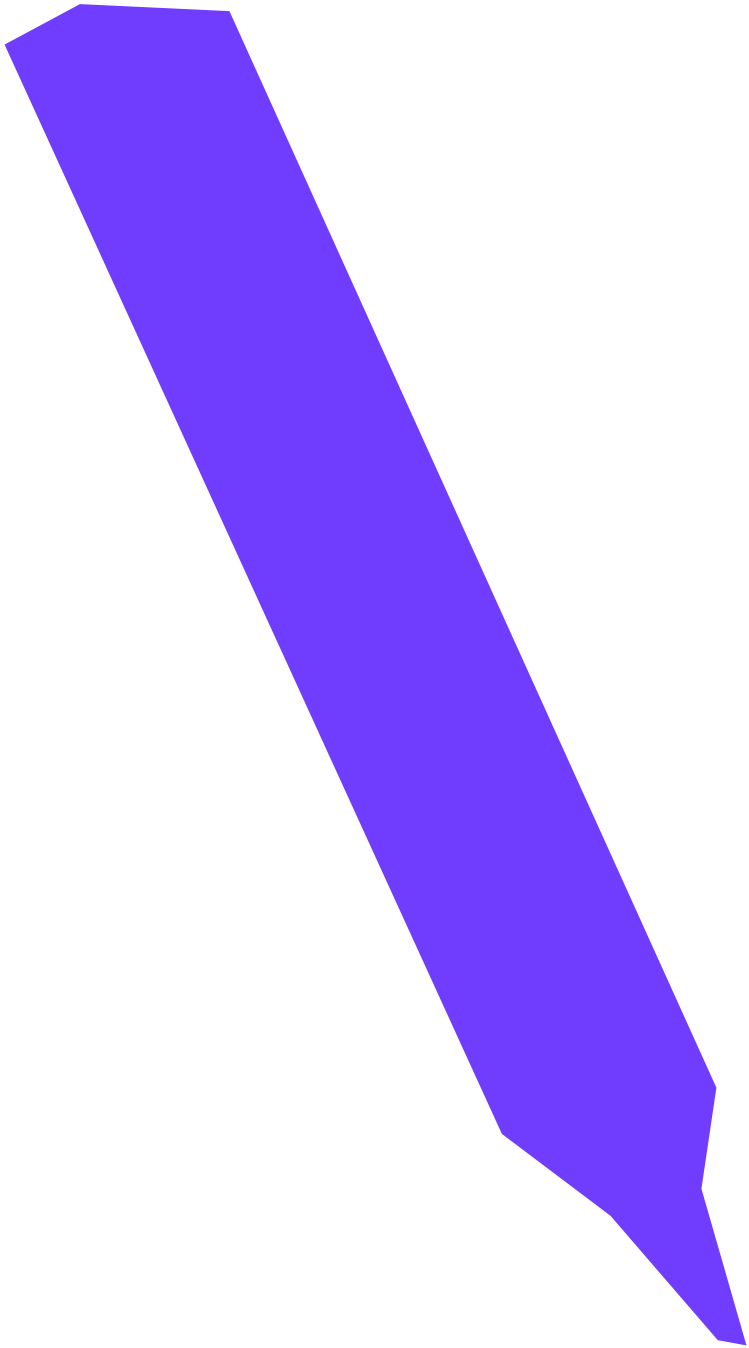
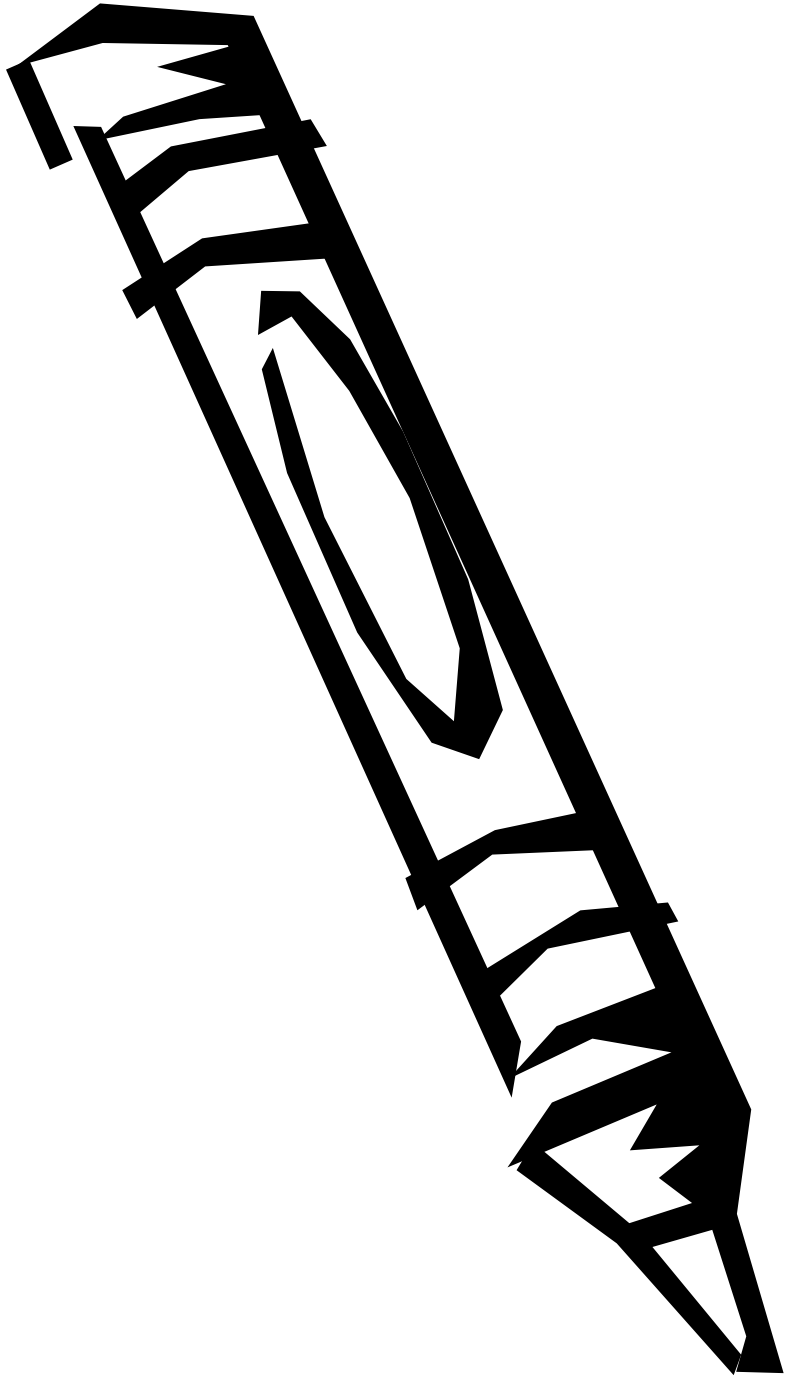
