





**AY**

**=**

**AG**

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

change in Consumption

Change in Deficit

$$\Delta \text{Government's Deficit} = \Delta G - \Delta T$$

Spendding Multiplier



Change in Equilibrium GDP

**ΔY**

**=**

**100**

$$\Delta C = 1,000(0.9) = 900$$

**Δ Deficit  $\equiv$  100 - 0**

**AG = 100**

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

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

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



(10)

Formula:

Example:




Multiplier = 10




GDP


increase by 1000

A black-outlined speech bubble with a tail pointing towards the bottom right. Inside the bubble, the text "Consumption increase by 900" is written in a black, sans-serif font, centered horizontally and vertically.

Consumption  
increase by 900



Deficit increase  
by 100



Government  
Spending increase  
by 100



Formula:

$\Delta G$   
Spending Multiplier

Government  
Spending increase  
by 100

Example:

$$\Delta G = 100$$

Multiplier = 10

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

GDP  
increase by 1000

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

Change in Equilibrium GDP

$$\Delta Y = \Delta G \left( \frac{1}{1-MPC} \right)$$

$$\Delta Y = 100 (10)$$

Change in Consumption

Consumption  
increase by 900

$$\Delta C = \Delta Y (MPC) \quad \Delta C = 1,000 (0.9) = 900$$

Change in Deficit

Deficit increase  
by 100

$$\Delta \text{Government's Deficit} = \Delta G - \Delta T$$

$$\Delta \text{Deficit} = 100 - 0$$

# The effect of a tax cut

