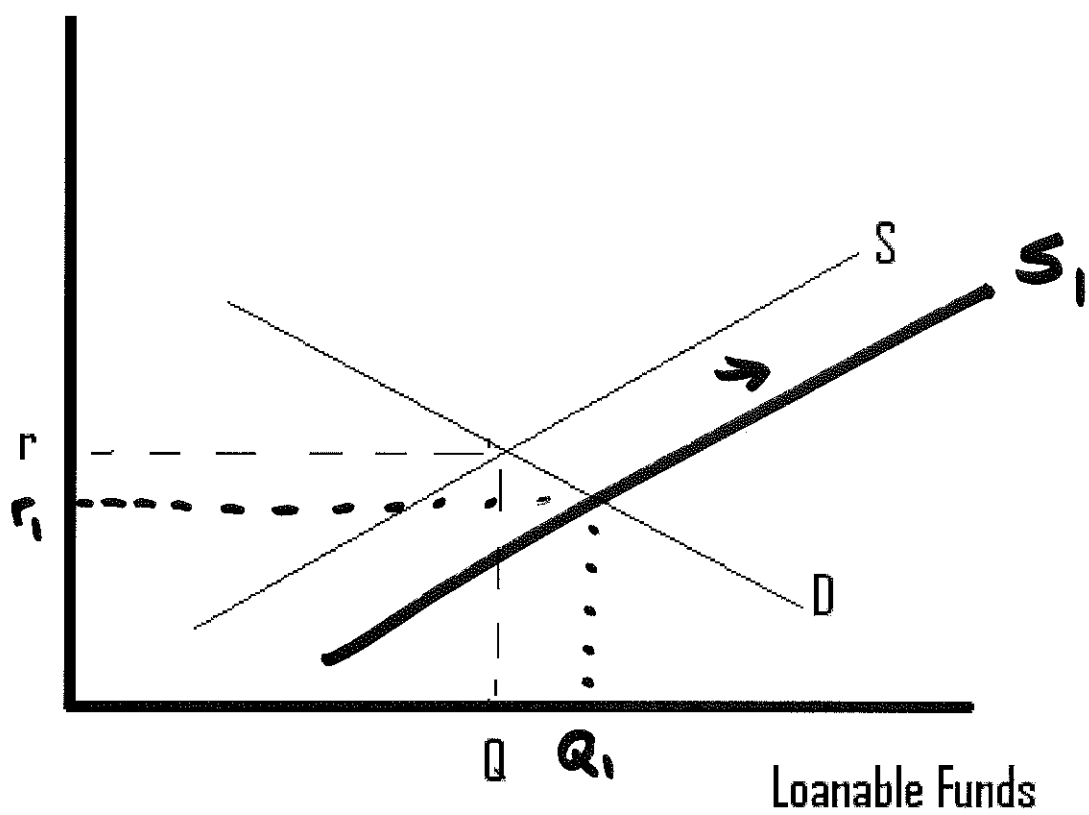
# Loanable Funds Market

RIR



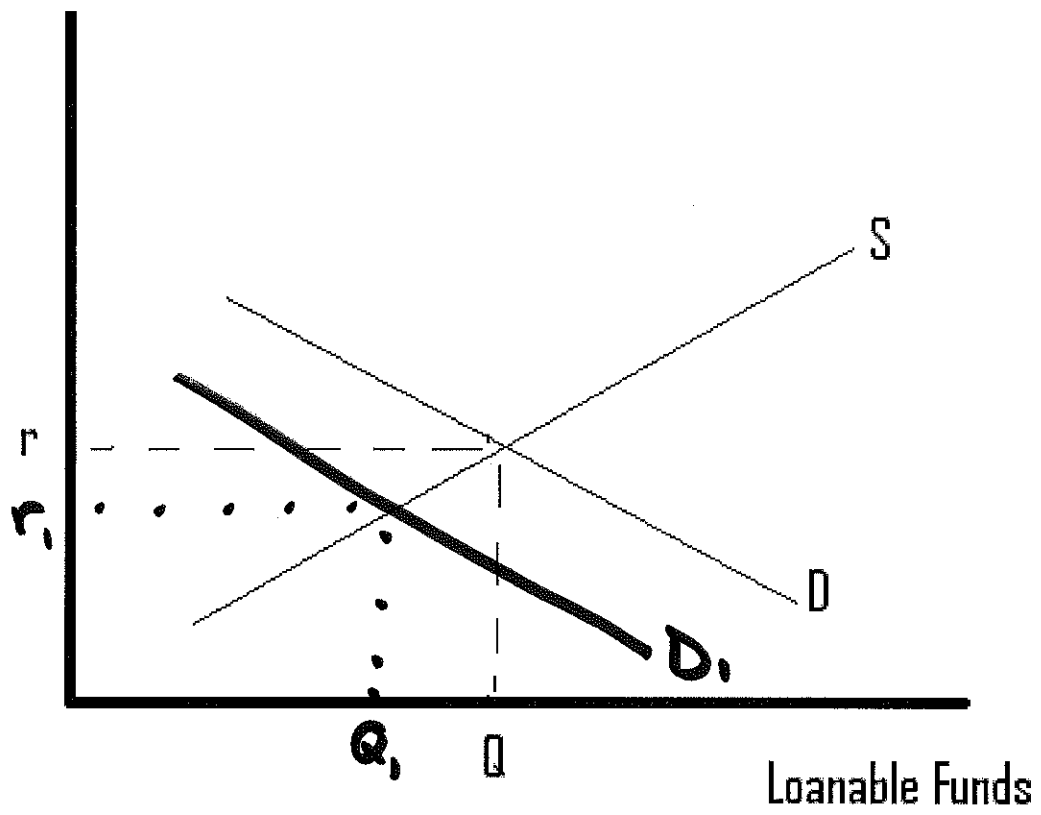
# Loanable Funds Market

RIR



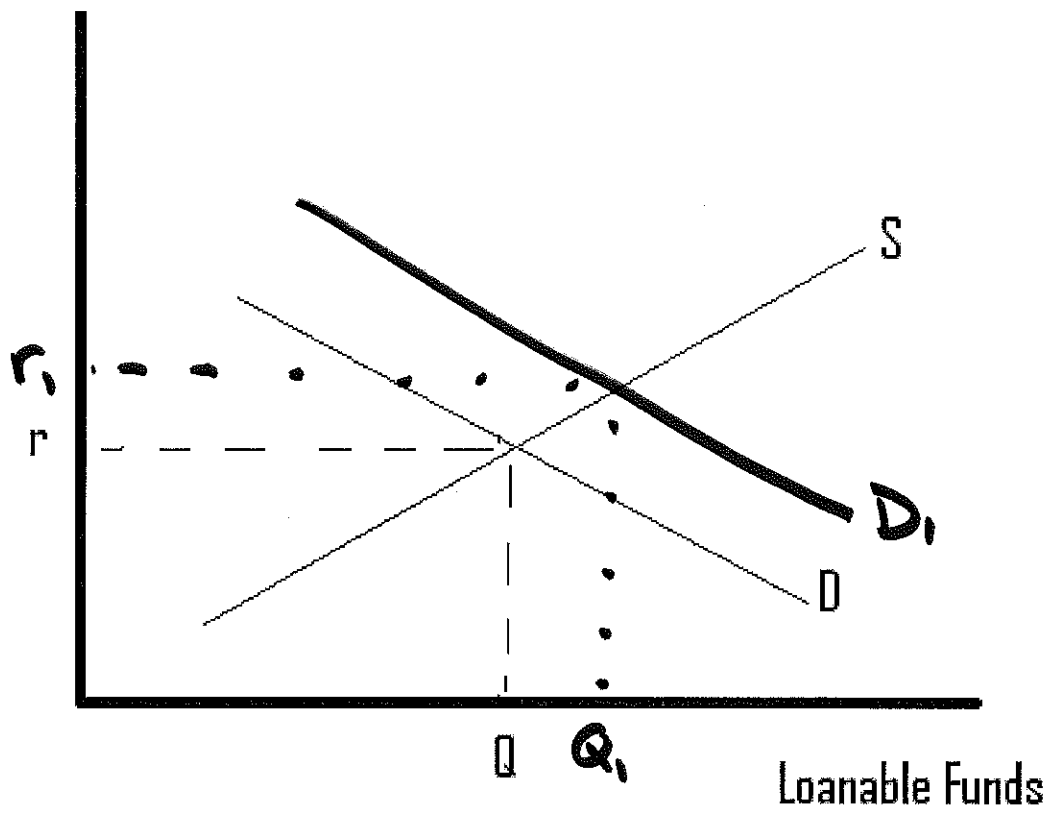
