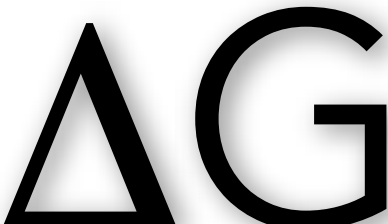

ΔG

$$\Delta Y = \Delta G$$

$$\Delta C = \Delta Y \text{ (MPC)}$$

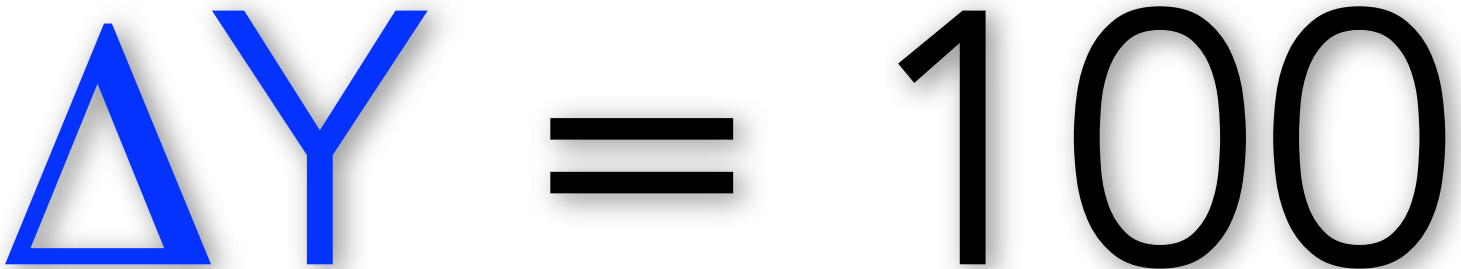
Change in Consumption

Change in Deficit

