



**AE<sub>1</sub>**

Y

O



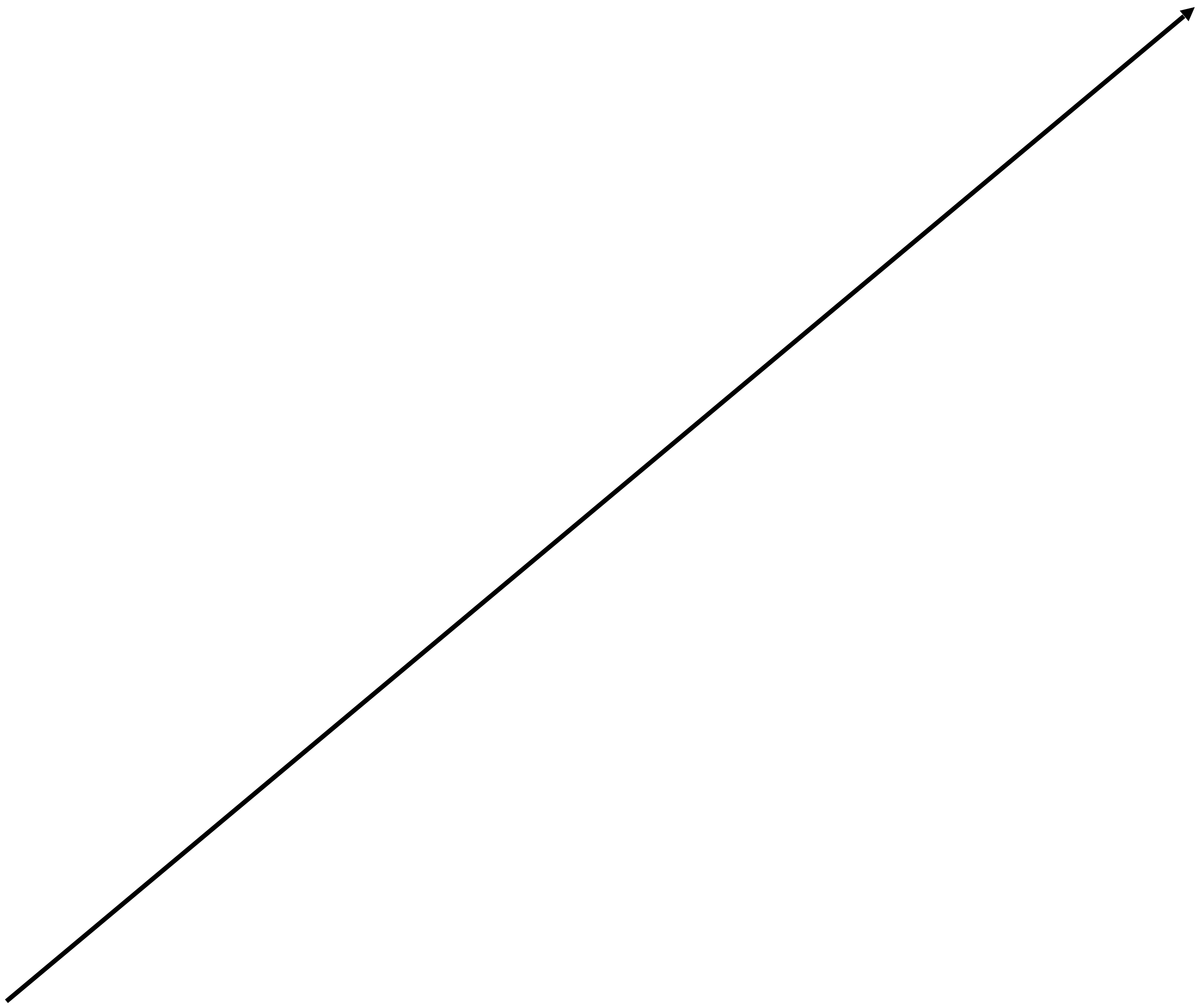




AC

=

90







AEo

Y

1

**Y**

**2**



△C

=

81

**Y**

**3**









AC

=

73





**Y**

**4**



**Y**

**5**







Y

6





**Y**

**7**



**Y**

**8**







**AC = 54**





Increase in  
consumption causes  
the rest of the increase  
in GDP

**NY = 1000**





The  
majority of  
the increase  
in GDP is due to an  
increase  
in Consumption



