

Larger increase in Output

Same increase in Consumption

same increase in the DD deficit

AC = 210

NY



280

XY

=

2

1

0

AC = 210

△ Deficit = 70

Δ Deficit $\equiv 70$



Government
buys an extra 70b



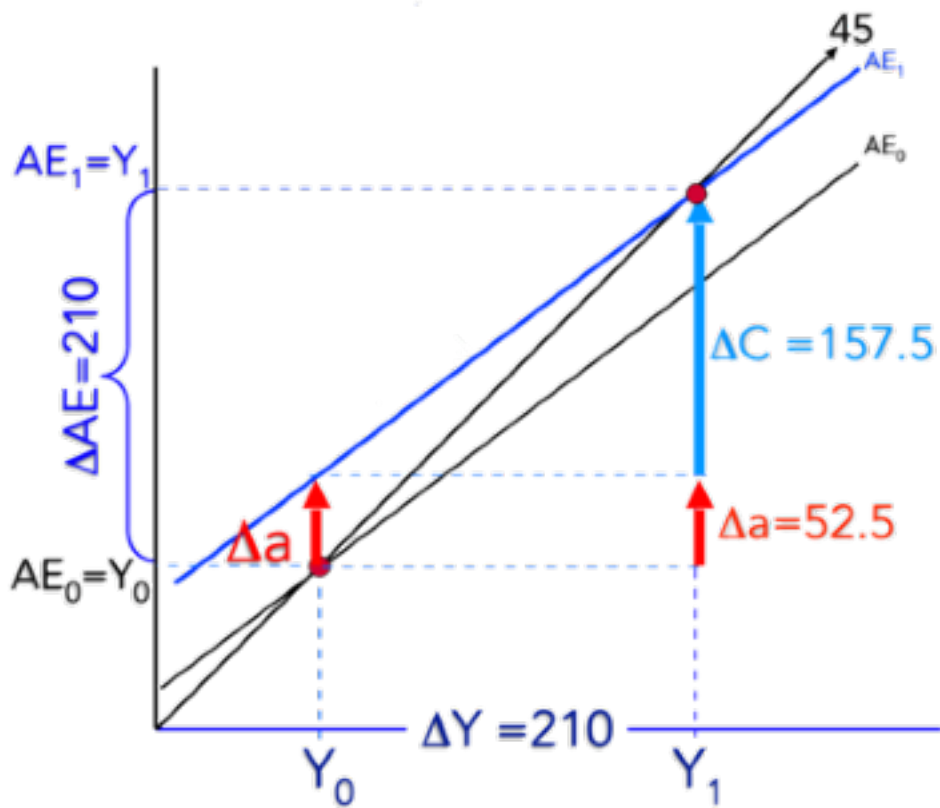
Government
"gives" us an extra
70b to spend

