



AG = +70

NY

=

AG

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

Calculate the change in Equilibrium GDP

Calculate the change in Consumption

Calculate the change in Govt's Budget Deficit

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



NOTES

NY

=

NT

AC

=

AY

Calculate the Spending  
Multiplier

Calculate the 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)**

Calculate the change in Equilibrium GDP

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

NY

=

-

70



**(-3)**

**NY = + 210**


Calculate the change in Consumption

AC

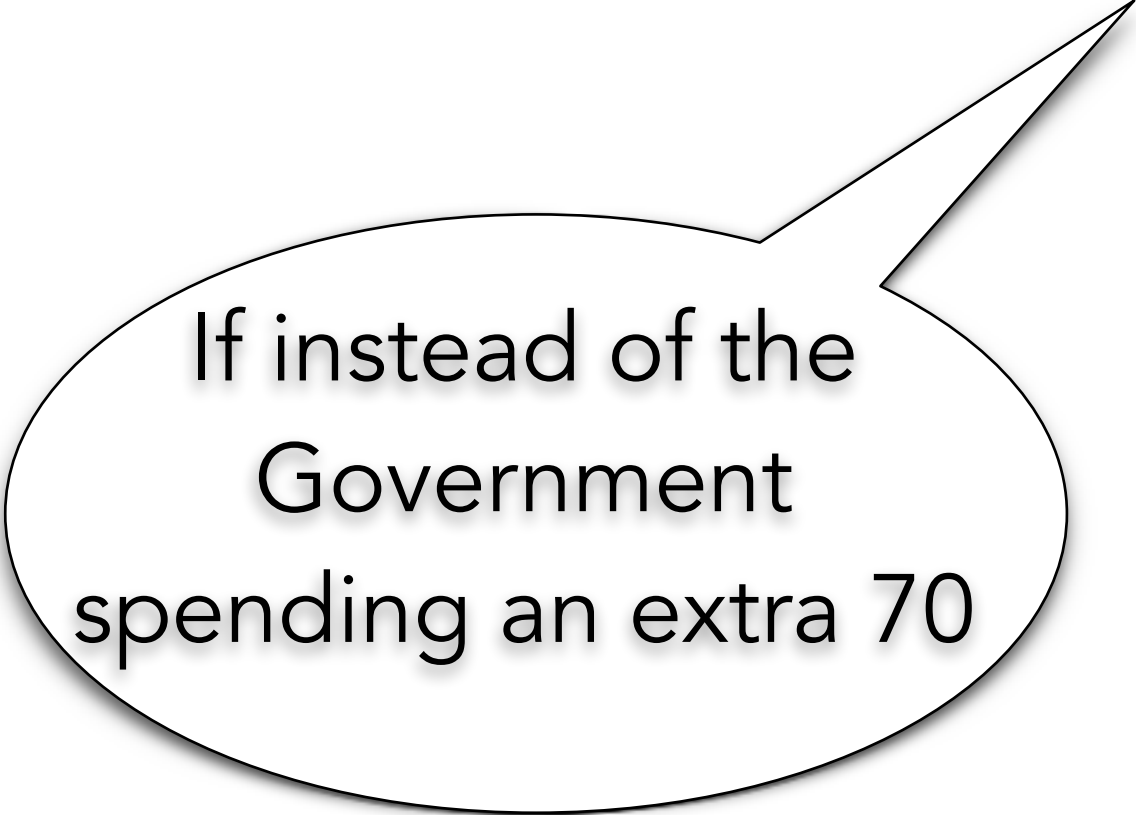
=

2210

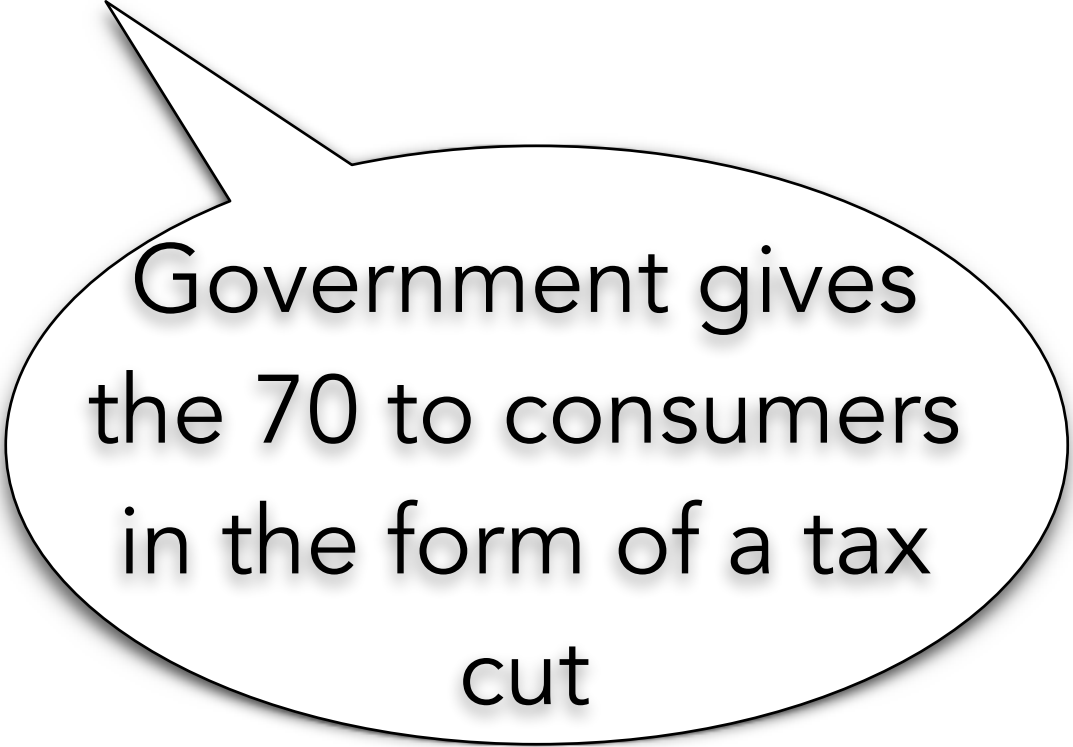
$$\Delta \text{Deficit} \equiv 0 - (-70) \equiv +70$$