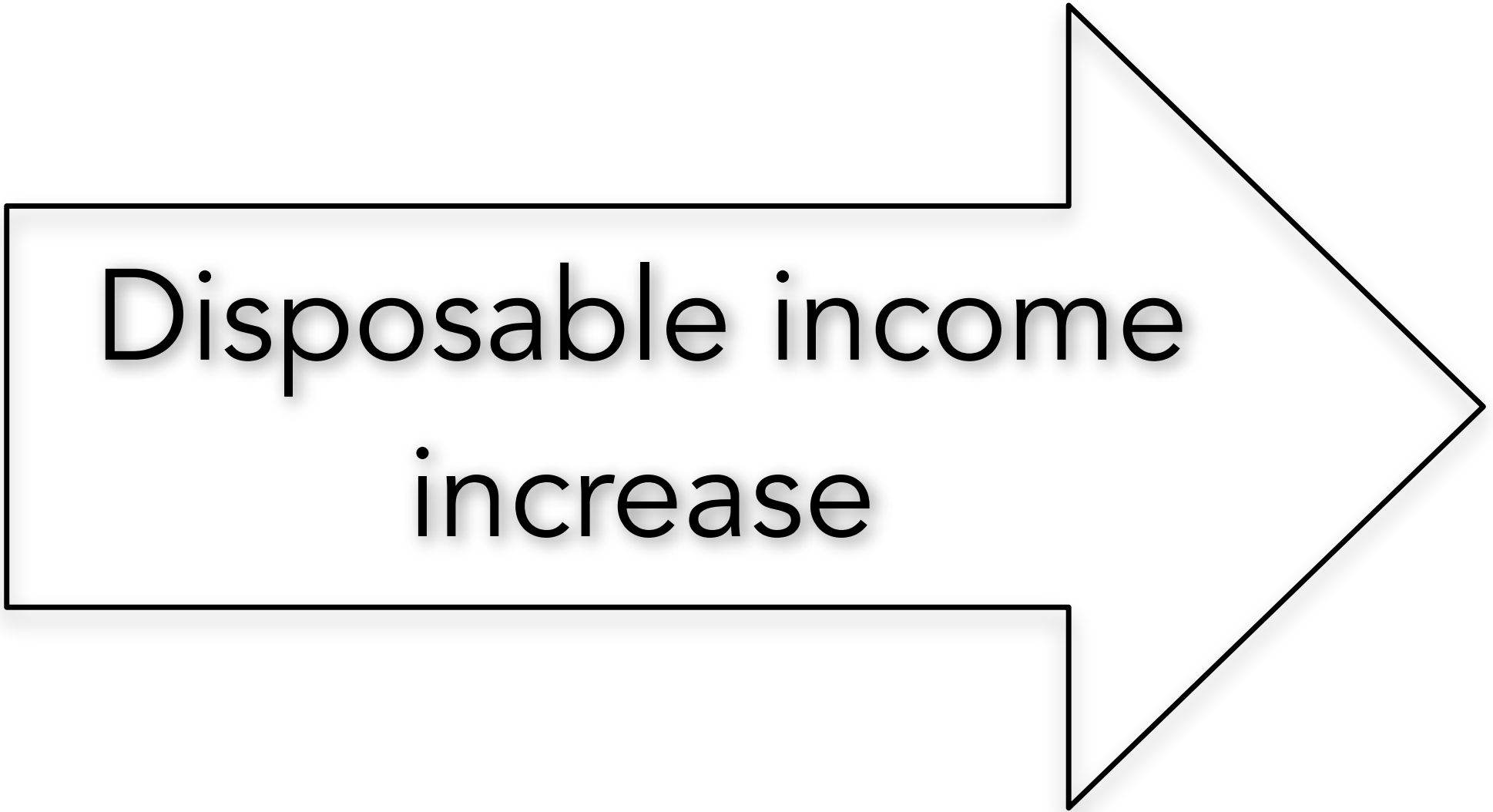




