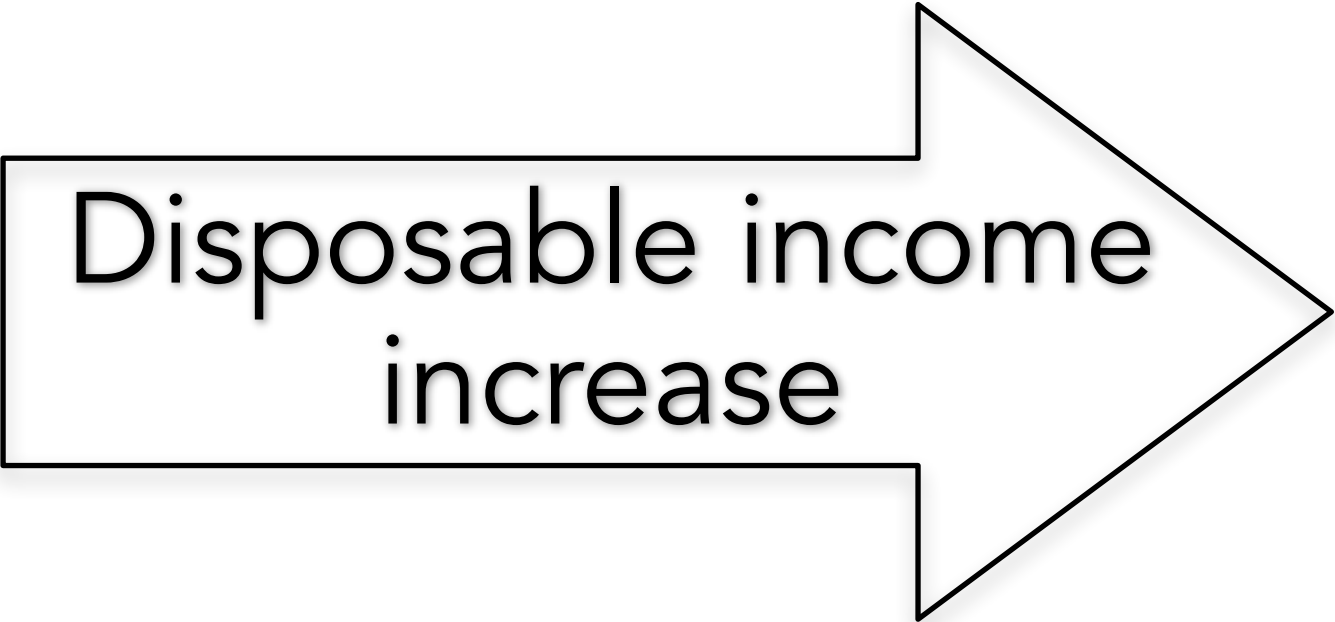


The effect of tax cut

When Taxes
Decrease

$$\Delta T = -100$$



Disposable income
increase

NYd

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When
Disposable
Income Increase

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



Autonomous Consumption Increase

$$\Delta a \equiv 0.9 * (100)$$

When Consumption

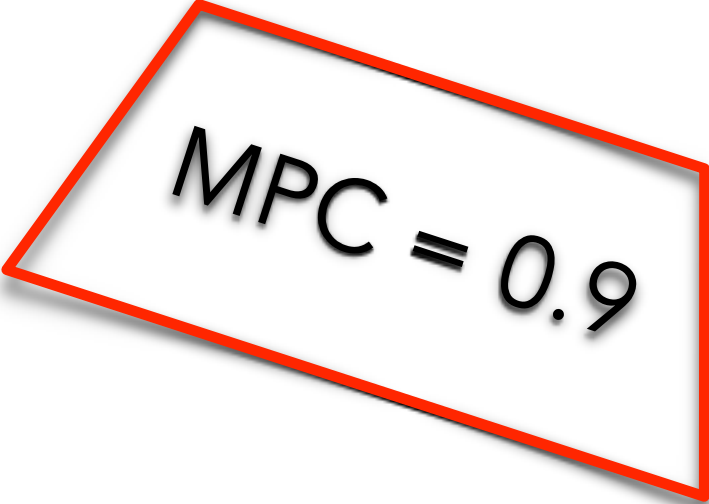
Increase

$$\Delta a = +90$$




AE shifts up (increase)

$$\Delta A E \equiv \Delta a \equiv +90$$


$$MPC = 0.9$$

The effect of a tax cut



$MPC = 0.9$

When Taxes
Decrease
 $\Delta T = -100$

Disposable income
increase

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

When
Disposable
Income Increase
 $\Delta Y^d = +100$

Autonomous Consumption Increase

$$\Delta a = 0.9 * (100)$$

When Consumption
Increase
 $\Delta a = +90$

AE shifts up (increase)

$$\Delta AE = \Delta a = +90$$