$$\Delta \text{ Government's Deficit} = \Delta G - \Delta T$$

Spending Multiplier

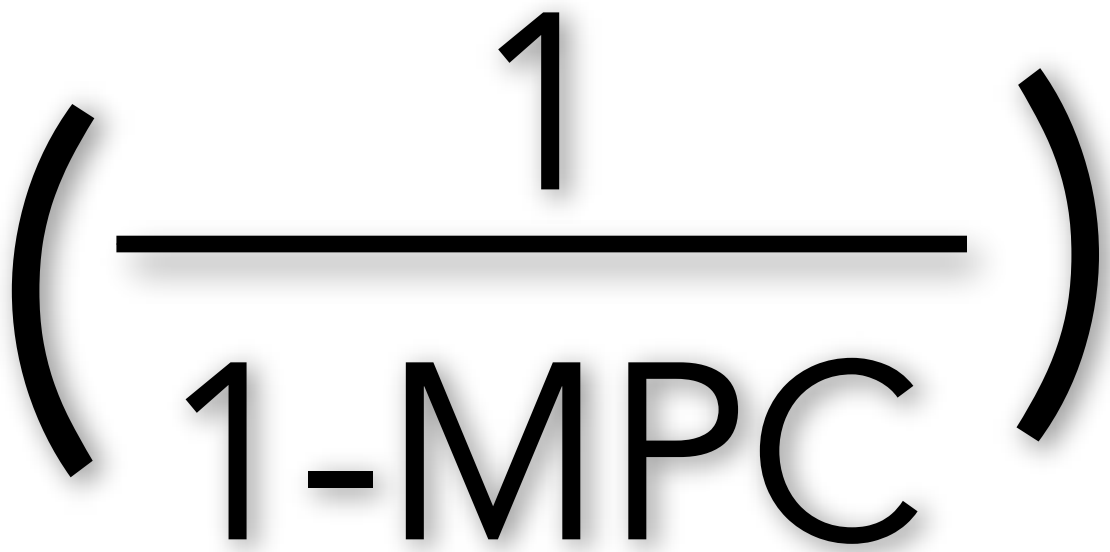
Change in Equilibrium GDP

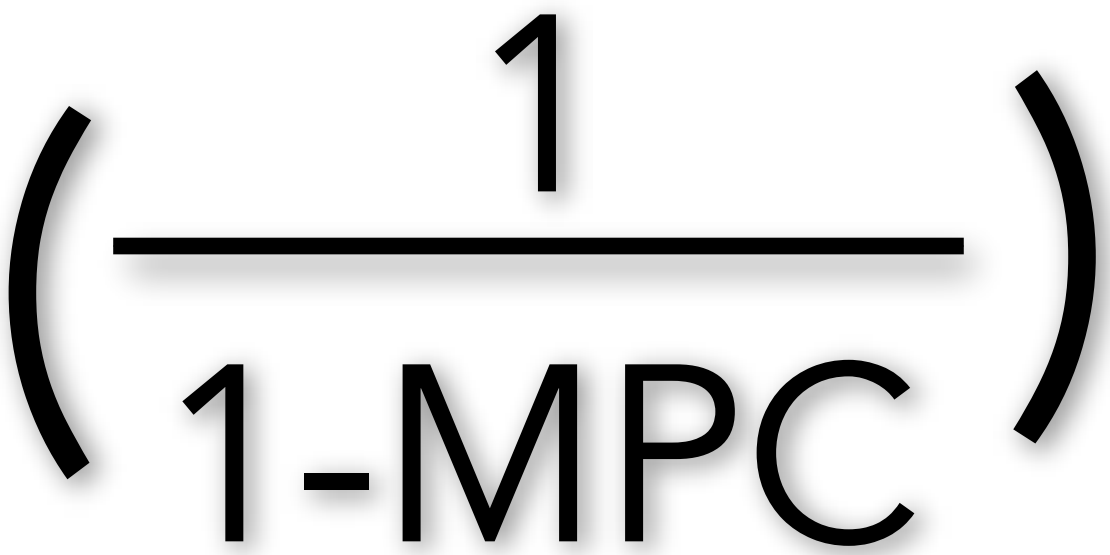

ΔY = 100

