

AE1

Y

O



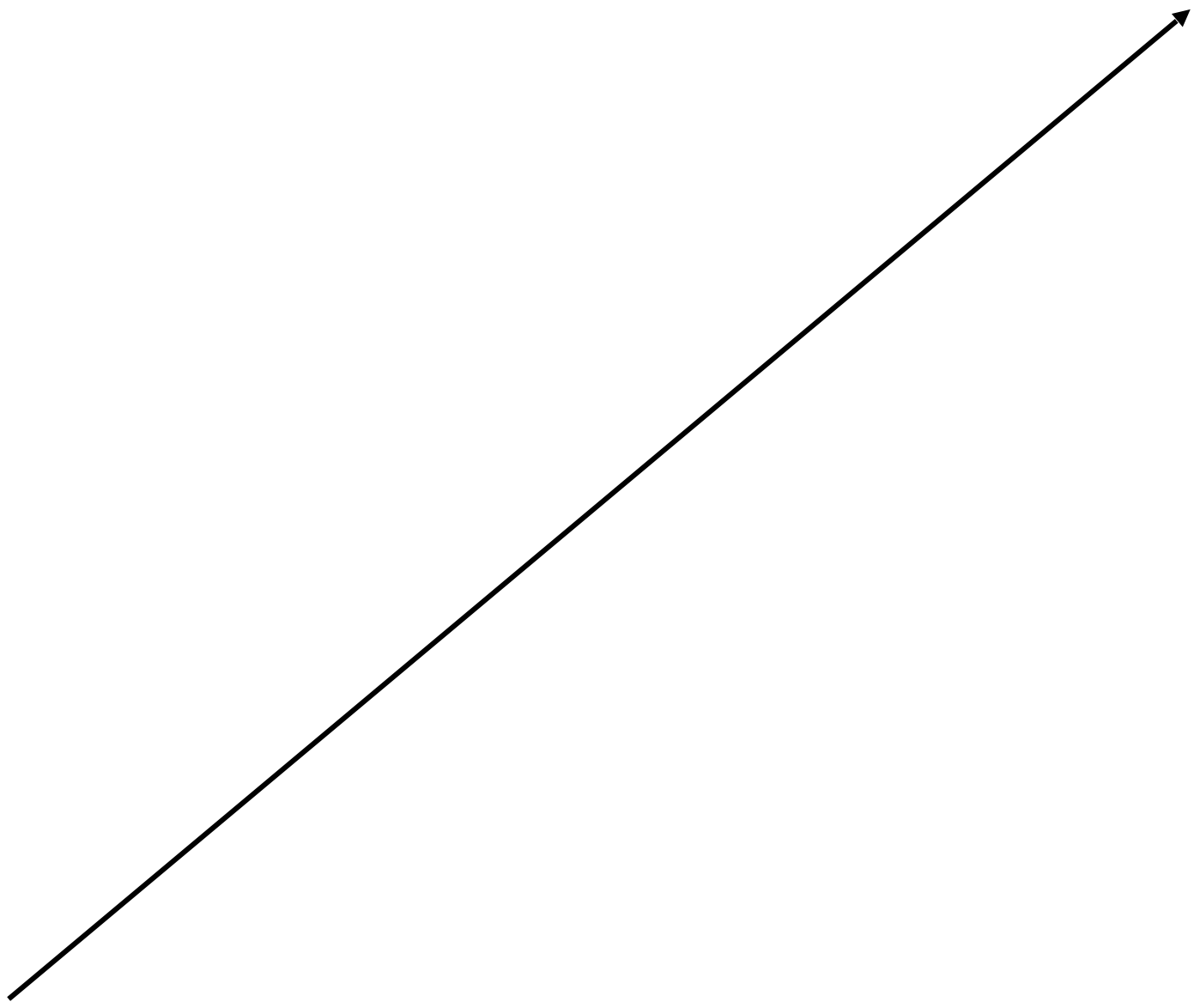




AC

=

90





AEOL

Y

1

Y

2





Y

3













Y

4



Y

5





Y

6





Y

7



Y

8









Increase in
consumption causes
the rest of the increase
in GDP

NY

=

1

0

0

The
majority of
the increase
in GDP is due to an
increase
in Consumption

$\Delta Y = 900$



