

Learning Activity: The Multiplier Effect

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<https://www.federalreserveeducation.org/teaching-resources/economics/growth-and-fluctuations/learning-activity-the-multiplier-effect>



LEARNING Activity

Compelling Question

How does spending create a multiplying effect in an economy?

Procedure

1. Ask students, "Have you ever been to a large concert, professional sports game, or another large event? If yes, what was it?" (*Answers will vary. Encourage students who say they have not attended these types of events to provide an example.*)
2. Ask students, "What kinds of purchases are made at these events?" (*Answers will vary but may include sports jerseys, concessions, parking, or concert merchandise.*)
3. Tell students they will simulate how these types of spending transactions create a multiplied spending effect in the economy where these events are held because their spending becomes someone else's income. Initial spending will be \$100.
4. Distribute one card from *Handout 1: Role/Transaction Cards* to each student. NOTE: This simulation has 15 cards to be distributed in numerical order: For larger groups, the remaining students act as observers. For smaller groups, the fewer the students the smaller the total spending calculation at the end.
5. Distribute the money from *Handout 2: Funny Money* (\$100 total) to the student with transaction card 1. Instruct the student with card 1 (ball game attendee) to stand in an open area of the classroom and read their card to the class. Instruct the class to identify the vendors mentioned (card 2: jersey store and card 3: concessions), or where the spending transactions will take place, as the card is read. Instruct the students with vendor cards 2 and 3 to stand in front of the first student. The student with transaction card 1 should "pay" students 2 and 3 based on the card details. (See this activity's *Visual/slide* for an example of how to arrange students as they join the demonstration.)
6. Work through each of the transaction cards in numerical order until all 15 students are standing as shown in the visual/slide.
7. Display the visual/slide. Instruct students to calculate how much total spending (\$212) was generated by adding the additional spending from the web (\$112) to the initial spending amount (\$100).
8. Explain the following points about the multiplier effect:
 - One person's spending becomes income for another person.
 - Additional spending results in increased income, which when added together has a much larger total impact than the initial spending.
 - Additional spending in an economy can have a multiplied effect on the total income and expenditures in that economy.



LEARNING Activity

Post-activity discussion is on the following page.