# The effect of a tax cut

# When Taxes Decrease

$\Delta T = -100$


Disposable income
increase

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

# When Disposable Income Increase

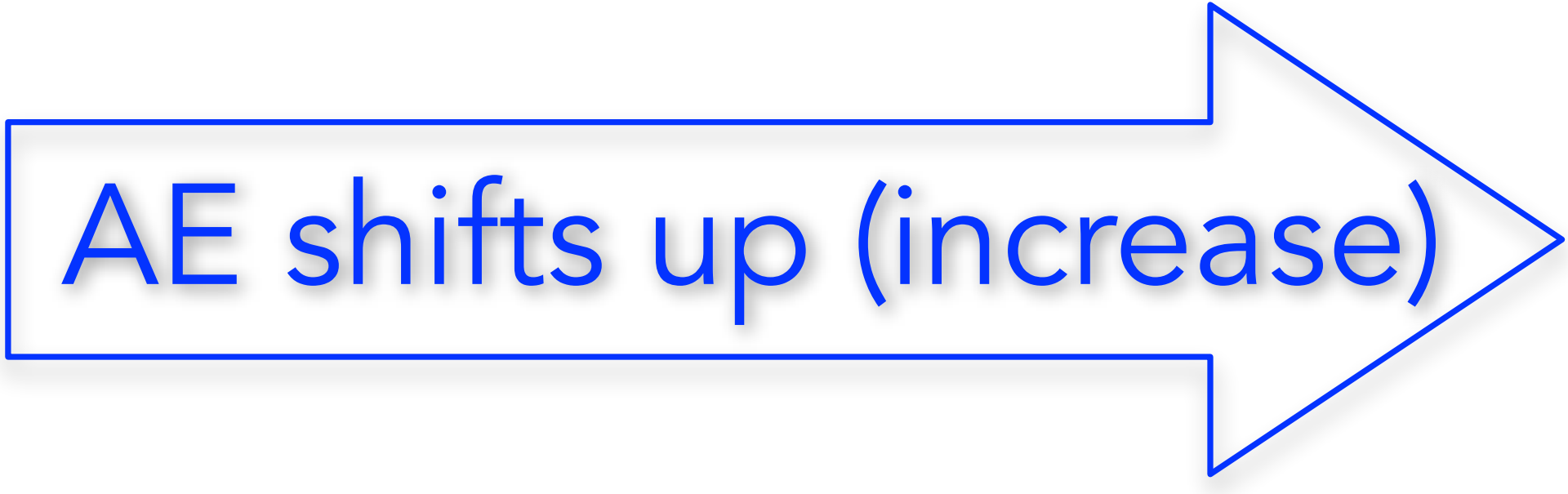
$$\Delta Y^d = +100$$

Autonomous Consumption Increase

$$\Delta a = 0.9 * 100$$

# When Consumption Increase

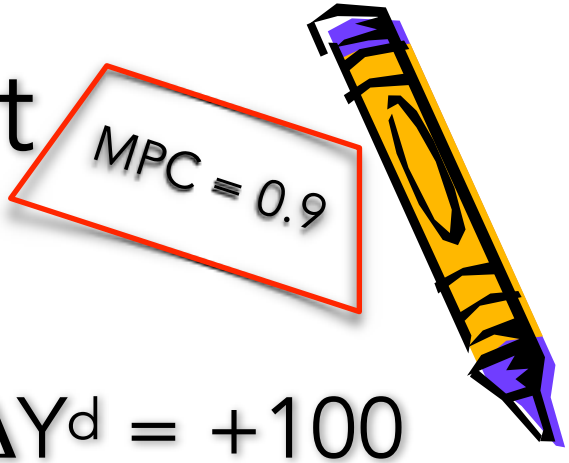
$$\Delta a = +90$$


AE shifts up (increase)

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

