





$$\Delta Y = \Delta G$$

$$\Delta C \equiv \Delta Y \text{ (MPC)}$$

Change in Consumption

Change in Deficit

$\Delta \text{Government's Deficit} = \Delta G - \Delta T$

Spendings Multiplier



Change in Equilibrium GDP

$$\Delta Y = 100$$

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

$\Delta \text{Deficit} \equiv 1000 - 0$

**AG = 1000**

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

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

$$\left( \frac{1}{1-0.9} \right)$$



( 10 )

Formula:

Example:



Multiplier = 10



GDP  
increase by  
1000

A black-outlined speech bubble with a drop shadow, containing the text "Consumption increase by 900".

Consumption  
increase by  
900

A black and white speech bubble with a thick black outline. The bubble is roughly circular with a small tail pointing towards the bottom-left. Inside the bubble, the text "Deficit increase by 100" is written in a black, sans-serif font, centered horizontally and arranged in three lines.

Deficit  
increase by  
100



Government  
Spending increase  
by 100



Formula:

$\Delta G$

Government  
Spending increase  
by 100

Example:

$\Delta G = 100$

Multiplier = 10

Spending Multiplier

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

GDP  
increase by  
1000

$$\left( \frac{1}{1-0.9} \right)$$

Change in Equilibrium GDP

$$\Delta Y = \Delta G \left( \frac{1}{1-MPC} \right) \quad \Delta Y = 100 (10)$$

Change in Consumption

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

Change in Deficit

$$\Delta \text{Government's Deficit} = \Delta G - \Delta T$$

$$\Delta \text{Deficit} = 100 - 0$$

Consumption  
increase by  
900

Deficit  
increase by  
100

# The effect of a **tax** cut