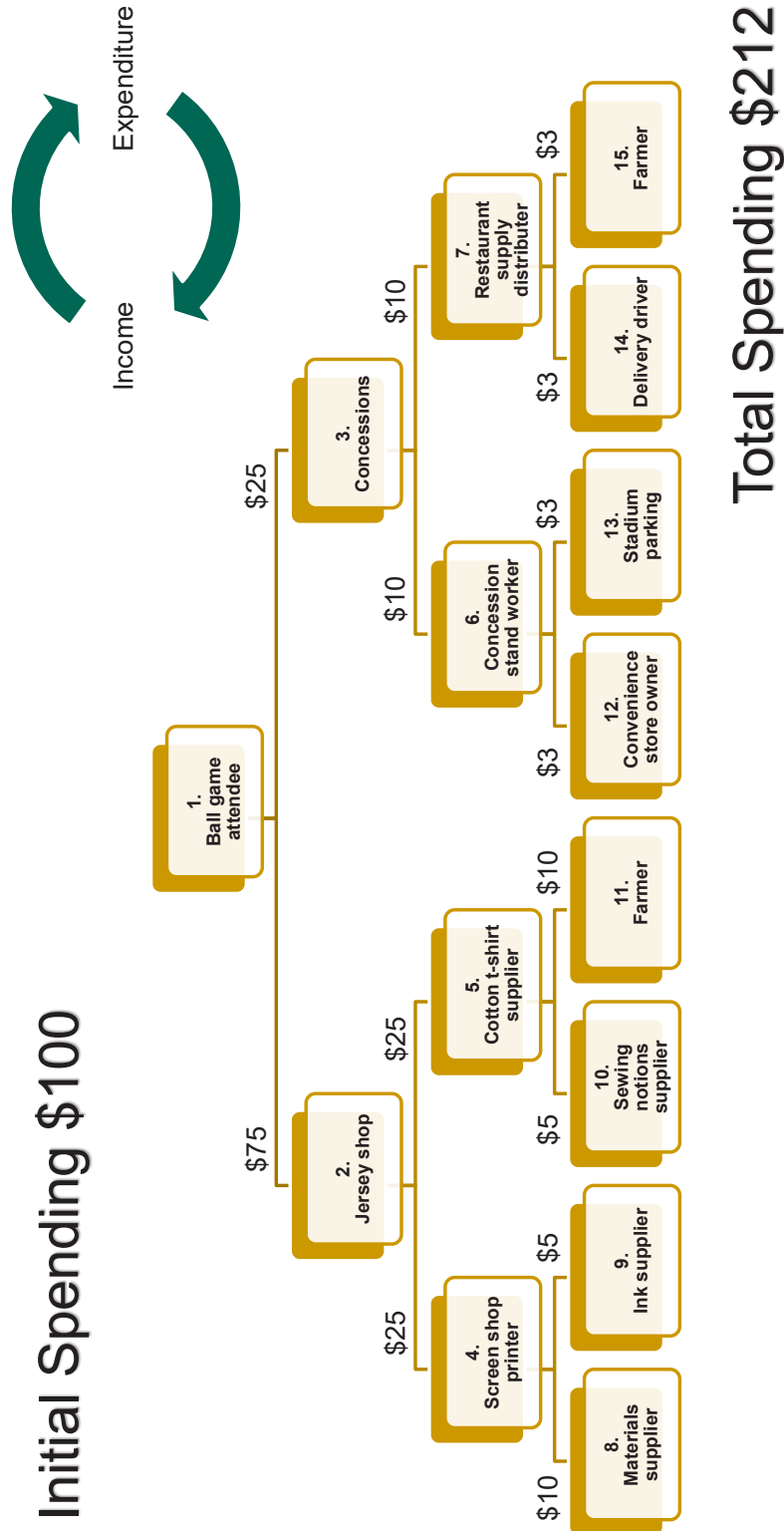
Post-Activity Discussion

- How is spending related to income? *(One person's spending becomes another person's income.)*
- What is the spending multiplier effect? *(It is what happens when an expenditure creates a larger total change in spending as it is passed [multiplied] throughout an economy. More spending creates more income, which allows for further spending, and so on.)*
- What drives the "multiplier effect"? *(The income-expenditure cycle: Because an expenditure by one person becomes income for another, more spending transactions are possible because that money is passed from household to household.)*
- How does the multiplier effect create an incentive for cities to attract spending to a local area, such as a city's effort to contract a sports team or music festival? *(Cities may try to attract large events in the hopes that event spending generates a multiplied effect as that income is turned around and used to make other purchases in the area.)*
- What might prevent the multiplier effect from being as large? *(Saving more income means less money gets passed to the next person.)*



Activity materials are on the following pages.

