

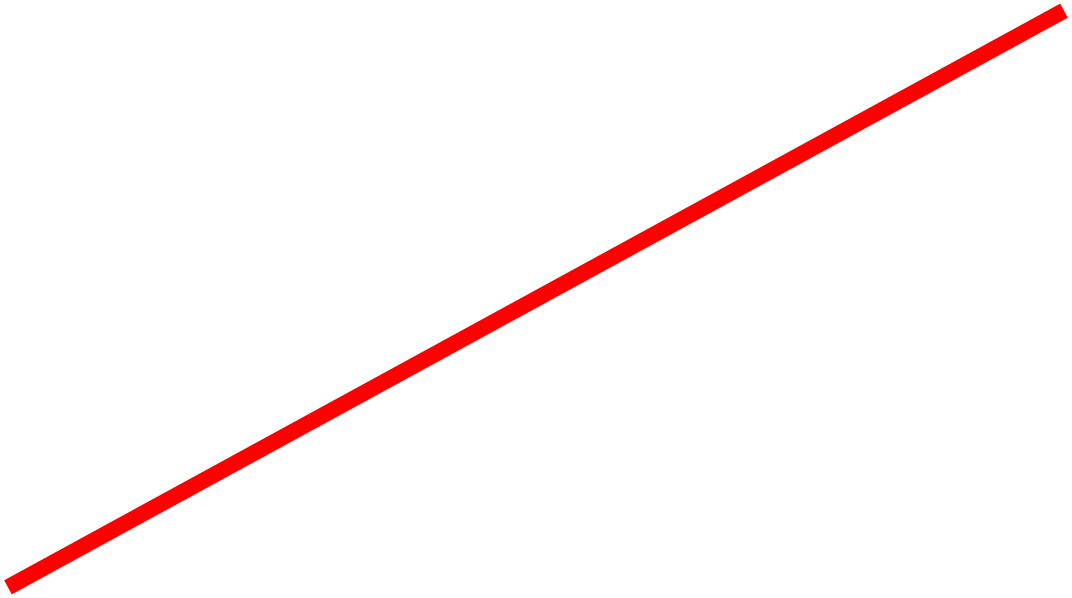


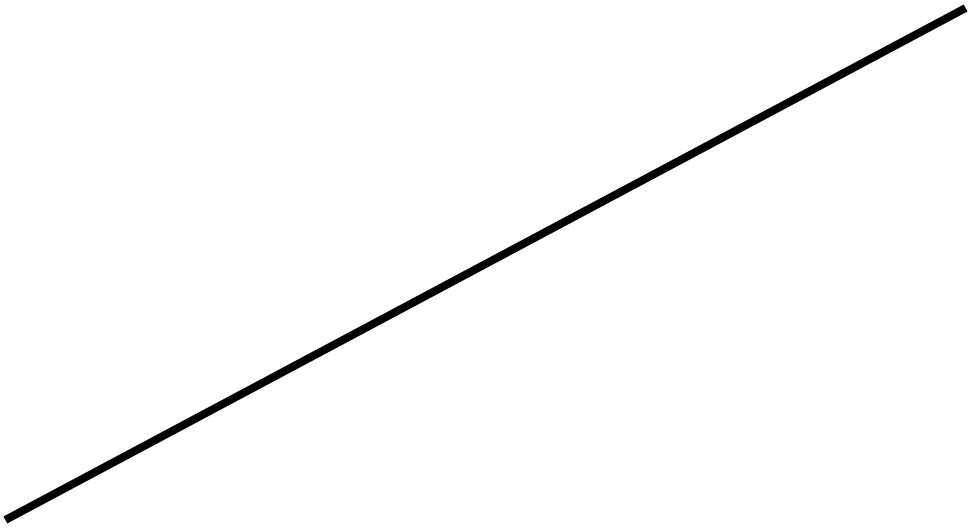
A 200 decrease in government spending
cause an 800 decrease in GDP

Example $\Delta G = -200$ MFC $= 0.75$









ARE = AG = -200



NY = 800

AEo

AE₁

Change in Equilibrium Y :