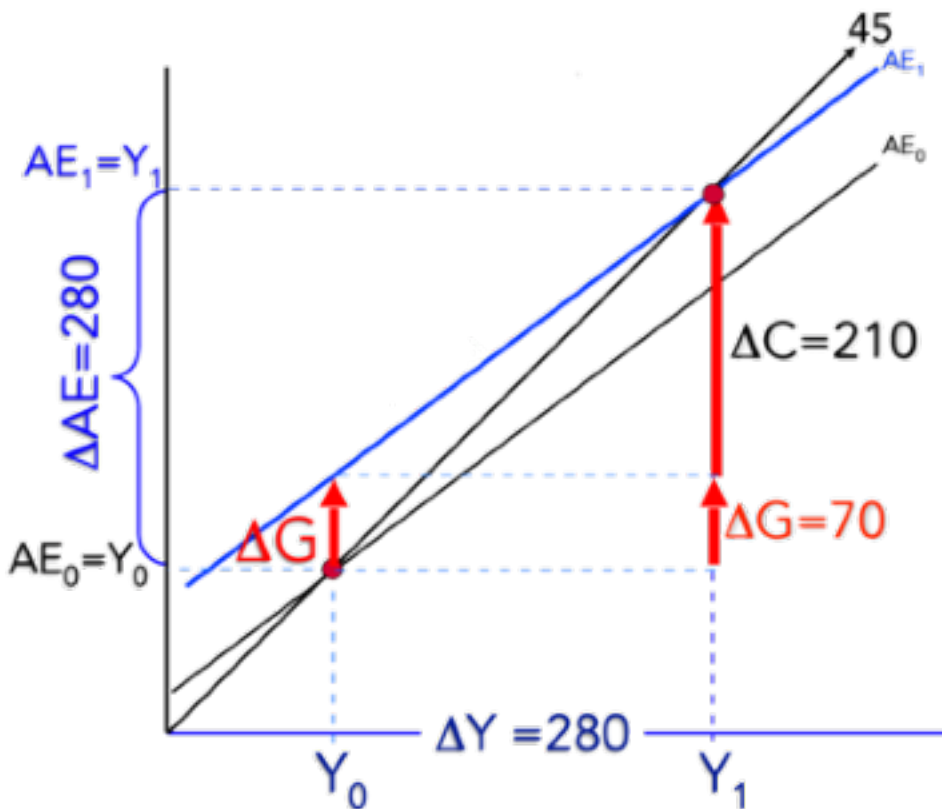


Increasing
Spending is more
effective than a tax
cut

AG = 70





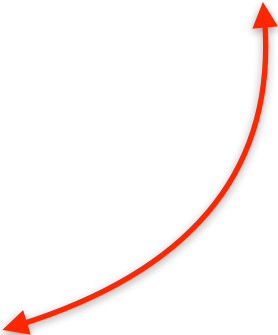


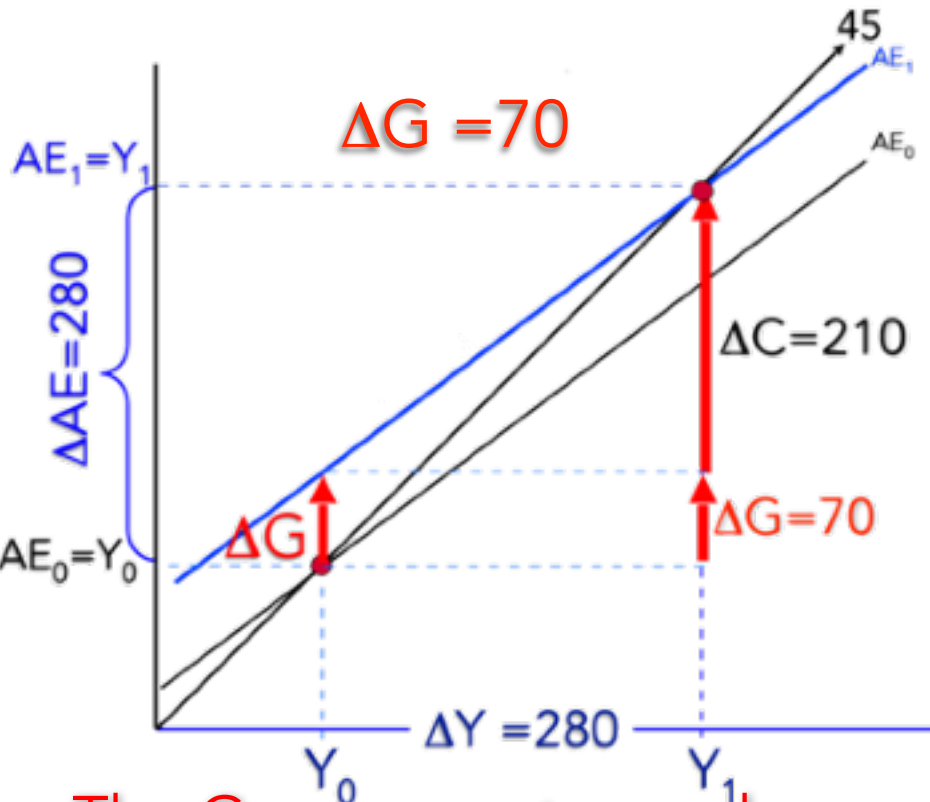
The Government spends
the full 70B

Consumers spend
only 75% of the 70B



$MPC = 0.75$

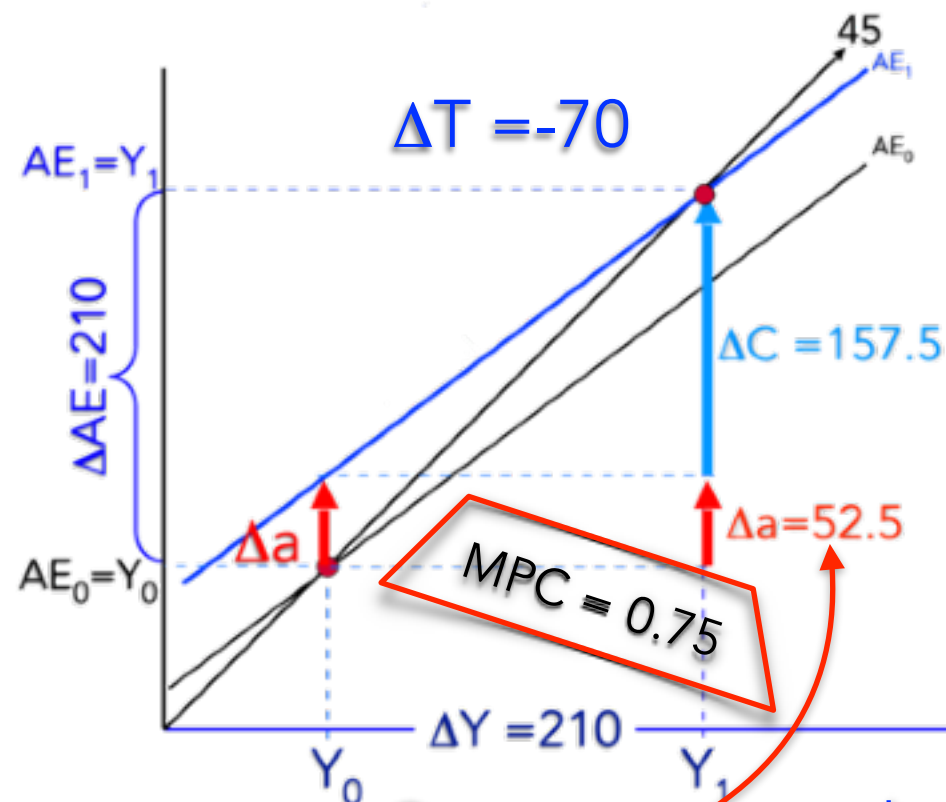




The Government spends
the full 70B
Larger increase in Output
 $\Delta Y = 280$

$$\Delta C = 210$$

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



Consumers spend
only 75% of the 70B

$$\Delta Y = 210$$

$$\Delta C = 210$$

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

Increasing
Spending is more
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cut