$$\Delta Y = 900$$



$$\text{Total } \Delta Y = 1000 + 9000 = 1,000$$



$Y^*$

New

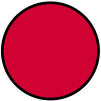
Equilibrium







$$\Delta Y = \Delta G$$







$$\Delta G = 100$$



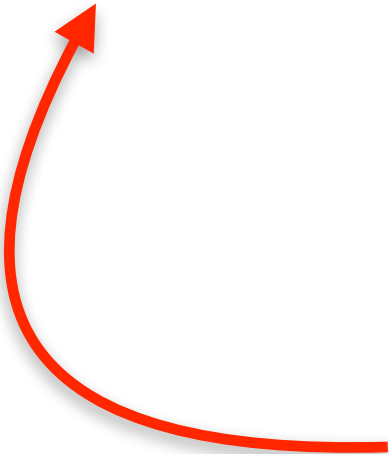
Increase in  $G$  cause  
an EQUAL increase  
in GDP





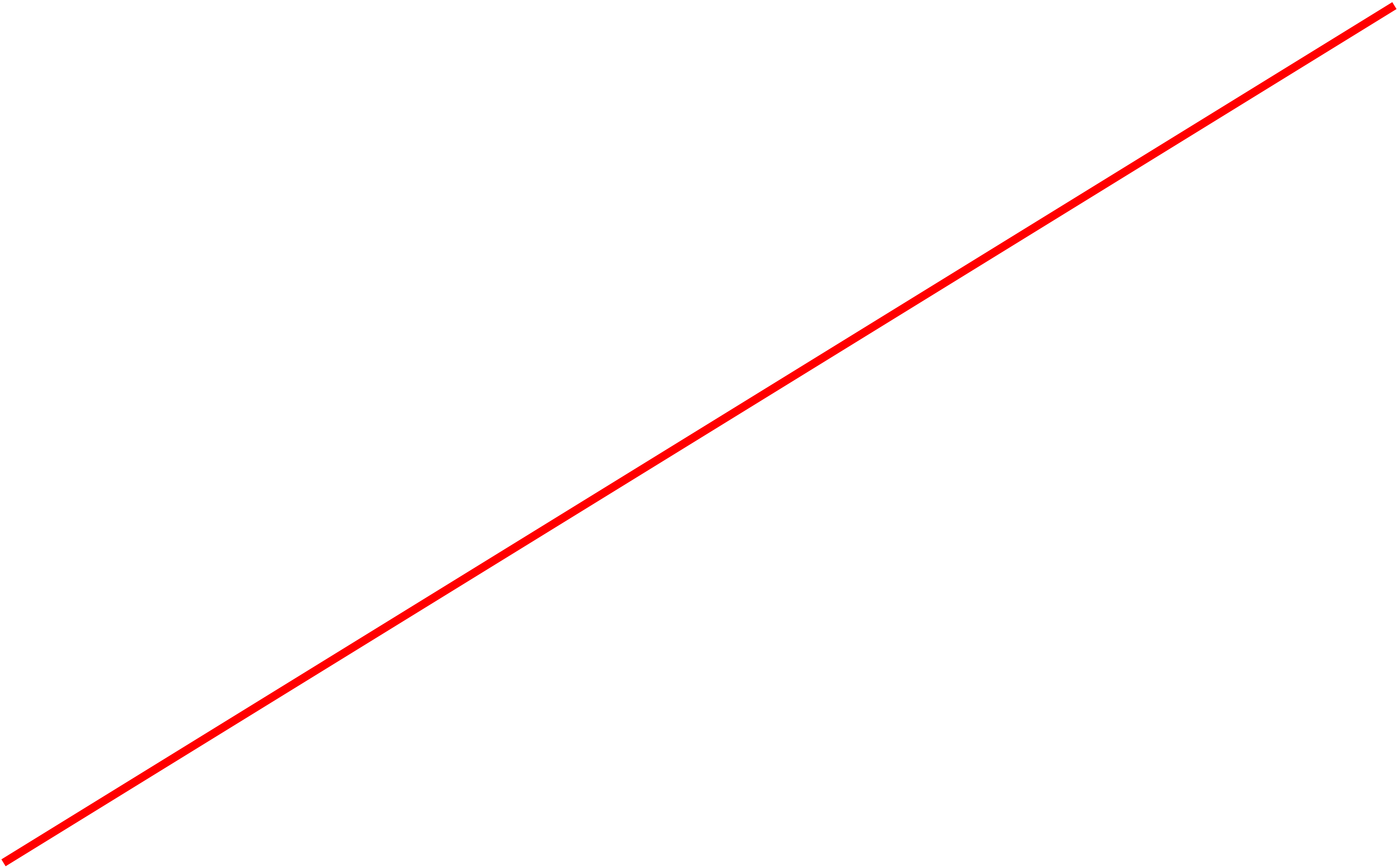


All the  
Multiplicative  
effect is the result of  
additional rounds of  
Consumer spending



