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TOPIC :- INTERACTION OF THE MULTIPLIER AND THE ACCELERATOR

It is necessary to combine the multiplier effect and the accelerator effect of an initial investment in order to measure the total effect upon aggregate income. An autonomous increase in investment raises income through induced consumption expenditures due to the multiplier effect. This increase in income and the resulting consumption expenditure may, however, induce a further increase in investment. Now, the induced increase in investment will start generating more income through a multiplier process. Once again, the additional income, in turn, induces further investment due to the accelerator effect. This is how we encounter super-cumulative process of the interaction of the multiplier and the accelerator. The fully magnified effect of the initial increase in investment upon income is called the leverage effect. This suggests that the multiplier and the accelerator lead to strengthen mutually each other and that their interactions produce a leverage effect, leading the economy to a very high level or, in reverse, to a very low level of income propagation.

The great merit of the interaction of the multiplier and the accelerator brings out the super cumulative effects on aggregate income as a result

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of an autonomous investment.

It must be noted that for determining the ultimate level of national income, however, the acceleration principle has no decisive role to play, as such, the ultimate levels of national income to be generated are determined by the multiplier effect alone. The acceleration effect tends to speed up the rate at which national income is generating due to the multiplier effect. Furthermore, the acceleration effect is also responsible, at least in part, for causing fluctuations in national income while reaching the level indicated by the multiplier magnitude. Therefore, it is erroneous to conclude even on the basis of acceleration-multiplier interaction that an economy can easily get itself out of a depression or induce continuously rising level of national income. Simplify by saying, a small increase in autonomous investment because, acceleration never influences the ultimate levels in the generation of national income. Its only significance is that it tends to produce cycles in the path of movement in national income from one level to another. Prof. Hansen as such, remarks that it is not possible to raise national income to higher levels by the process of lifting it by

its bootstraps by the interrelation of increased consumption and increased investment in the familiar expansionist process, forced by the Principle of multiplier-accelerator interaction.

In short, the acceleration effect brings forth significant cyclical effects in an economy. Particularly, a sharp fall in national income from the "multiplier level" is caused by the acceleration effect, even though the autonomous investment injections are maintained. It means income creating new investments can not help in sustaining the national income at a given level when the induced investment starts declining on account of the levelling off of consumption so that negative acceleration effect starts operating.

We have explained the interaction of multiplier and accelerator in case of various values of marginal propensity to consume and the capital-output ratio. On the basis of interaction of multiplier and accelerator the two categories of business cycles have been put forward. The first category is known as explosives cycle and the another one is known as damped oscillations theory. Both are noted as important business cycles.

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