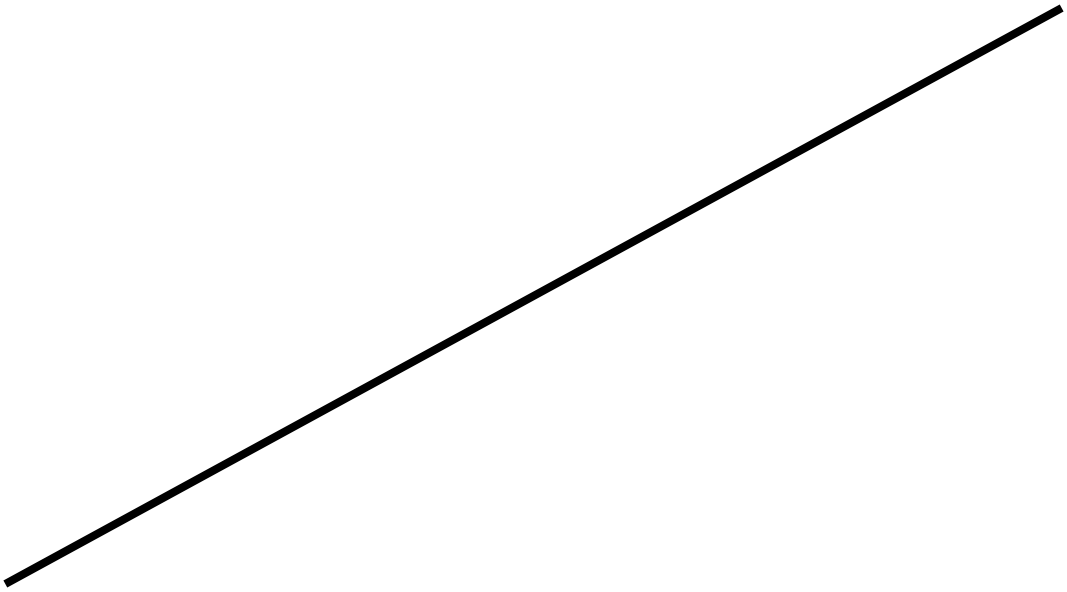
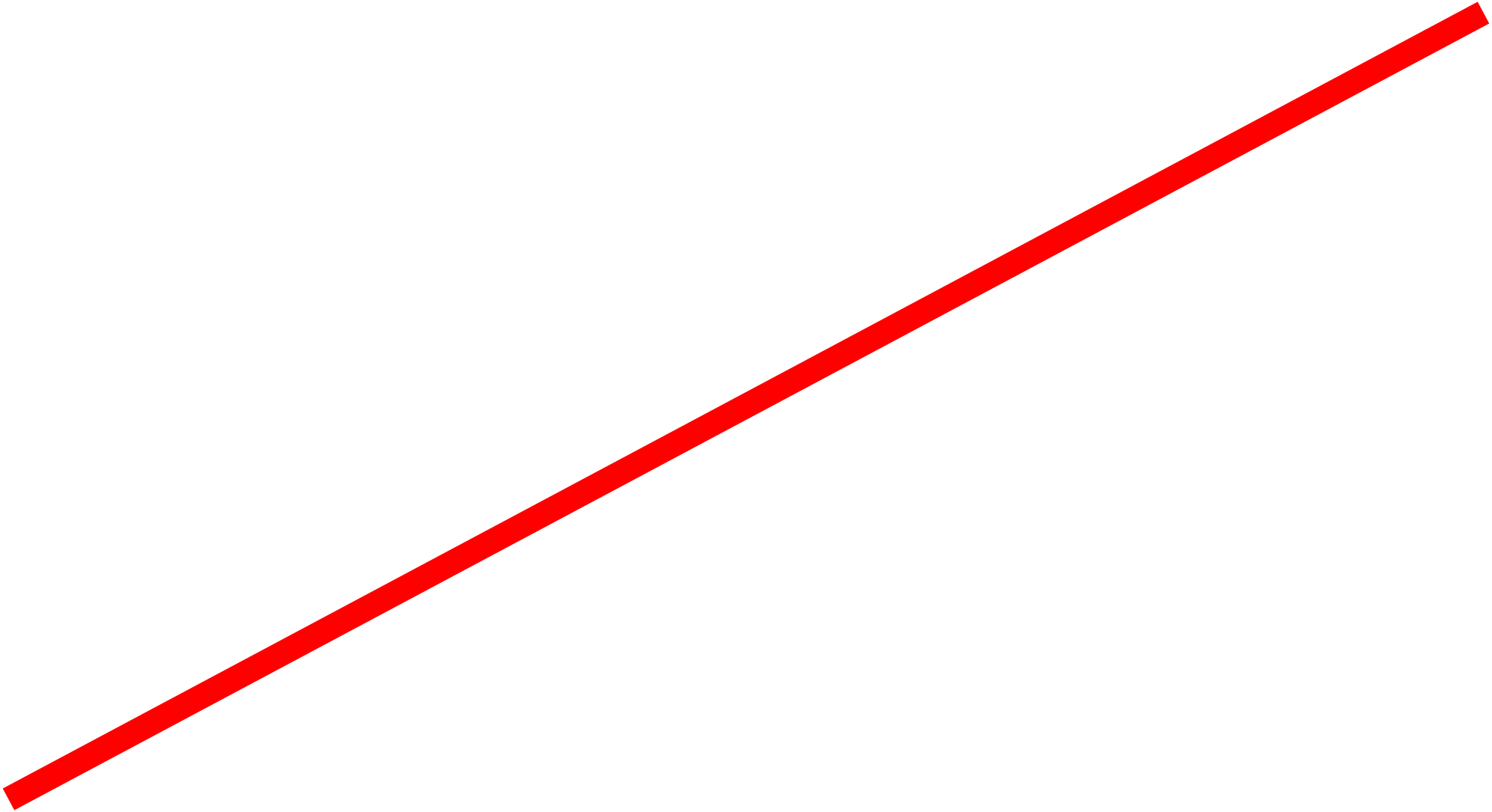
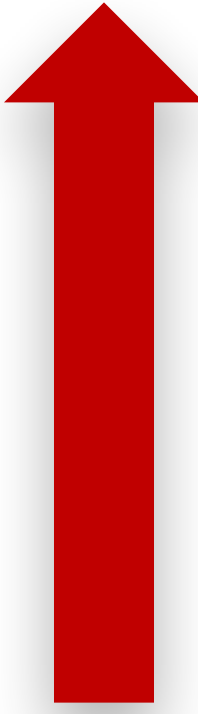
A 700 increase in government spending generates a 7,000 increase in GDP