Visual

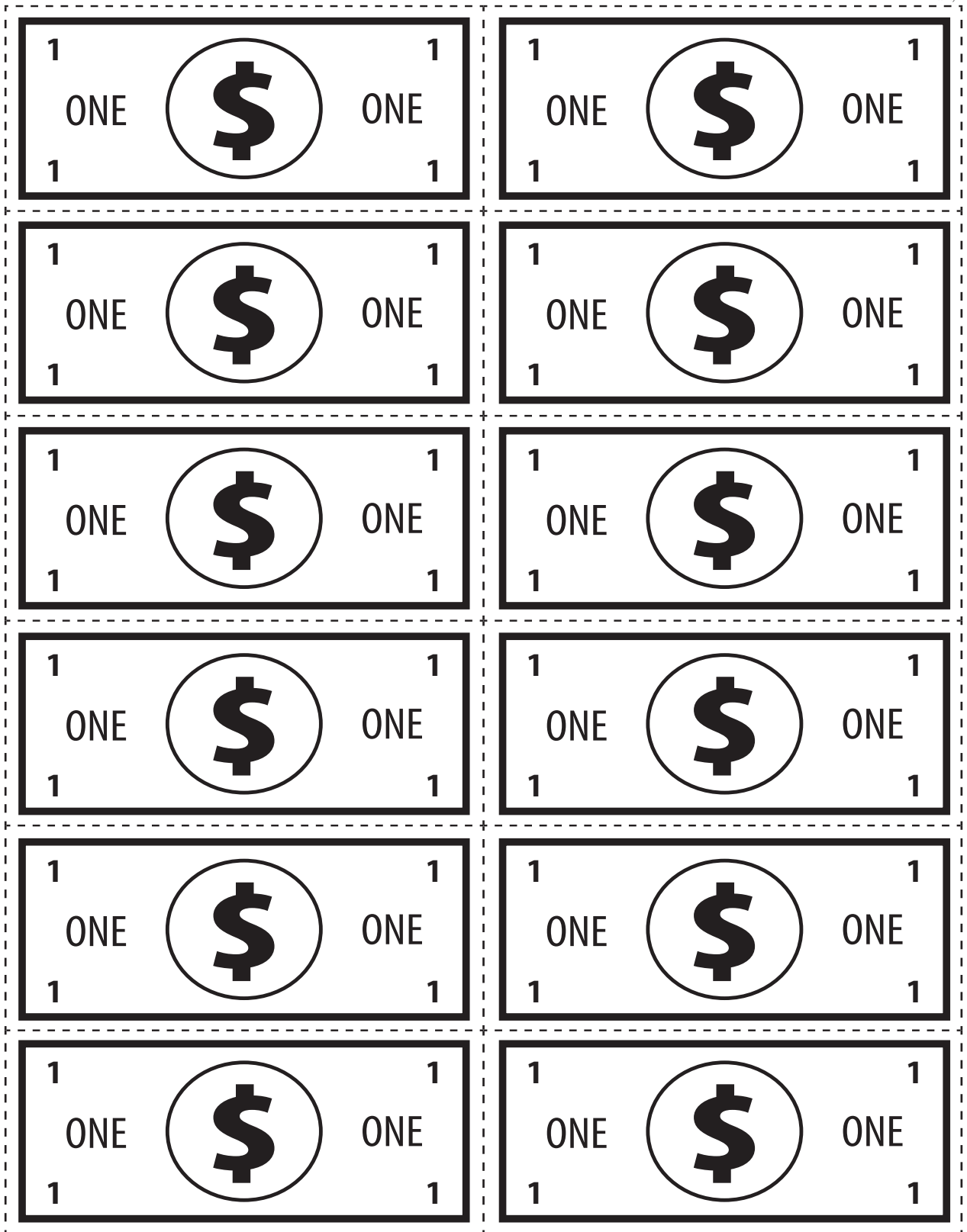


Handout 1: Role/Transaction Cards



1. You have decided to attend a professional baseball game! In addition to your ticket, you purchase a jersey for \$75 and concessions for \$25 .	8. You sell materials for screen printing. You earn \$10 for each unit sold to other businesses.
2. You own a jersey store at the baseball stadium. To run your store, you must pay \$25 for screen printing materials and \$25 for cotton t- shirts .	9. You sell ink used to screen print t-shirts. You earn \$5 in ink sales for each t-shirt produced.
3. You own a concession stand at the baseball stadium. To run your business, you must pay \$10 in employee wages and \$10 to a restaurant supply distributor .	10. You sell sewing notions. You earn \$5 in notion sales for each t-shirt produced.
4. You are the owner of a screen-printing supply store. Your operating costs include \$10 for materials and \$5 for ink .	11. You are a cotton farmer. You earn \$10 for each bushel of cotton.
5. You are the owner of a cotton t-shirt factory. Your operating costs include \$10 for cotton and \$5 for sewing notions .	12. You own a convenience store near the stadium. You earn \$3 for a snack you sold to a customer.
6. You work for the concession stand. You take your \$10 in wages and pay \$3 for parking at the stadium and \$3 for a snack at the convenience store on your way home.	13. You are a parking attendant. You earn \$3 for each car parked in your lot at the stadium.
7. You are the owner of a restaurant supply company. You pay your delivery driver \$3 to deliver to the stadium and pay farmers \$3 for food goods .	14. You are the delivery driver. You earn \$3 wages for making a delivery to the sports stadium.
	15. You are a farmer. You earn \$3 for each unit of crops sold.

Handout 2: Funny Money (page 1 of 3)



Handout 2: Funny Money (page 2 of 3)



1 ONE 1	1 ONE 1	1 ONE 1	1 ONE 1
1 ONE 1	1 ONE 1	1 ONE 1	1 ONE 1
1 ONE 1	1 ONE 1	1 ONE 1	1 ONE 1
1 ONE 1	1 ONE 1	1 ONE 1	1 ONE 1
5 FIVE 5	5 FIVE 5	5 FIVE 5	5 FIVE 5
5 FIVE 5	5 FIVE 5	5 FIVE 5	5 FIVE 5

Handout 2: Funny Money (page 3 of 3)



5 FIVE 5 \$ 5 FIVE 5	5 FIVE 5 \$ 5 FIVE 5
10 TEN 10 \$ 10 TEN 10	10 TEN 10 \$ 10 TEN 10
10 TEN 10 \$ 10 TEN 10	10 TEN 10 \$ 10 TEN 10
10 TEN 10 \$ 10 TEN 10	\$
\$	\$
\$	\$