

Module 21 Fiscal Policy and the Multiplier

Discussion Question: What effect do you think a \$50 billion increase in government spending will have on the economy?

Working with Multipliers

- 1.) Assume the MPC is 0.80 and the government increases spending on cancer research by \$15 billion. What is the value of the initial impact on real GDP? What is the value of the total impact on real GDP?

- 2.) Assume the MPC is 0.80 and policy makers have targeted real GDP to increase by \$200 billion. By how much must taxes be reduced to achieve this goal?