Unemployment Multiplier

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https://pascalmichaillat.org/c2/

Sufficient statistic # 2 : unemployment multiplier, m

Definition:

$$\boxed{m = -\frac{du}{dg}}$$

- m is decrease in unemployment rate (in pp) when share of labor force devoted to public production increases by 1 pp.
- changing g → change in AD → change in θ → change in u
- $m = 0$: unemployment rate does not respond to public spending
- $m > 0$: unemployment rate ↓ when public spending ↑ (realistic case in US)