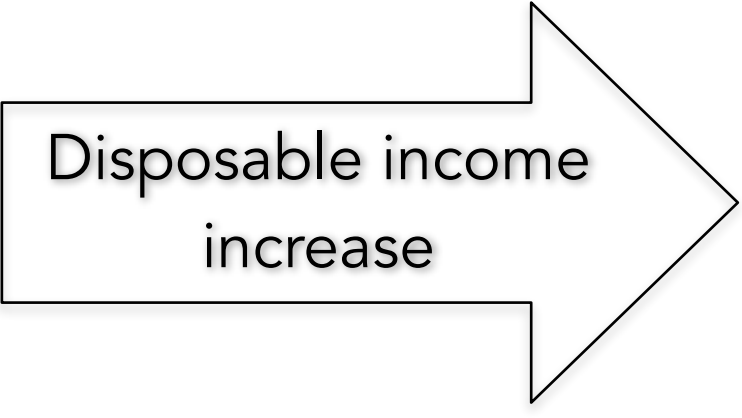


The effect of a tax cut

When Taxes
Decrease

$$\Delta T = -100$$



Disposable income
increase

Nyd

=

+

1

00

00

When
Disposable
Income Increase

$$\Delta Y^d = +100$$



Autonomous Consumption Increase

1a = 0.9*100

When Consumption
Increase

$$\Delta a = +90$$



AE shifts up (increase)

AAE

=

Aa

=

+

90



$MPC = 0.9$

The effect of a tax cut


$$MPC = 0.9$$

When Taxes
Decrease
 $\Delta T = -100$

Disposable income
increase

$$\Delta Y^d = +100$$

When
Disposable
Income Increase
 $\Delta Y^d = +100$

Autonomous Consumption Increase

$$\Delta a = 0.9 * 100$$

When Consumption
Increase
 $\Delta a = +90$

AE shifts up (increase)

$$\Delta AE = \Delta a = +90$$

The effect of a \$100b tax cut

