

Answer on Question #50200, Economics, Macroeconomics

Task:

How is the size of multiplier related to income tax rate, the corporate tax rate, the marginal propensity to import and the MPC?

Answer:

The size of multiplier relates to income tax rate, the corporate tax rate, the marginal propensity to import and the MPC. This relation can be described by the Keynesian multiplier model:

$$Multiplier = \frac{1}{1 - [MPC \cdot (1 - T) - MPI]}$$

MPC – marginal propensity to consume;

T – marginal (or induced) tax rate;

MPI – marginal propensity to import.