



AE1

Y

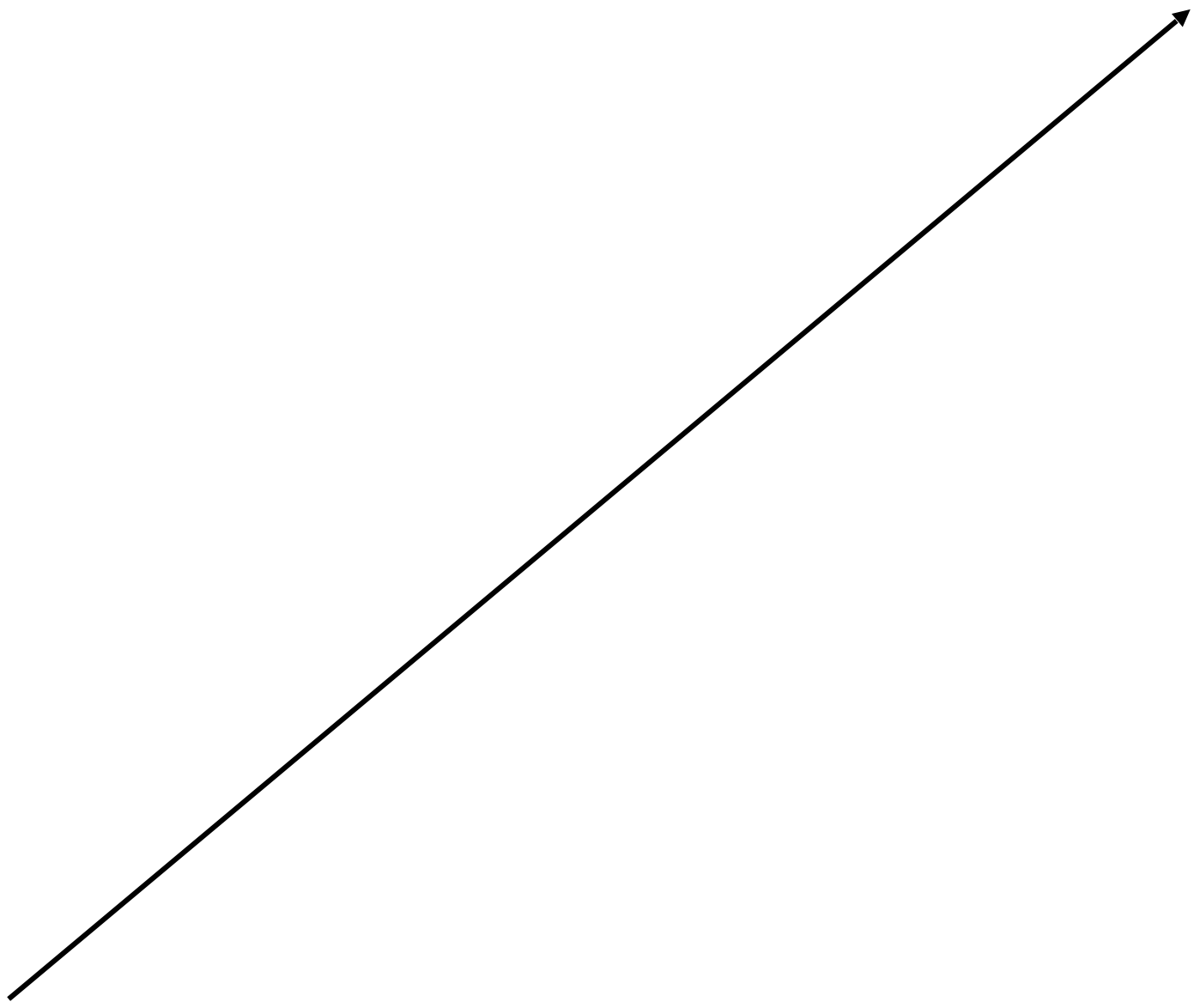
O















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



$$\Delta Y = 900$$



$$\text{Total } \Delta Y = 1000 + 900 = 1,000$$



$Y^*$

New

Equilibrium







$\Delta Y$

$=$

$\Delta G$







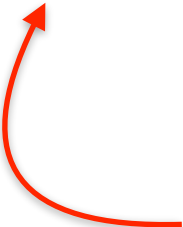
$\Delta G = 100$   Increase in G cause  
an EQUAL increase  
in GDP



