



AY

=

AG

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

change in Consumption

Change in Deficit

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



Spend Multiplier

Change in Equilibrium GDP

$\Delta Y = 100$

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

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 speech bubble with a black outline and a white fill, featuring a small tail pointing towards the bottom-left. Inside the bubble, the text "Consumption increase by 900" is written in a black, sans-serif font, centered and arranged in three lines.

Consumption
increase by
900

A black and white speech bubble with a thick black outline. The bubble is roughly circular with a small tail pointing towards the bottom-left. Inside the bubble, the text "Deficit increase by 100" is written in a simple, black, sans-serif font, centered horizontally and vertically.

Deficit
increase by
100



Government
Spending increase
by 100

Formula:

ΔG

Government
Spending increase
by 100

Example:

$\Delta G = 100$

Multiplier = 10

Spending Multiplier

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

GDP
increase by
1000

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

Change in Equilibrium GDP

$$\Delta Y = \Delta G \left(\frac{1}{1-MPC} \right) \quad \Delta Y = 100 (10)$$

Change in Consumption

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

Change in Deficit

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

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

Consumption
increase by
900

Deficit
increase by
100

The effect of a tax cut

