

is equal to the change in consumption plus the change in investment. From that, I realize that by putting the delta C on this side, delta I is equal to delta Y minus delta C. From that, I realize that K is equal to delta Y - and remember, this is the definition - over delta I. For this delta I I substituted delta Y minus delta C. I divide the whole by delta Y and as a result I get K, the multiplier, is equal to delta Y divided by delta Y, which is 1 over delta Y divided by delta Y is 1 minus delta C over delta Y. And delta C over delta Y, remember, is the marginal propensity to consume.

May I have the next slide, please? This part is the marginal propensity to consume, and K is 1 minus 1 over the marginal propensity to consume. Why get from this formula to that formula? Because, in our economy, by statistical measures I can find the marginal propensity to consume. Here they are; these are the actual statistics for 1955 and 1956. And for the change in consumption and the change in income I arrive at the marginal propensity to consume, of .7. And having found the marginal propensity to consume, of .7, I arrive at the multiplier K, which is equal to 1 over 1 minus .7, which is equal to 1 over .3, and that is equal to 3.3. Remember Mr. Heller was referring to two multipliers yesterday. In one he mentioned the No. 2; in the second one he referred to anywhere between 3 and 4. This is 3.3; this is the one he was referring to between 3 and 4.

Now may I have the next slide, please? Going back, then, to these data, I find, thus, that in 1935 there was a change in investment, from 6.3 to 8.4. There was a change in total government expenditures from 10.3 to 11.8. Then notice that we were at an important unemployment level of 10.6 which was a result of the increase of investment, plus government expenditures, and this gradually went down to 7.7.

May I have the next slide, please? Well, here are those figures again for