$MPC = 0.75$



If instead of the  
Government  
spending an extra 70

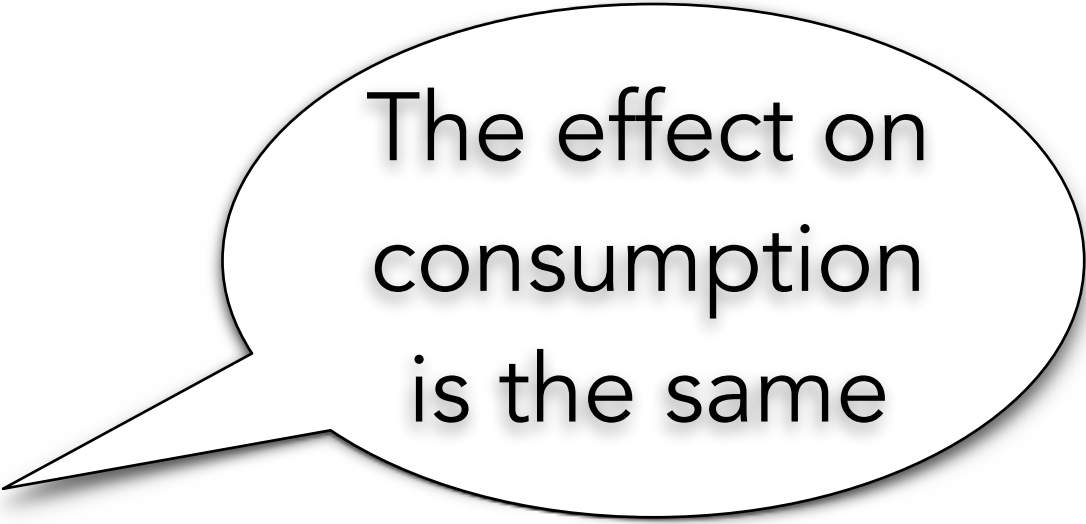


Government gives  
the 70 to consumers  
in the form of a tax  
cut

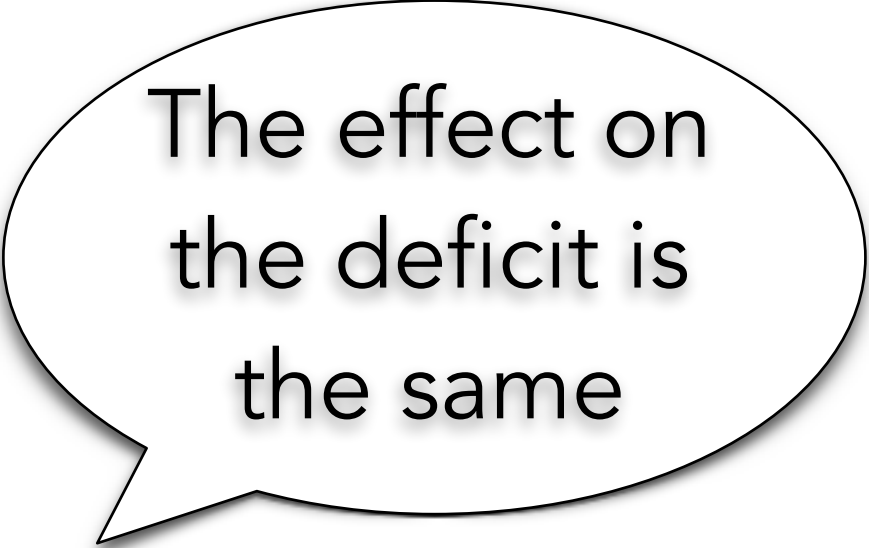


A white speech bubble with a black outline and a small tail pointing towards the bottom-left. It contains the text "The effect on GDP is smaller" in a black, sans-serif font, centered within the bubble.