# Loanable Funds Market

RIR



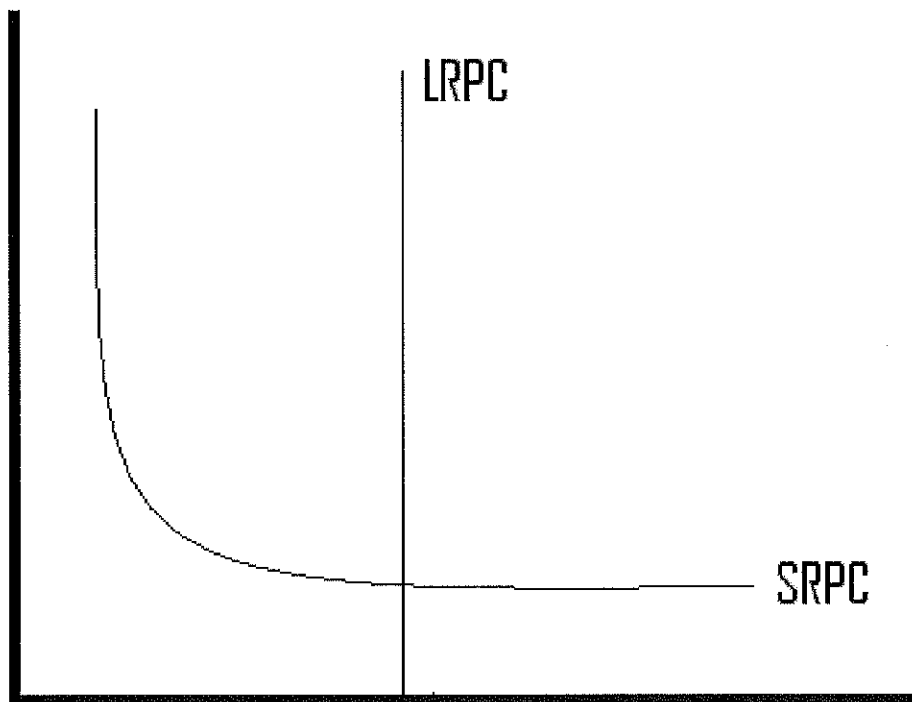
# Loanable Funds Market

RIR



Inflation  
Rate  
%

### Phillips Curve



Unemployment Rate %