Example: $\Delta G = 700$ MPC = 0.9





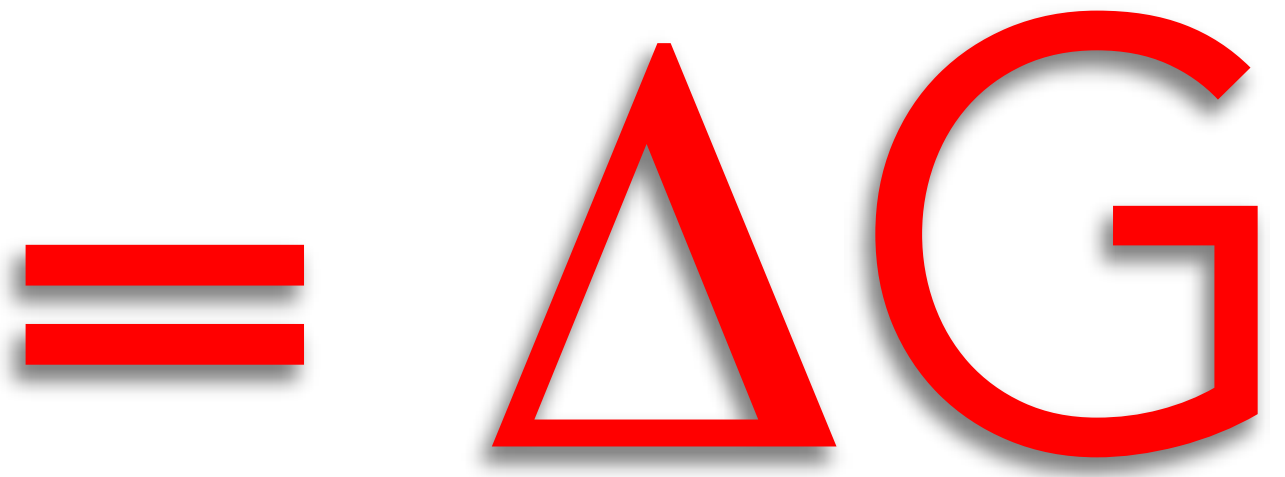


$$\Delta Y = 7{,}000$$

AE1

AE0

Change in Equilibrium Y :