$$\text{Total } \Delta Y = 1000 + 9000 = 1,000$$



Y^*

New

Equilibrium





ΔY

$=$

ΔG





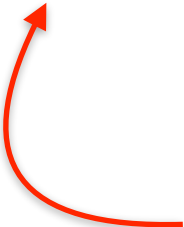


$\Delta G = 100$  Increase in G cause
an EQUAL increase
in GDP

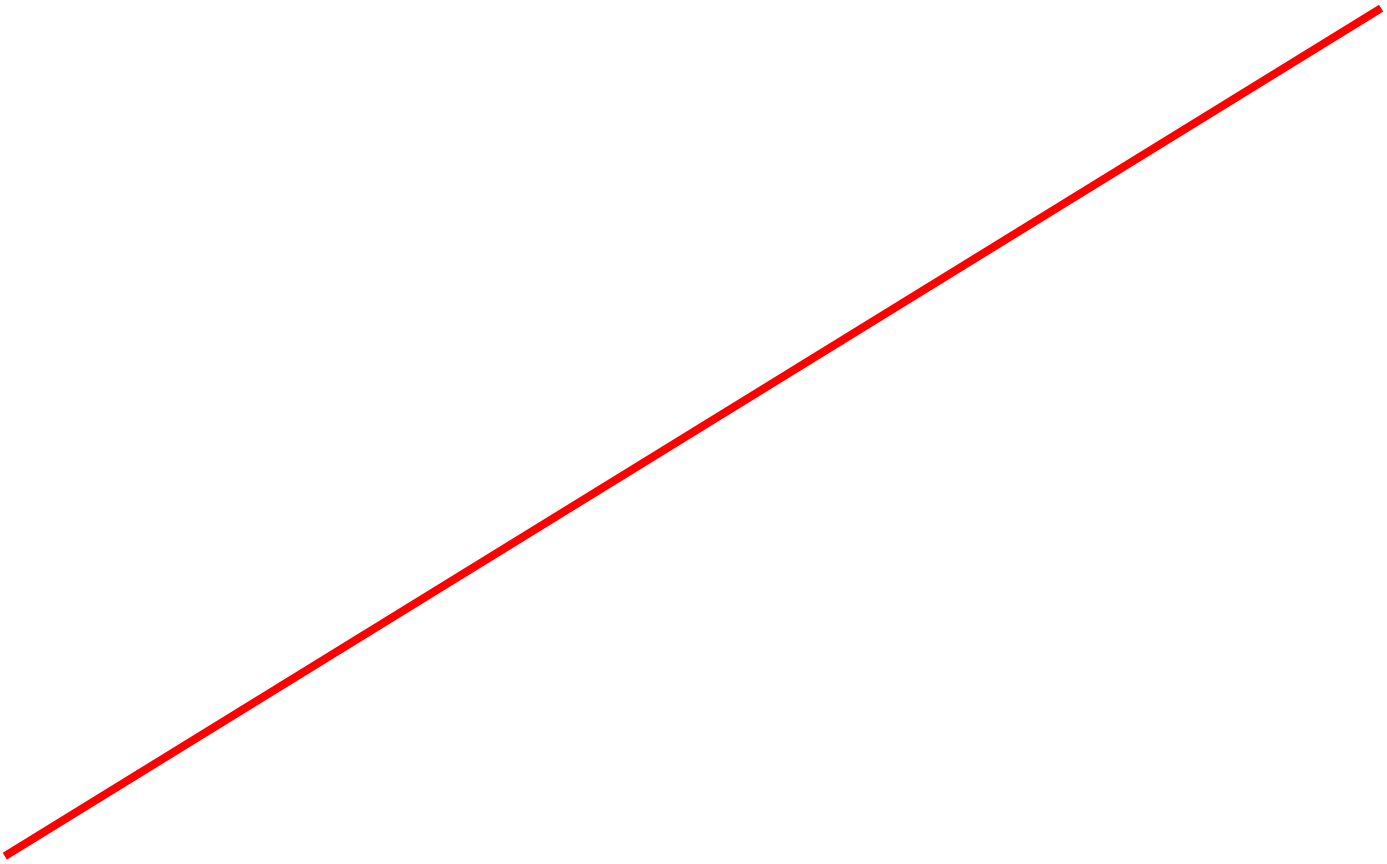




The
Multiplicative
effect is all the result of
additional rounds of
Consumer spending

