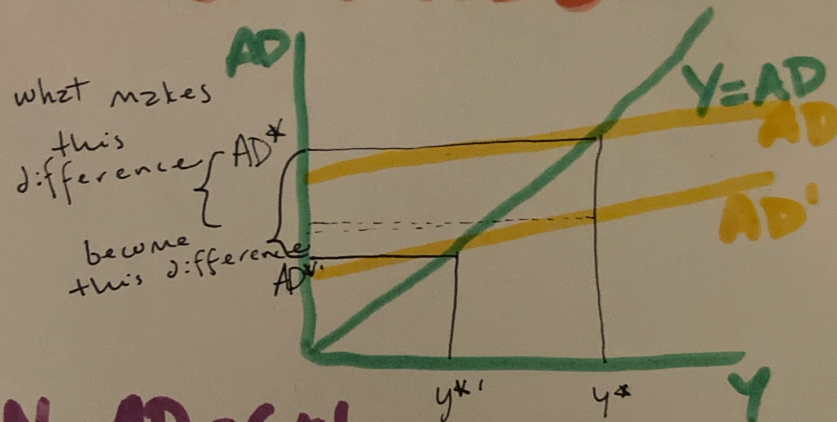


MULTIPLIER MODEL



WHEN $AD = C + I$

$$\Delta Y = \text{MULT} \Delta \bar{C} ; \Delta Y = \text{MULT} \Delta I$$

CONSUMPTION/INVESTMENT
MULTIPLIER

$$\text{MULT} = \frac{1}{1 - \text{mpc}}$$

IF $\text{mpc} = 0.6$, what would
be the effect of an increase
of Investment of \$50 million
on equilibrium expenditure?

$$\begin{aligned} \Delta AD = \Delta Y &= \frac{1}{1 - 0.6} (\$50 \text{ million}) = \frac{1}{0.4} (\$50 \text{ million}) \\ &= \frac{10}{4} \cdot \$50 \text{ million} = \$125 \text{ million} \end{aligned}$$