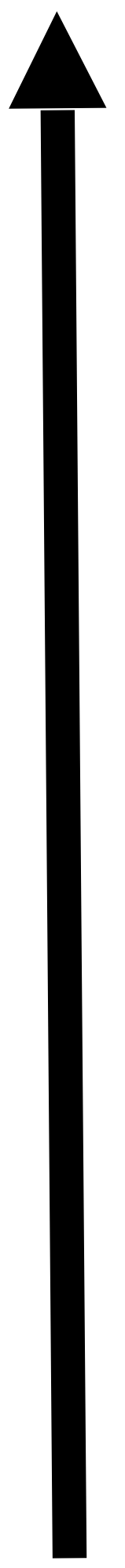


1
1 - MPC

ΔY

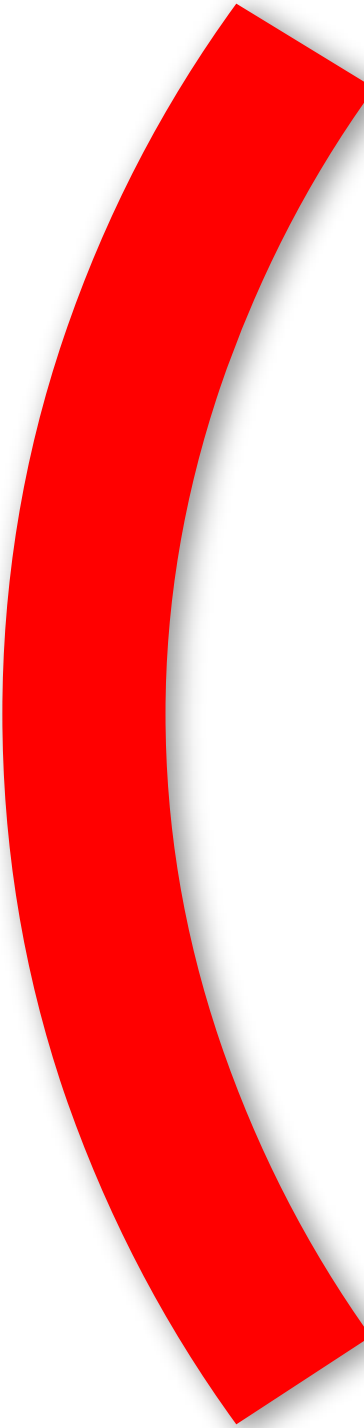
=700

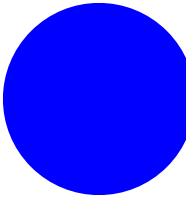
1 - 0.9



0.1

10

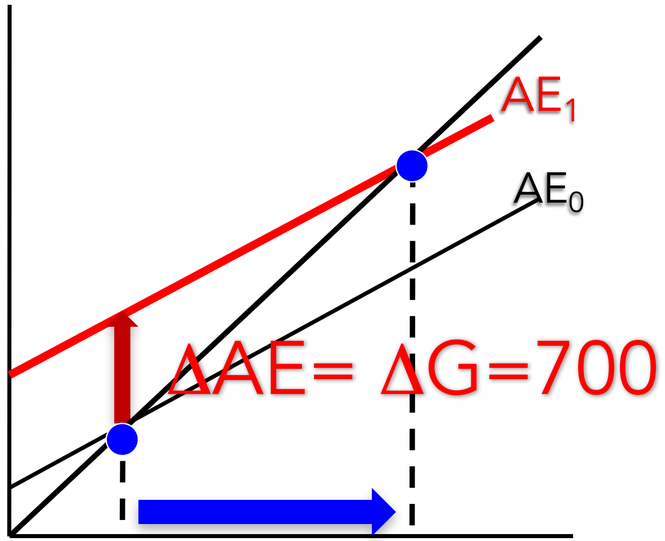




$\Delta AE = \Delta G = 700$

$$\Delta Y = 7{,}000$$

Example: $\Delta G = 700$ MPC = 0.9



Change in Equilibrium Y :

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

$$\Delta Y = 700 \left(10 \right)$$

$$\Delta Y = 7{,}000$$

A 700 increase in government spending generates a 7,000 increase in GDP