$\Delta G = +70$


ΔY = ΔG

$\Delta C = \Delta Y$ (MPC)

Change in Equilibrium GDP

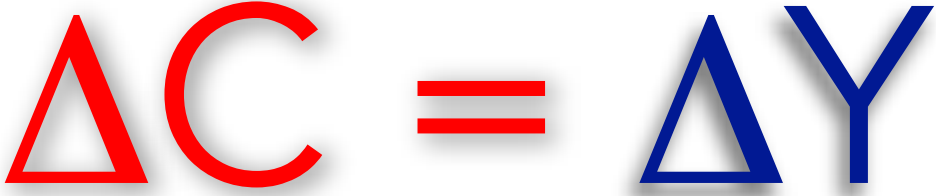
Change in Consumption

Change Deficit

$$\Delta \text{ Deficit} = \Delta G - \Delta T$$

$$\Delta T = +70$$


ΔY = ΔT


ΔC = ΔY

The Spending Multiplier

Tax Multiplier

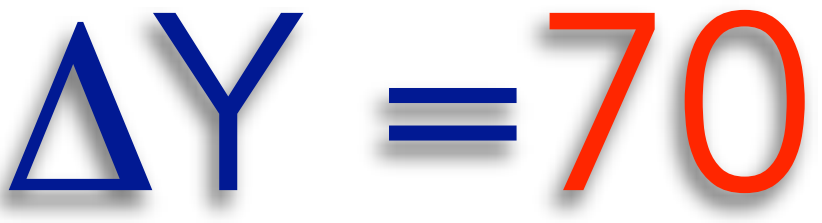

1
1-MPC


1
1-0.75


1
0.25


(4)


1
1-MPC

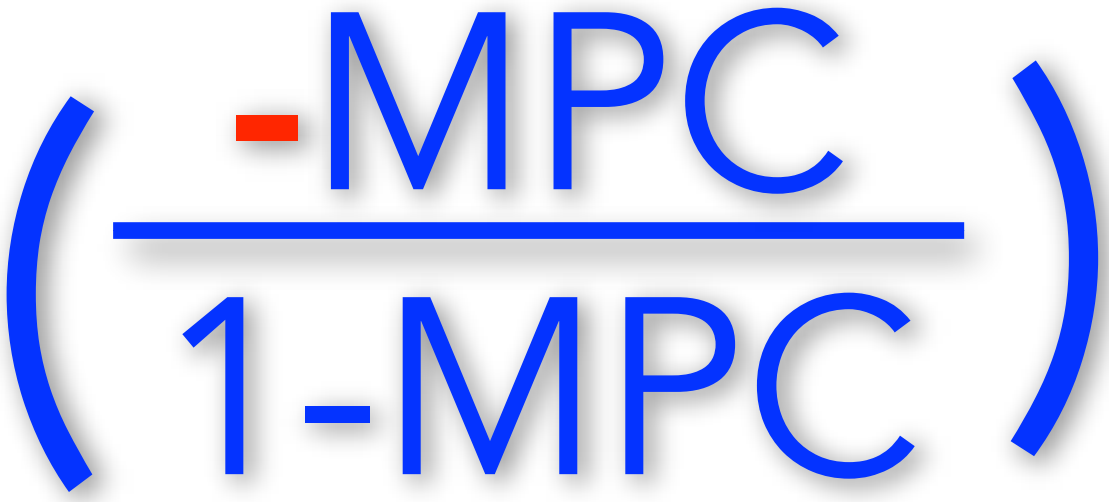

ΔY =70


(4)

