Multipliers in Fiscal and Monetary Policy

<table>
<tr><th>Fiscal Policy</th><th>Monetary Policy</th></tr>
<tr><td>Investment Expansion Multiplier and Government Expansion Multiplier, Tax Multipliers</td><td>Money Expansion Multiplier</td></tr>
<tr><td>Remember: One of the tools government has available to grow the economy when plagued by recession; or shrink the economy when inflation occurs is government spending
Government will increase its spending during a recession, and decrease its spending during inflation
The question that remains is: BY HOW MUCH SHOULD GOVERNMENT CHANGE ITS SPENDING?</td><td>The Fed regulates the money supply.
One tool that can be used is the reserve requirement, also called required reserved.
We know that if the Fed requires financial institutions to keep a greater percentage of deposits in required reserves, than there is less money available to be loaned out; hence less money can be created. It works the opposite if the Fed lowers the reserve requirement.
The question that remains is: HOW MUCH MORE OR LESS MONEY CAN BE CREATED WHEN THE FED CHANGES THE RESERVE REQUIREMENT?</td></tr>
<tr><td>Multiplier Equations:
This marginal propensity to consume and to save stuff ☺ comes in handy here.
Investment Spending Multiplier =
1 / 1 – MPC or 1 / MPS
Government Spending Multiplier =
1 / 1 – MPC or 1 / MPS
Tax Multiplier =
-MPC / 1 – MPC or –MPC / MPS</td><td>Multiplier Equation:
Money Expansion Multiplier =
1 / Reserve Requirement

The greater the Reserve Requirement, the smaller the multiplier, the smaller the money creation. This would be used during inflationary times, where the Fed aims to decrease the money supply in order to increase nominal interest rates and discourage borrowing by businesses and households.

The smaller the Reserve Requirement, the greater the multiplier, the smaller the money creation. This would be implemented during a recession, when the Fed aims to increase the money supply in order to lower nominal interest rates and encourage borrowing by businesses and households.</td></tr>
<tr><td>The multipliers that calculate using the equations above can help you identify how much money needs to be injected into the economy or withdrawn from the economy in order to bring the economy back to full employment level. Remember, we aim for an economy at full employment level or even better, a growing economy; but we don't enjoy any of the gaps addressed earlier.</td><td></td></tr>
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