Question #58445, Economics, Macroeconomics

While deriving output multiplier for an econonomy, what is the condition under which the output multuplier can be negative.

Answer:

The condition for an output multiplier above 1 is:

$$\omega > \frac{1 - \alpha + \dfrac{1}{\psi}}{\alpha}$$

If ψ = 0.5, the markup elasticity ω needed to deliver an output multiplier of 1 is 3.3, far above the plausible range. With ω = 0.5, the output multiplier is 0.5 and the consumption multiplier is −0.5.