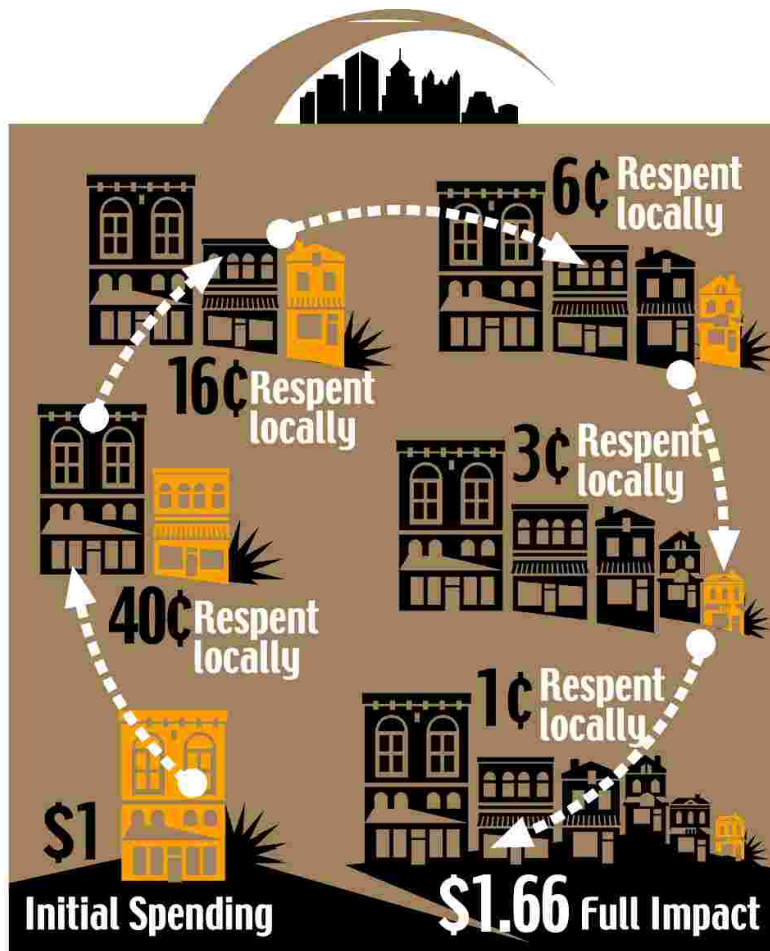


What Is the Multiplier Effect?

Where your money goes after you fork it over is just as important as your initial buying decisions!

The multiplier effect measures how much money remains in the local economy as purchases are made. The higher the multiplier effect, the better, since it means that the local economy is supporting itself. Spending outside the local economy reduces or eliminates the multiplier effect. Multiplier effects can vary widely based on variables used. The chart below illustrates a multiplier effect of 1.6.



Consider three levels of impact created by an expenditure, which includes direct spending, indirect spending and induced spending.

- **Direct impact:**

A shopper visits a neighborhood commercial district and purchases merchandise, food and beverages from local businesses. (This creates direct revenue to the local merchants).

- **Indirect impact:**

Upon receipt of the dollars, the process of respending begins. The merchants make payments to their employees, suppliers, and so on. (This is the indirect effect of the initial expenditure, which creates additional income and employment for the local economy).

- **Induced impact:**

The employees receive paychecks and purchase goods and services. The suppliers replenish their stock, make payments of wages to their employees, etc. (This is the induced effect of the initial expenditure, which creates further economic activities).

Source: Community Economic Analysis, The Coady International Institute, Antigonish, Nova Scotia, Canada.