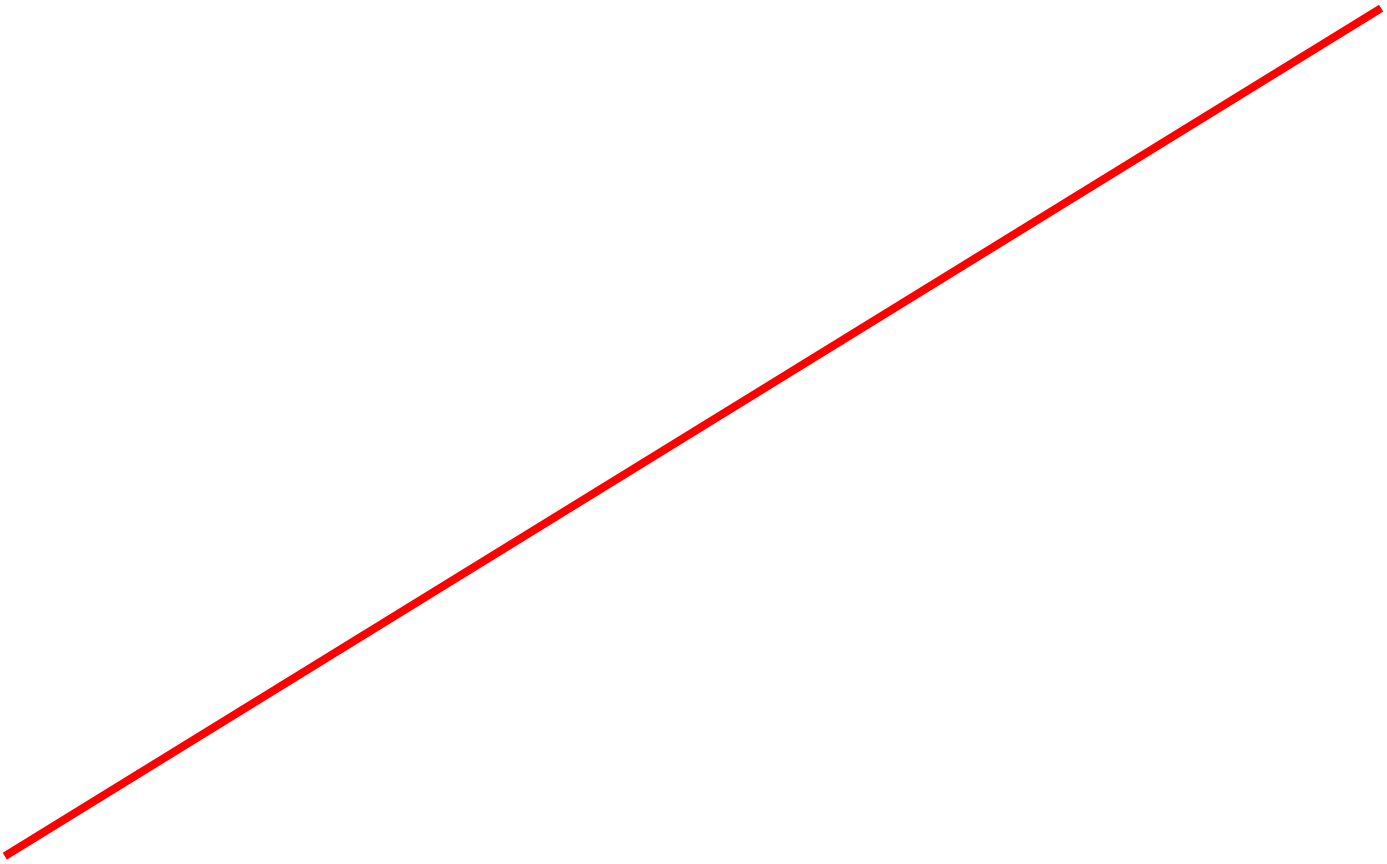




The  
Multiplicative  
effect is all the result of  
additional rounds of  
Consumer spending