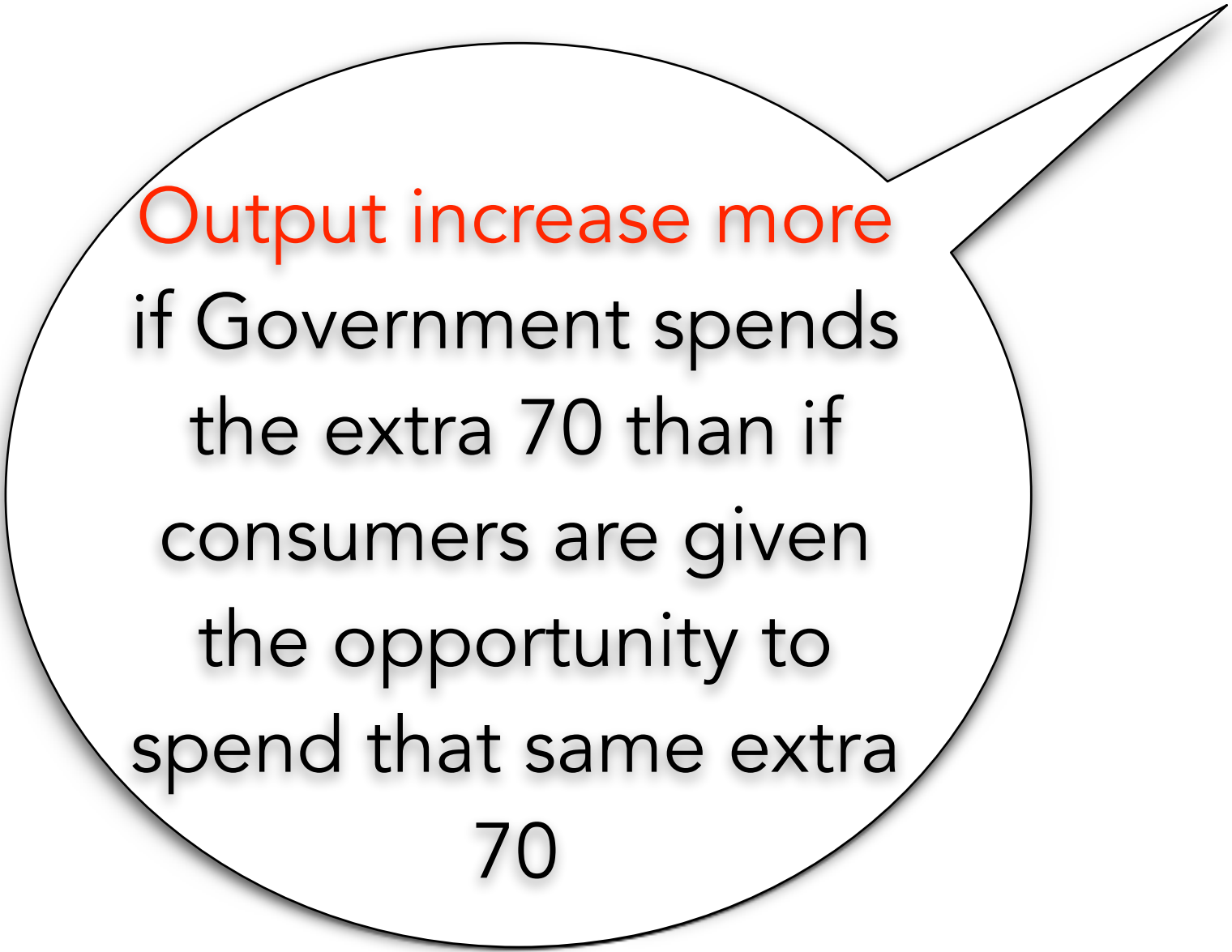
The effect on  
GDP is  
smaller

A black and white speech bubble with a tail pointing towards the bottom-left. The bubble contains the text "The effect on consumption is the same" in a black, sans-serif font, centered within the bubble.

The effect on  
consumption  
is the same

A black and white speech bubble with a thin black outline and a small tail pointing towards the bottom-left. Inside the bubble, the text "The effect on the deficit is the same" is written in a black, sans-serif font, centered and arranged in three lines.

The effect on  
the deficit is  
the same



Output increase more  
if Government spends  
the extra 70 than if  
consumers are given  
the opportunity to  
spend that same extra  
70

$$\Delta G = +70$$

Calculate the **Spending** Multiplier

If instead of the Government spending an extra 70

$$\left( \frac{1}{1-MPC} \right) \quad (4)$$

$$MPC = 0.75$$

$$\Delta T = -70$$

Calculate the **Tax** Multiplier

$$(-3) \quad \left( \frac{-MPC}{1-MPC} \right)$$

Government gives the 70 to consumers in the form of a tax cut

Calculate the change in **Equilibrium GDP**

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

$$\Delta Y = 70 (4) \quad \Delta Y = 280$$

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

$$\Delta Y = -70(-3) \quad \Delta Y = +210$$

The effect on GDP is smaller

Calculate the change in **Consumption**

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

$$210 (0.75) = 157.5$$

$$\Delta C = \Delta Y$$

$$\Delta C = 210$$

The effect on consumption is the same

Calculate the change in **Gvmt's Budget Deficit**

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

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

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

Output increase more if Government spends the extra 70 than if consumers are given the opportunity to spend that same extra 70

The effect on the deficit is the same

