

AG = +70

NY

=

AG

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

Change in Equilibrium GDP

Change in Consumption

Change Deficit

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

NT = 70

NY

=

NT

AC

=

AY

The Spending Multiplier

Tax Multiplier

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

$$\left(\frac{1}{1-0.75} \right)$$

$$\left(\frac{1}{0.25} \right)$$

(4)

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

NY

=

70

(4)

XY

=

280

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

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

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

$$\left(\frac{-0.75}{1-0.75} \right)$$

$$\left(\frac{-0.75}{0.25} \right)$$

(-3)

Change in Equilibrium GDP

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

NY

=

70


(-3)

NY = 210

$$\Delta C = -2210$$

Change Deficit

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



$MPC = 0.75$

simultaneous Increase



$$\Delta Y = +70$$



$$\Delta C = 0$$



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



$$\Delta G = +70 \quad \xleftarrow{\text{simultaneous Increase}} \quad \Delta T = +70$$

Change in Equilibrium GDP

$$\Delta Y = +70$$

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

Change in Consumption

$$\Delta C = 0$$

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

$$\Delta C = -210$$

Change Deficit

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

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

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