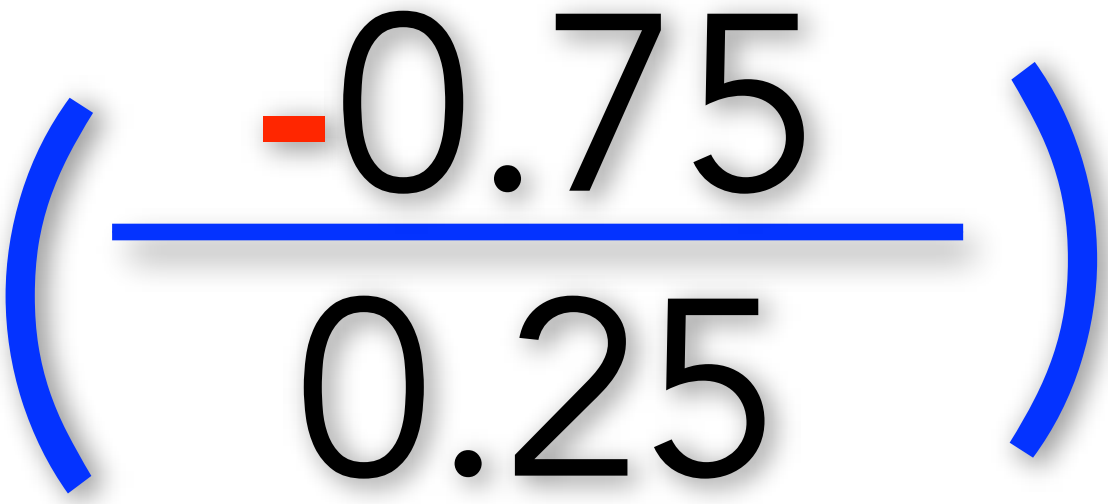
$$\Delta Y = 280$$

$$\Delta C = 280(0.75) = 210$$

$$\Delta \text{ Deficit} = 70 - 0 = 70$$

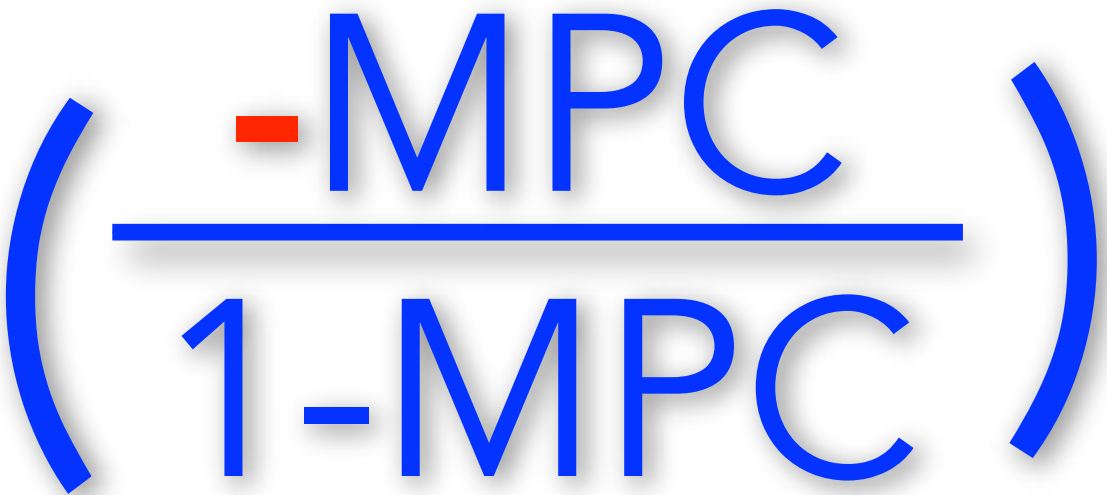

-MPC
1-MPC


-0.75
1-0.75


-0.75
0.25


-3

Change in Equilibrium GDP


-MPC
1-MPC

$$\Delta Y = 70$$


(-3)

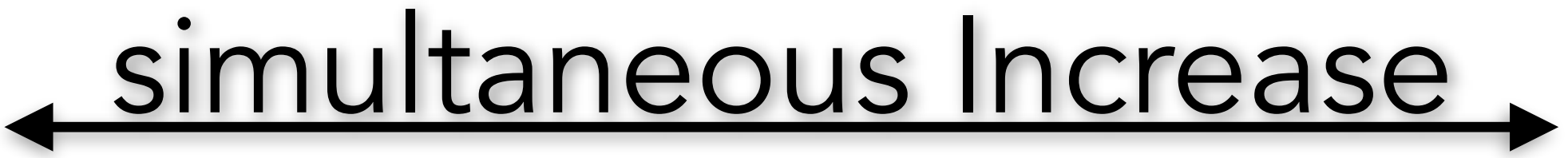
$$\Delta Y = -210$$

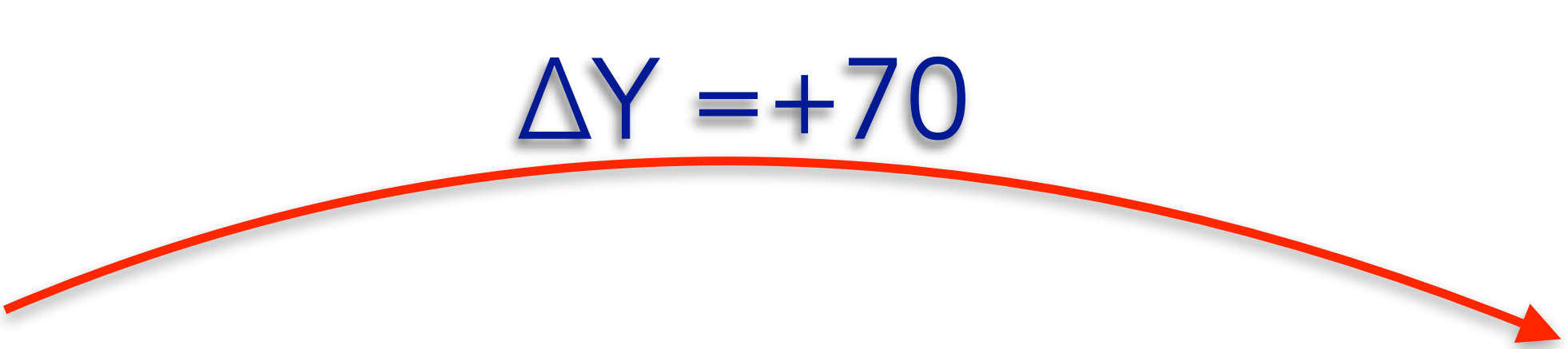
$$\Delta C = -210$$

Change Deficit

$$\Delta \text{ Deficit} = 0 - (70) = -70$$


MPC = 0.75


simultaneous Increase


ΔY =+70


ΔC = 0


ΔDeficit = 0

$\Delta G = +70$ simultaneous Increase $\Delta T = +70$

Change in Equilibrium GDP

$\Delta Y = +70$

$\Delta Y = 70\,(4)$ $\Delta Y = 280$ $\Delta Y = 70\,(-3)$ $\Delta Y = -210$

Change in Consumption

$\Delta C = 0$

$\Delta C = 280(0.75) = 210$ $\Delta C = -210$

Change Deficit

ΔDeficit = 0

Δ Deficit $= 70 - 0 = 70$ Δ Deficit $= 0 - (70) = -70$