The Multiplier Effect in an Open Economy:

- We can also measure the multiplier in terms of how much extra income goes in savings + other withdrawals
- A full 'open' economy has all sectors + 3 withdrawals: savings, taxation + imports
- By adding all the withdrawals you get the marginal propensity to withdraw
  - ↳ mpw = marginal propensity to save (mps) + marginal tax rate (mtr) + marginal propensity to import (mpm)
- Formula: $\text{multiplier} = \dfrac{1}{1 - \text{mpw}}$

The Downward/Reverse Multiplier:

- A withdrawal of income from the circular flow will lead to a downward multiplier effect
- E.g. when there is a rise in savings, import spending or taxation, there is a downward multiplier effect on the rest of the economy