

$$\Delta Y = \Delta G$$

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

Change in Consumption

Change in Deficit

Δ Government's Deficit = Δ G – Δ T

Spending Multiplier

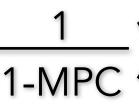
Change in Equilibrium GDP

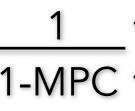
= 100

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

 Δ Deficit = 100 - 0

 $\Delta G = 100$





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Formula:

Example:

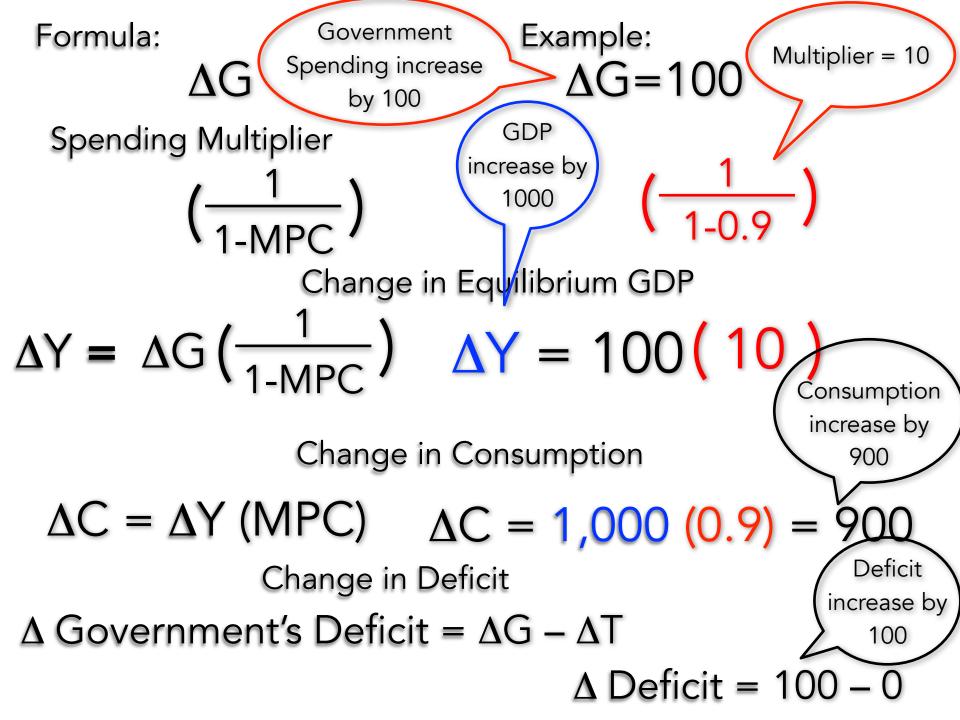












The effect of a tax cut

