Power of the Economy

How does Consumer Confidence affect GDP

GDP = Consumption + Investment + Government Spending

- The investment multiplier refers to the stimulative effects of public or private investments.
- It is rooted in the economic theories of John Maynard Keynes.
- The extent of the investment multiplier depends on two factors:
  the marginal propensity to consume (MPC) and
  the marginal propensity to save (MPS).
- A higher investment multiplier suggests that the investment will have a larger stimulative effect on the economy.

The multiplier effect has a greater impact on Investment because of its effect on Consumer Confidence and the so called Trickle-Down Theory or Supply Side Economics.

Supply-side economics is a theory that maintains that increasing the supply of goods and services is the engine for economic growth. It advocates tax cuts as a way to encourage job creation, business expansion, and entrepreneurial activity.

Supply-side economics may be seen as the polar opposite of Keynesian economics, or demand-side economics, which asserts that boosting demand for goods and services is the key driver of economic growth.

The three pillars of supply-side economics are tax policy, regulatory policy, and monetary policy.

Whereby, according to Milton Friedman

INFLATION: too high a rate of growth in the quantity of money