

A

E

O



AE₁

AAE

=

Aa

=

oo



AY

=

90

Equilibrium Income
increase



Aa

=

90

$$\Delta C = \Delta Y * MPC$$

$$\Delta C = 9000 * 0.9$$

AC = 810



$$\Delta C = 90 + 810$$

$$\Delta Y = 90(10)$$







NY

=

900

nyd

=

+

1000



Δa

$=$

90

The effect of a \$100b tax cut

Increase in Induced
consumption due to
the resulting increase
in income

$\Delta Y = \Delta a(\text{Multiplier})$

All the increase in AE
caused by the
change in taxes is
due to a change in
Consumption

Increase in
Consumption
due to tax cut



$$\left(\frac{1}{1-MPC} \right)$$

$$\left(\frac{1}{1-0.9} \right)$$





AAE

=

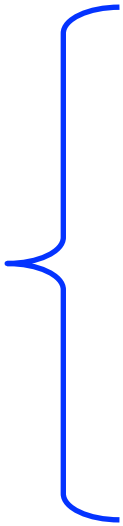
9000

450



Ar = 0.9 * 100





△C = 900

The effect of a \$100b tax cut

$$\Delta T = -100$$

$$\Delta Y^d = +100$$

$$\Delta a = 0.9 * 100$$

