# The Multiplier

Economics

Why an initial injection changes output by more than itself.

**The multiplier is the reciprocal of the share of income withdrawn from the circular flow.**

$$k = 1 \div (1 - MPC) \cdot k = 1 \div MPW$$

| | |
|---|---|
| **MPC = 0.8** | **Multiplier of 5** |
| **MPC = 0.5** | **Multiplier of 2** |
| **High import share**<br>Leaks abroad. | **Smaller multiplier** |

**THE COMMON MISTAKE**

× **Applying one multiplier in all conditions**

✓ **It varies with spare capacity**

With the economy at full capacity, extra demand raises prices rather than output, and the real multiplier approaches zero.

**Withdrawals are saving, tax and imports. Any of the three reduces how much of each round is spent again domestically.**