= ΔG



= -200

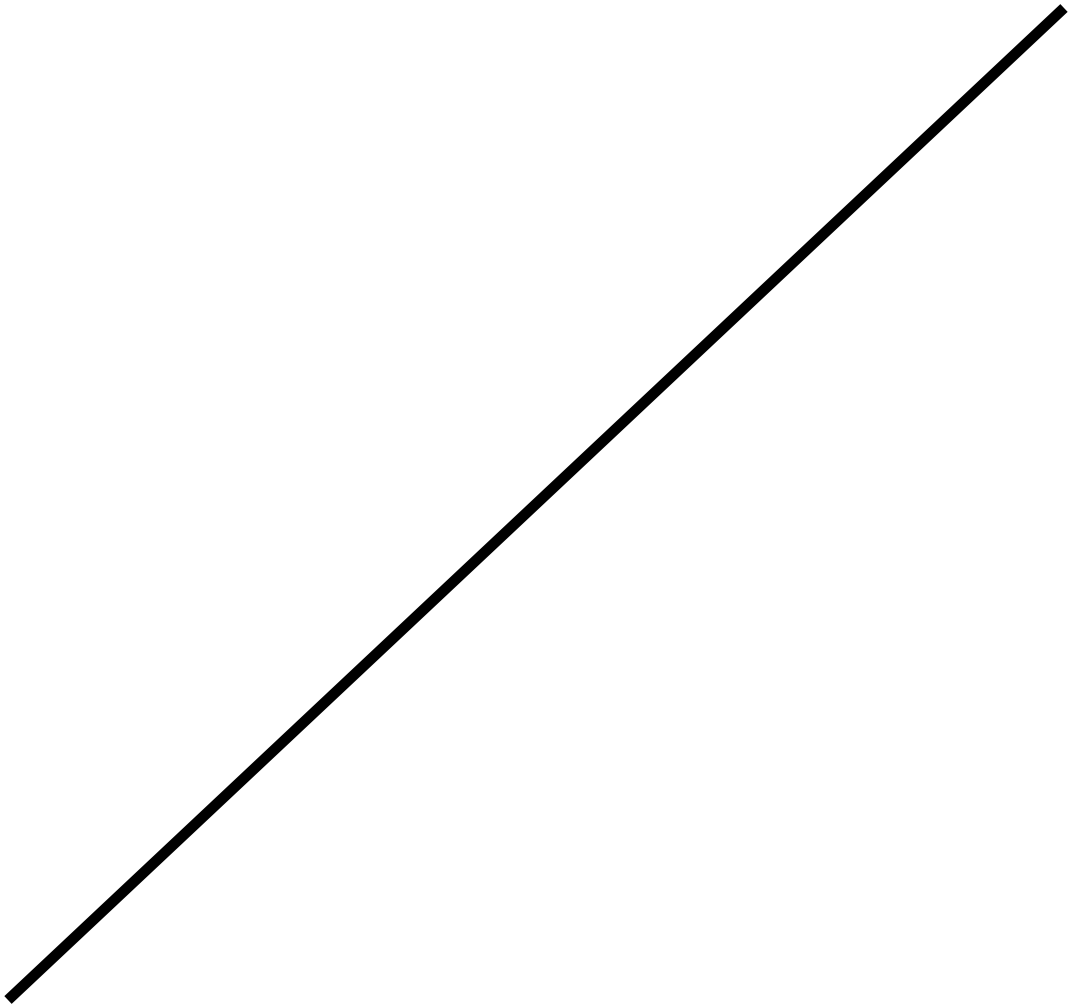














NY = 800

$$\left(\frac{1}{1-0.75} \right)$$

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

= -200



$$\left(\frac{1}{0.25} \right)$$

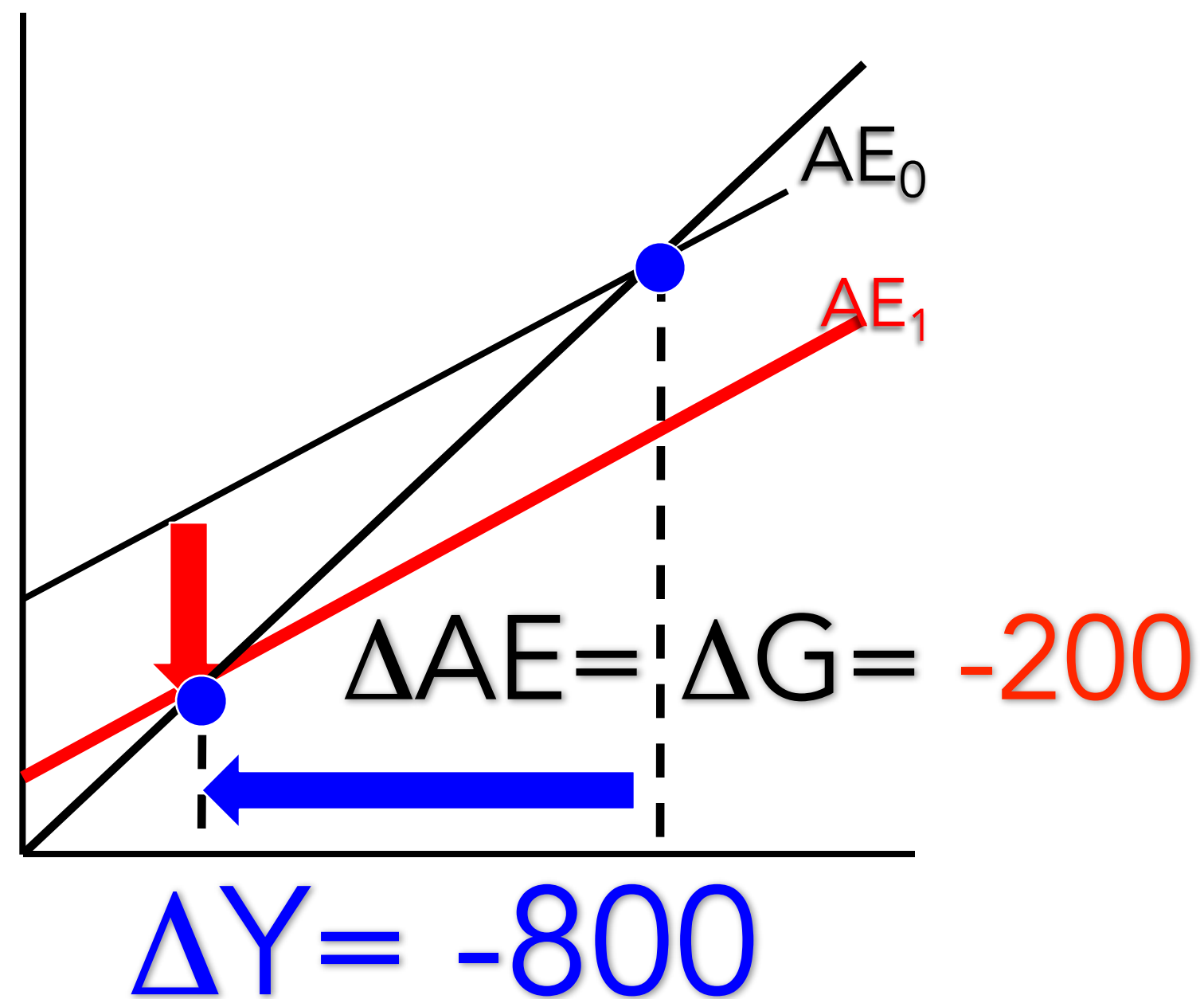
= -200



(4)

Example $\Delta G = -200$ MPC = 0.75

Change in Equilibrium Y :



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

$$\Delta Y = -200 \left(\frac{1}{1 - 0.75} \right)$$

$$\Delta Y = -200 \left(\frac{1}{0.25} \right)$$

$$\Delta Y = -200 \left(4 \right)$$

$$\Delta Y = -800$$

A 200 decrease in government spending
cause an 800 decrease in GDP

Formula:

Example: