Fiscal and Monetary Multipliers

1. Y = G+f(r,Y)
2. M/P = L(r,Y
3. 

4 dY = 

5 

Case A dR=0 Get simple multiplier

 

 Case B dR Here we get possibility of crowding out



From 5



From eq 4 get slope IS

dR/dY = [1-f’(Y)]/f’(R)]

from 4 and 5 get slope LM

dr/dY = -L’(Y)/L’(R) or flatter LM more sensitive speculative demand to R and less sensitive transactions demand to income

Case C 

From 3 and 5 

Sub in 4



Case D Money multiplier 

From 5



Sub in 4







Case E starting from equation 5



Sub in 4