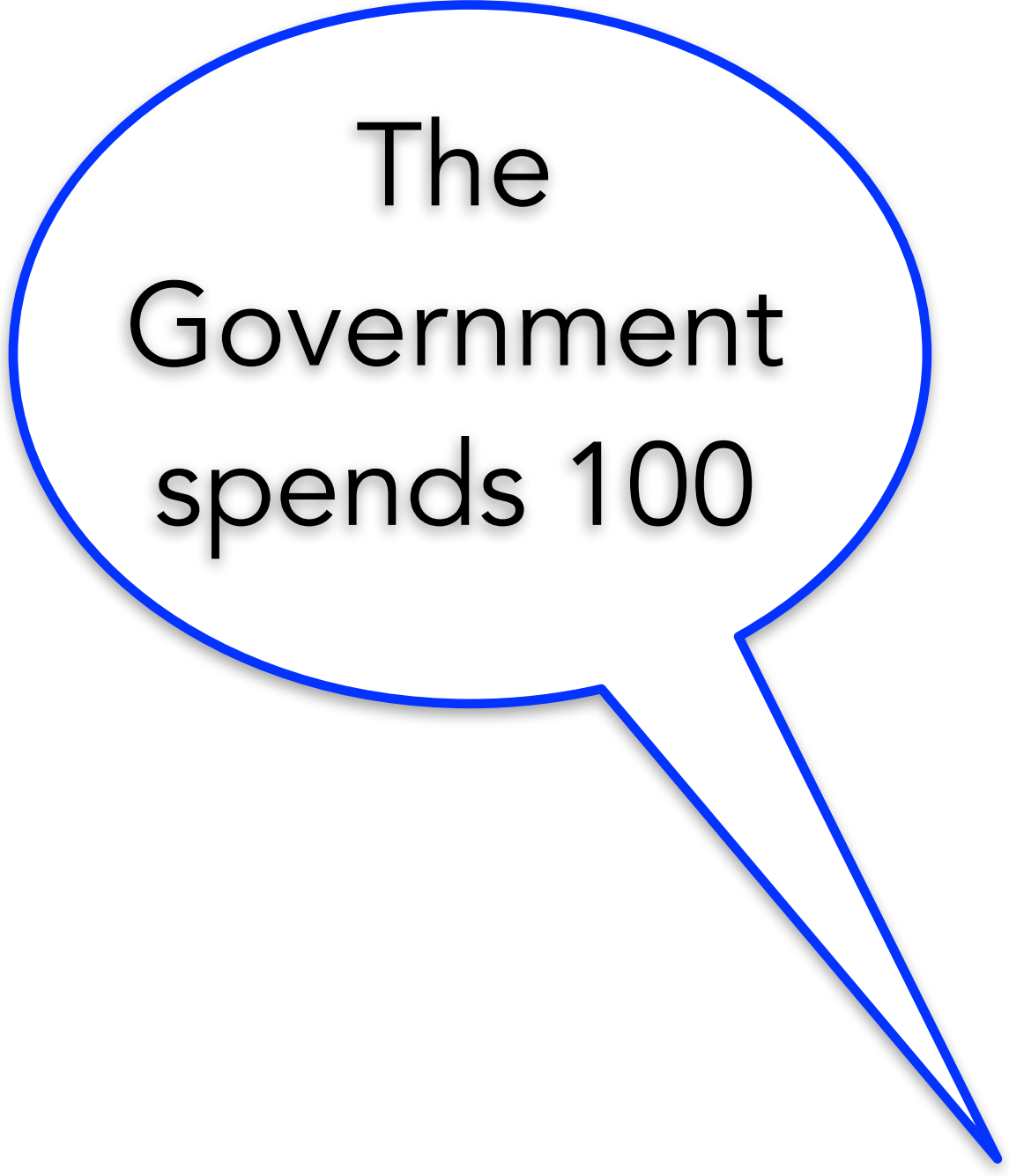
Y

1





But it is consumers  
who have the biggest  
impact



The  
Government  
spends 100

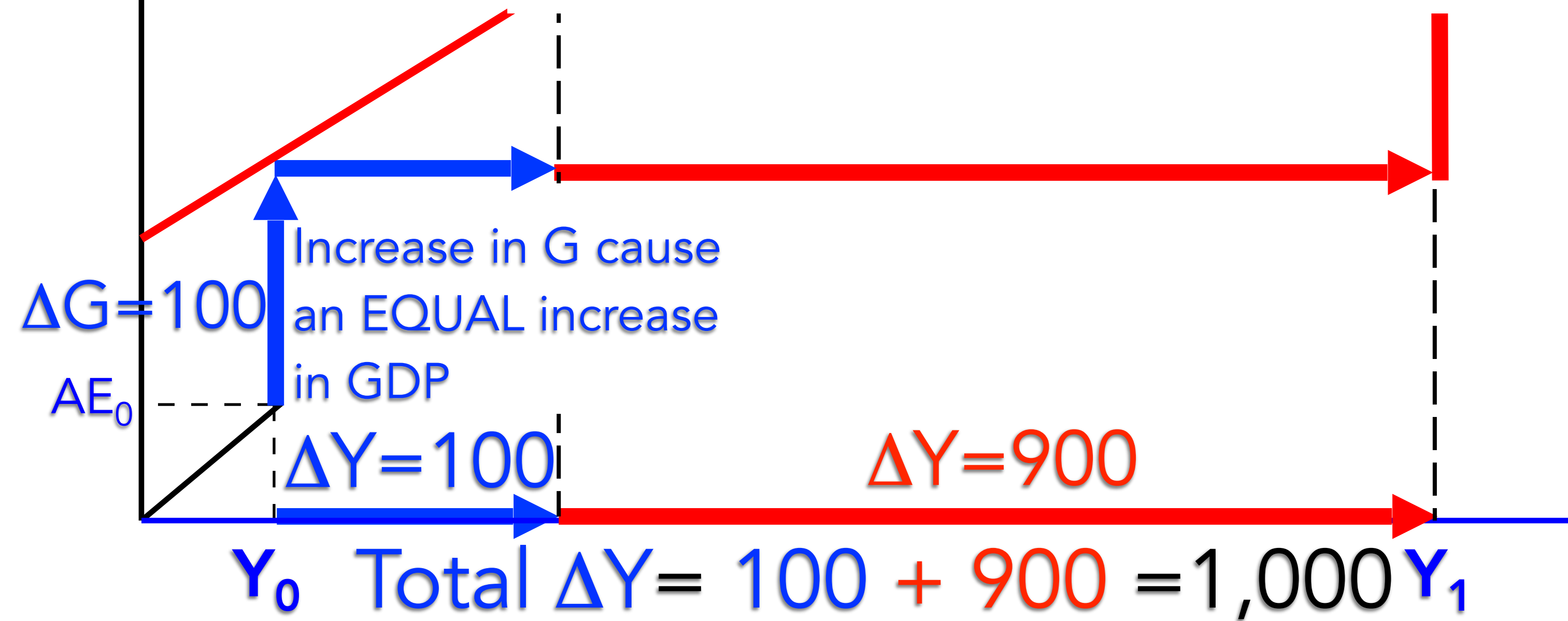
Fiscal Policy can NOT work  
without the cooperation of  
Consumers

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



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

Fiscal Policy can NOT work without the cooperation of Consumers



# The Multiplier Process