SPENDING MULTIPLER

In addition to the AD curve shifters, the multiplier effect would also cause AD curve shift to be amplified.  The central economic idea humorously illustrated in the following essay by humorist **Art Buchwald** is the multiplier effect (1975, February 22). Squaring the Economic Circle. *Cleveland Plain Dealer*.

1. Hofberger, a Chevy salesman in Tomcat, VA, called up Littleton of Littleton Menswear & Haberdashery and told him that a new Nova had been set aside for Littleton and his wife.
2. Littleton said he was sorry, but he couldn't buy a car because he and Mrs. Littleton were getting a divorce.
3. Soon afterward, Bedcheck the painter called Hofberger to ask when to begin painting the Hofbergers' home.  Hofberger said he couldn't, because Littleton was getting a divorce, not buying a new car, and, therefore, Hofberger could not afford to paint his house.
4. When Bedcheck went home that evening, he told his wife to return their new television set to Gladstone's TV store.  When she returned it the next day, Gladstone immediately called his travel agent and canceled his trip.  He said he couldn't go because Bedcheck returned the TV set because Hofberger didn't sell a car to Littleton because the Littletons are divorcing.
5. Sandstorm, the travel agent, tore up Gladstone's plane tickets, and immediately called his banker, Gripsholm, to tell him that he couldn't pay back his loan that month.
6. When Rudemaker came to the bank to borrow money for a new kitchen for his restaurant, the banker told him that he had no money to lend because Sandstorm had not repaid his loan yet.
7. Rudemaker called his contractor, Eagleton, who had to lay off eight men.
8. Meanwhile, General Motors announced it would give a rebate on its new models.  Hofberger called Littleton to tell him that he could probably afford a car even with the divorce.  Littleton said that he and his wife had made up and were not divorcing.  However, his business was so lousy that he couldn't afford a car now.  His regular customers--Bedcheck, Gladstone, Sandstorm, Gripsholm, Rudemaker, and Eagleton--had not been in for over a month!

In this example, the Littleton household made a slight change to their consumer spending.  Consumer spending is just one component of AD but this small change set off a chain reaction that had bigger effects on business activity and affected a much larger number of people.  The change in consumer spending by the Littletons' led to a larger change in GDP.