

Expenditure Multiplier Example: Boost in Consumer Confidence

Suppose an increase in consumer confidence (expectations regarding future income / employment) causes an increase in Christmas spending of \$100 m.illion.

Suppose also $MPS = 0.05$, $MPM = 0.05$.

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$$m = \frac{1}{0.05 + 0.05} = \frac{1}{0.1} = \underline{10}$$

$$\Delta Y = 10 (\$100 \text{ m.illion}) = \$1,000 \text{ m.illion} \\ = \underline{\$1 \text{ b.illion}}$$

$$\Delta C = \$100 \text{ m.illion} \Rightarrow \\ \Delta Y = \underline{\$1 \text{ b.illion}}$$

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