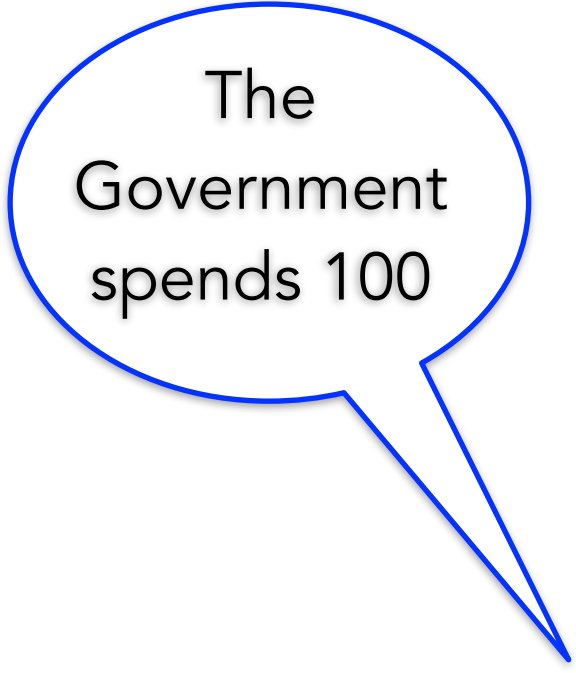








But it is consumers
who have the biggest
impact

A blue speech bubble with a white background and a blue outline. It has a long tail pointing towards the bottom right corner of the image.

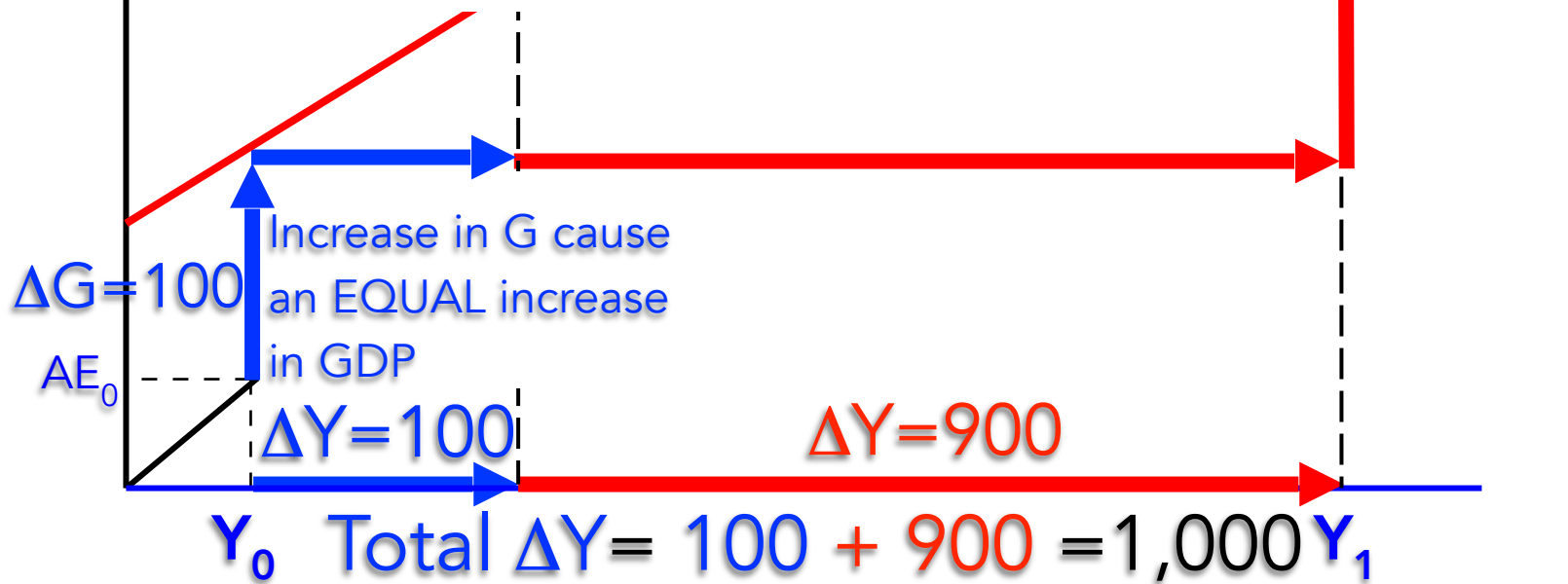
The
Government
spends 100

Fiscal Policy can NOT work
without the cooperation of
Consumers

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

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

Fiscal Policy can NOT work
without the cooperation of
Consumers



The Multiplier Process