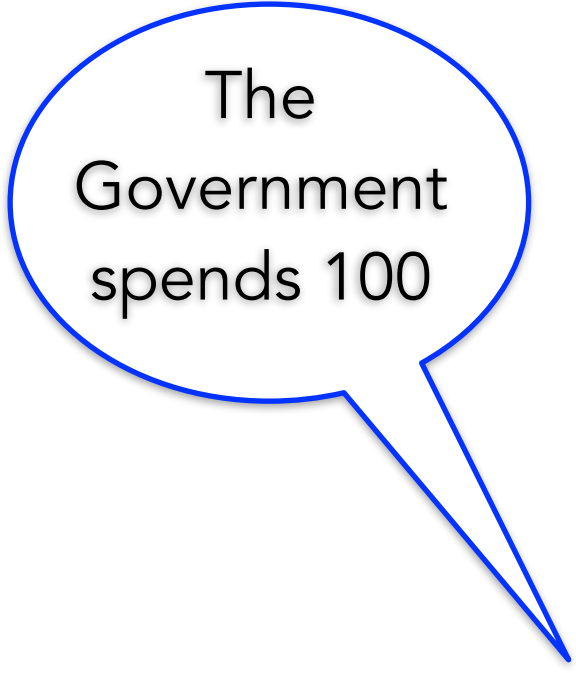








But it is consumers  
who have the biggest  
impact

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

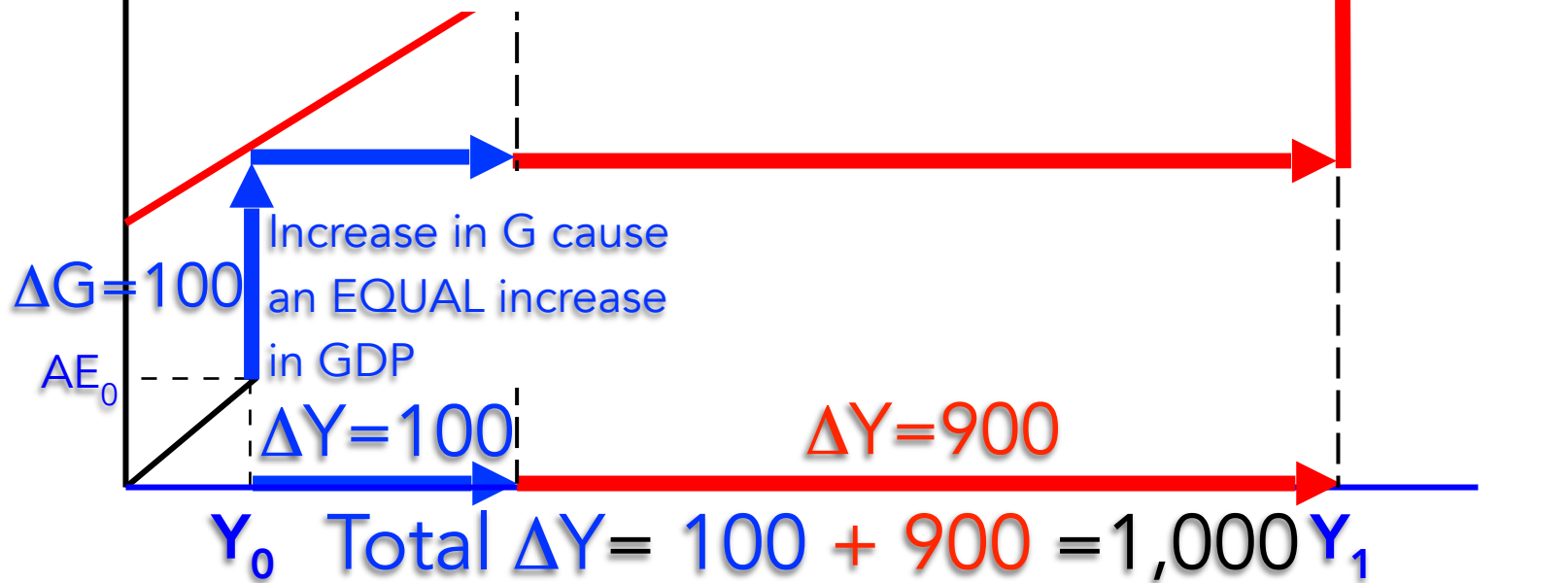
Fiscal Policy can NOT work  
without the cooperation of  
Consumers

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



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

Fiscal Policy can NOT work  
without the cooperation of  
Consumers



# The Multiplier Process