

CONCEPT: AGGREGATE EXPENDITURES MODEL AND THE MULTIPLIER EFFECT

- The **multiplier effect** describes how an initial boost in spending leads to a much higher increase in _____

□ In the AE model, think like this:

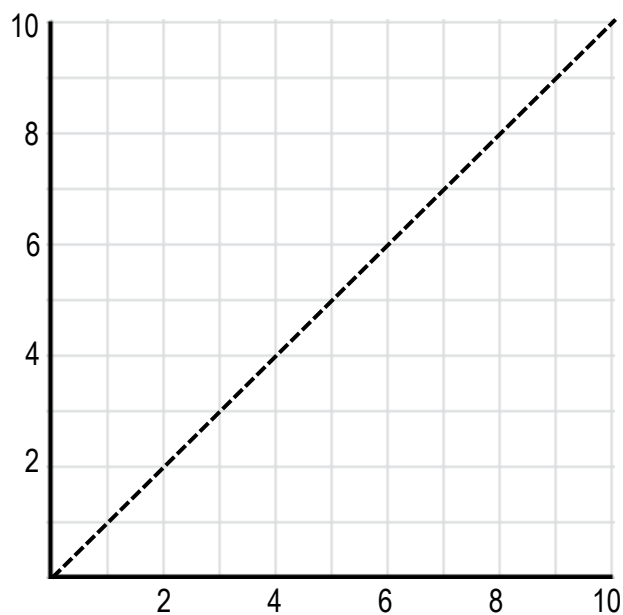
> AE = _____

> GDP = _____

AE =	Consumption	Investment	Government Purchases	Net Exports

}

Aggregate Expenditures Model



	Amount (in billions)
Consumption	$2 + 0.5Y$
Investment (old)	1
Government Purchases	0.5
Net Exports	0.5
C + I + G + NX (old)	
Investment (new)	
C + I + G + NX (new)	

Multiplier Effect

$$\text{Total Increase in GDP} = \frac{1}{1 - MPC} * \text{Initial Spending Boost}$$