$$\Delta C = 1{,}000\ (0.9) = 900$$

Δ Deficit = 100 – 0

$$\Delta G = 100$$


1
1-MPC

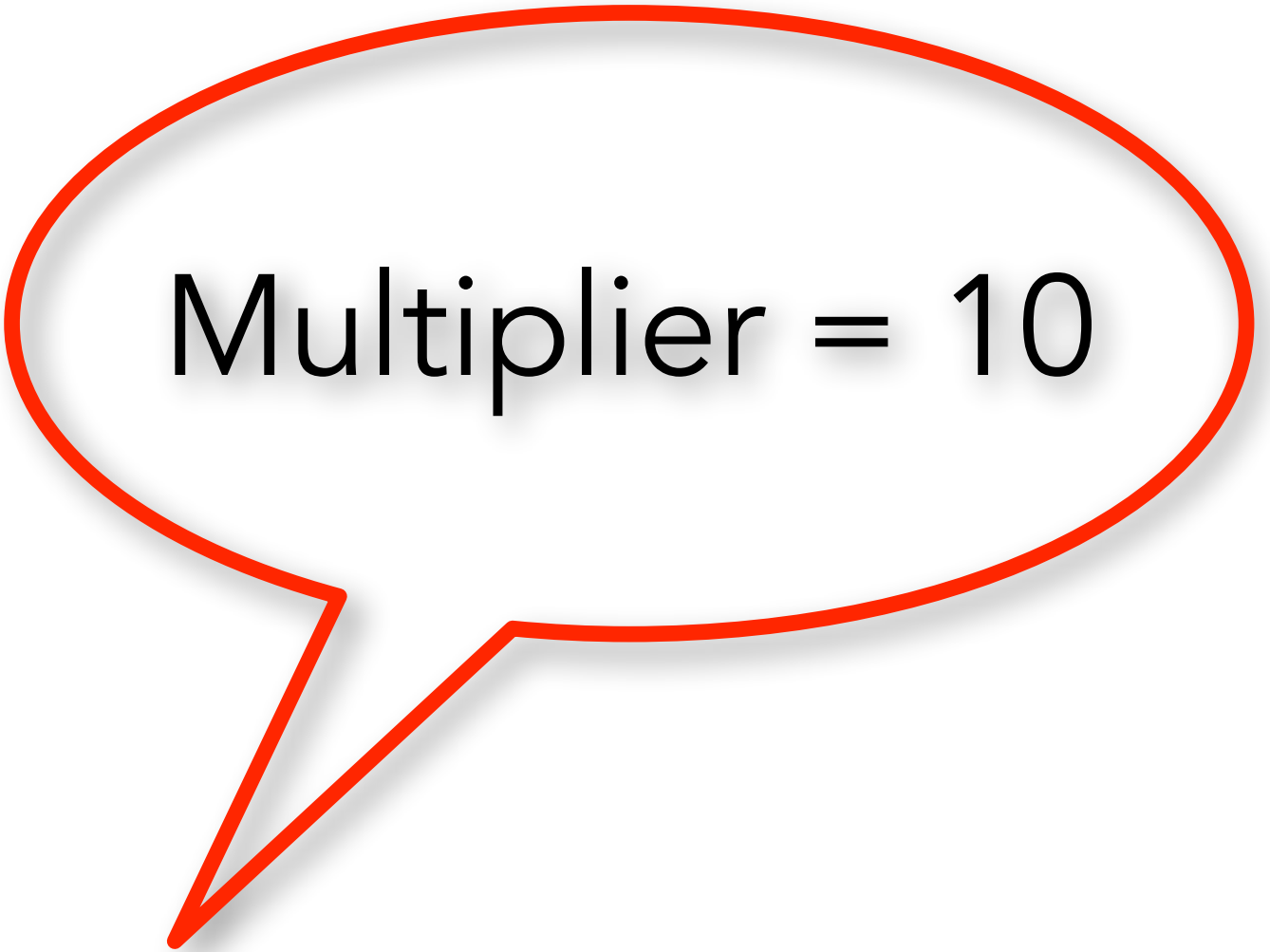

1
1-MPC


1
1-0.9

(10)

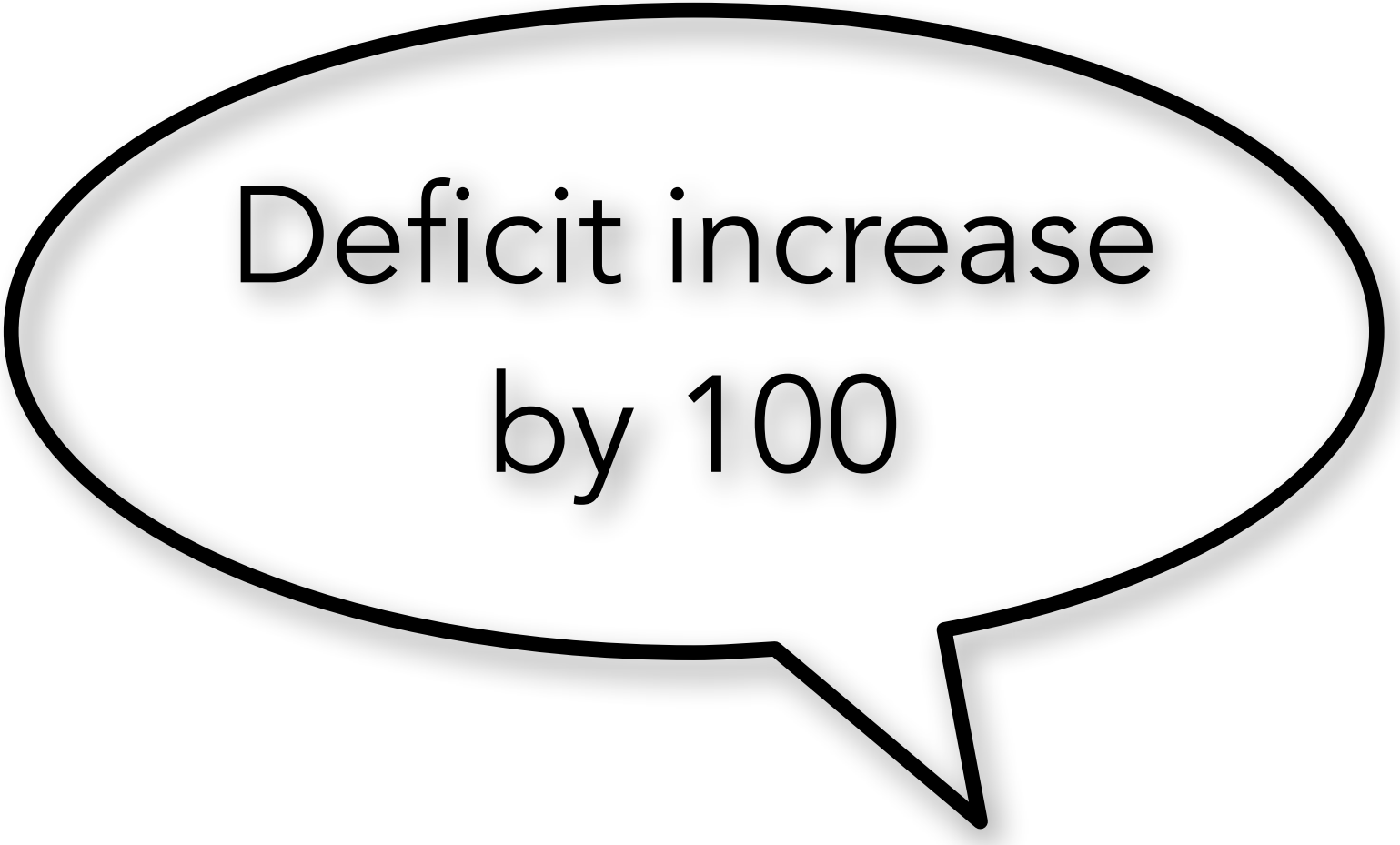
Formula:

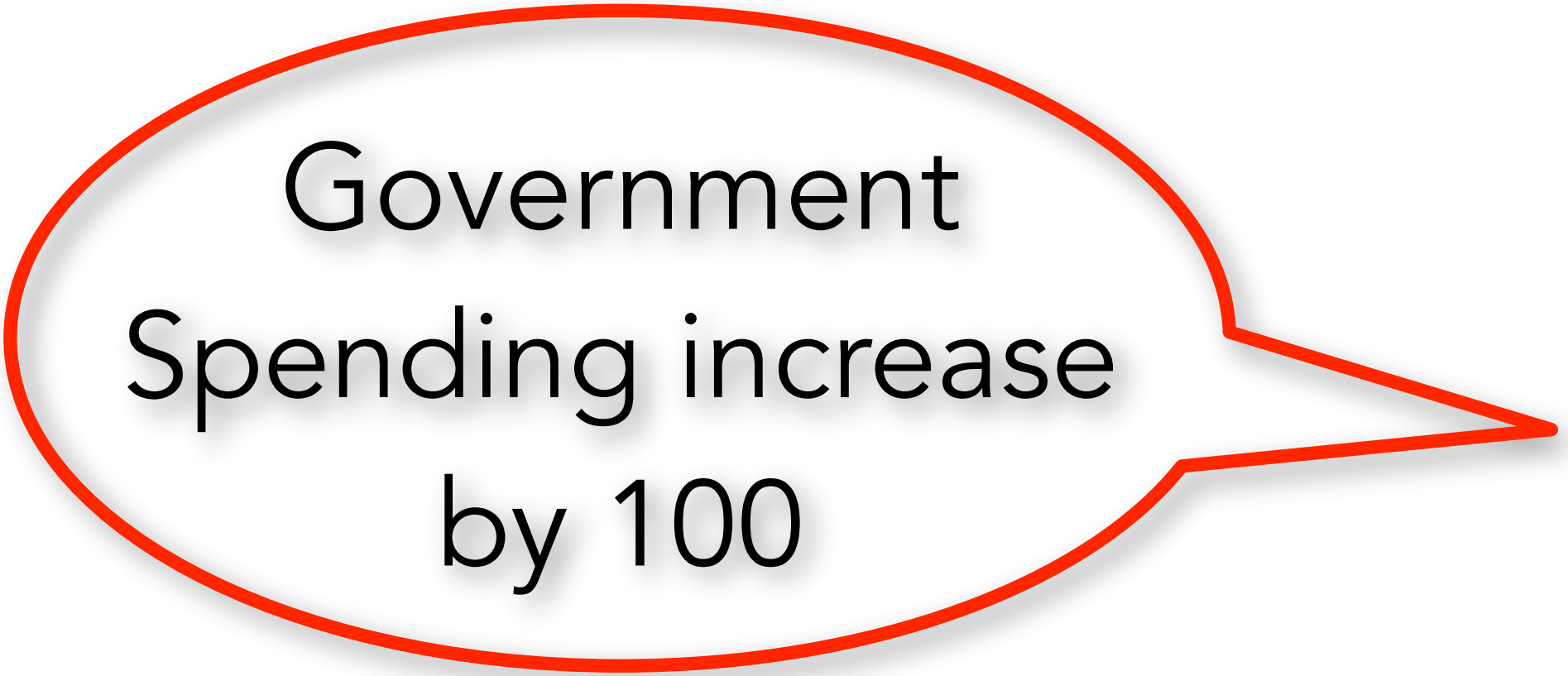
Example:


Multiplier = 10


GDP
increase by 1000


Consumption
increase by 900


Deficit increase
by 100


Government
Spending increase
by 100

Formula:

ΔG

Government Spending increase by 100

Example:

$\Delta G = 100$

Multiplier = 10

Spending Multiplier

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

GDP increase by 1000

$\left(\frac{1}{1-0.9}\right)$

Change in Equilibrium GDP

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

$\Delta Y = 100(10)$

Consumption increase by 900

Change in Consumption

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

$\Delta C = 1{,}000\,(0.9) = 900$

Change in Deficit

Δ Government's Deficit $= \Delta G - \Delta T$

Deficit increase by 100

Δ Deficit $= 100 - 0$

The effect of a tax cut