MPC = 0.9

# The effect of a tax cut




When Taxes Decrease

$\Delta T = -100$

Disposable income increase

$\Delta Y^d = +100$

When Disposable Income Increase

$\Delta Y^d = +100$

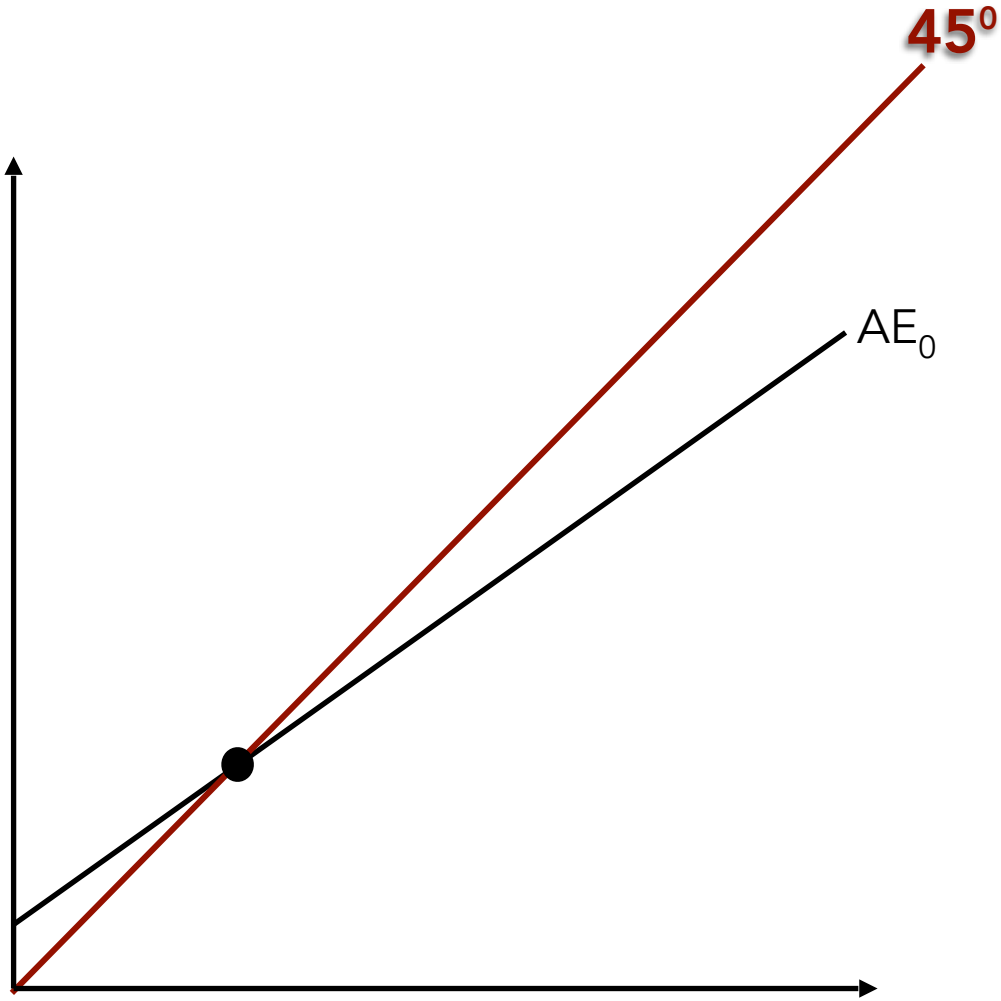
Autonomous Consumption Increase

$\Delta a = 0.9*100$

When Consumption Increase

$\Delta a = +90$

AE shifts up (increase)

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

# The effect of a $100b tax cut