

Multiplier exercise

The idea here is to show that changes in injections and withdrawals can have 'multiplied' effects on the economy as a whole, but that the effects will depend on the attitude of households to spending and saving. It follows on from initial work on the circular flow and can be introduced once students are comfortable with the model.

Instructions:

Students are probably going to need calculators/calculator function on phones etc.

As a first step, get the students (in pairs) to complete the diagram (marking injections and withdrawals on it)

Then they can move on to the bulleted questions. Depending on how secure they are with the circular flow they should see that the £10bn will be paid as factor incomes to households who (in the first case) will then spend £8bn on other firms. These firms will pay out £8bn on factor incomes and so on.

The rest should be fairly self-explanatory. After the second bullet, it is worth summarising what has been found (that when consumers spend lots of their income, the impact is much greater, hence making confidence an important factor).

The third bullet point is intended to make the point that different forms of stimulus may have different effects and this is an idea that will be returned to in fiscal policy.