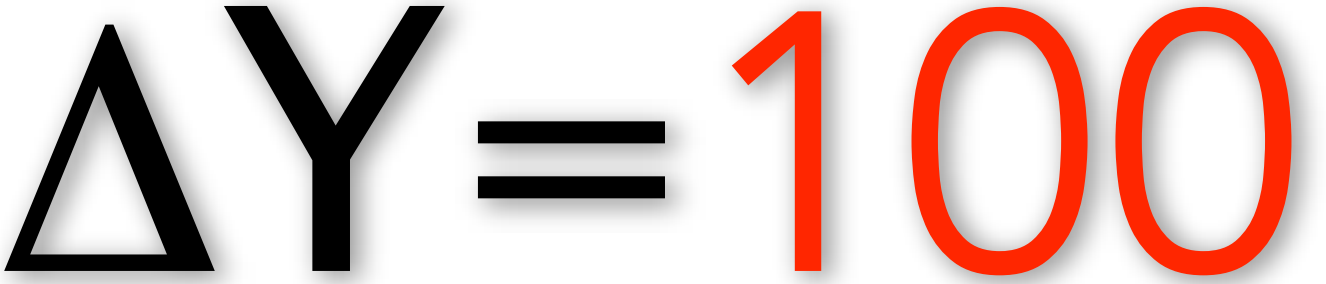
$\Delta G = 100$

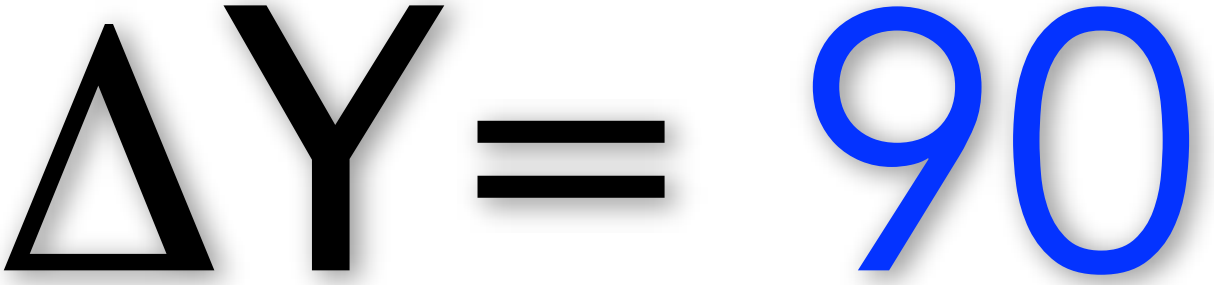
Government spends more to fix bridges, airports and highways


ΔY=100

Construction supplies companies sell more, contractors and newly employed workers earn more income

$$\Delta C = 100 * 0.9 = 90$$

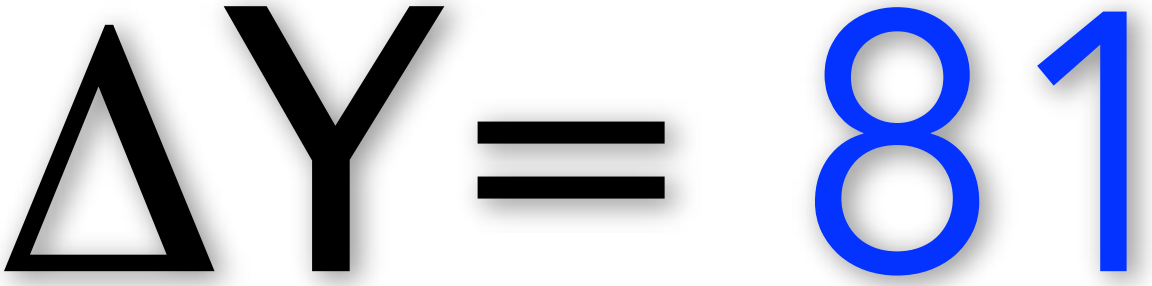
Contractors and workers spend their new income on goods and services


ΔY= 90

Income spent by contractors and workers on goods and services is income received by the seller of those goods and services

$$\Delta C = 90 * 0.9 = 81$$

These sellers spend a portion of their new income on goods and services

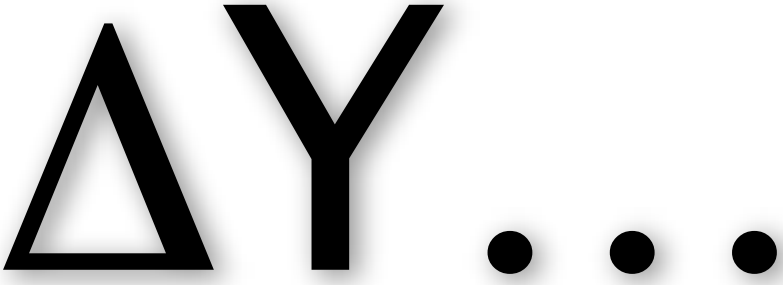

ΔY= 81

One person's spending is someone else's income


ΔC


ΔY


ΔC


ΔY...

This chain of extra income and extra consumption continues for many rounds multiplying the original increase in Government spending

ΔY…
ΔC
ΔY
ΔC
ΔY
ΔC

This chain of extra income and extra consumption continues for many rounds multiplying the original increase in Government spending

ΔY= 81

One person's spending is someone else's income

ΔC=90*0.9=81

These sellers spend a portion of their new income on goods and services

ΔY= 90

Income spent by contractors and workers on goods and services is income received by the seller of those goods and services

ΔC=100*0.9=90

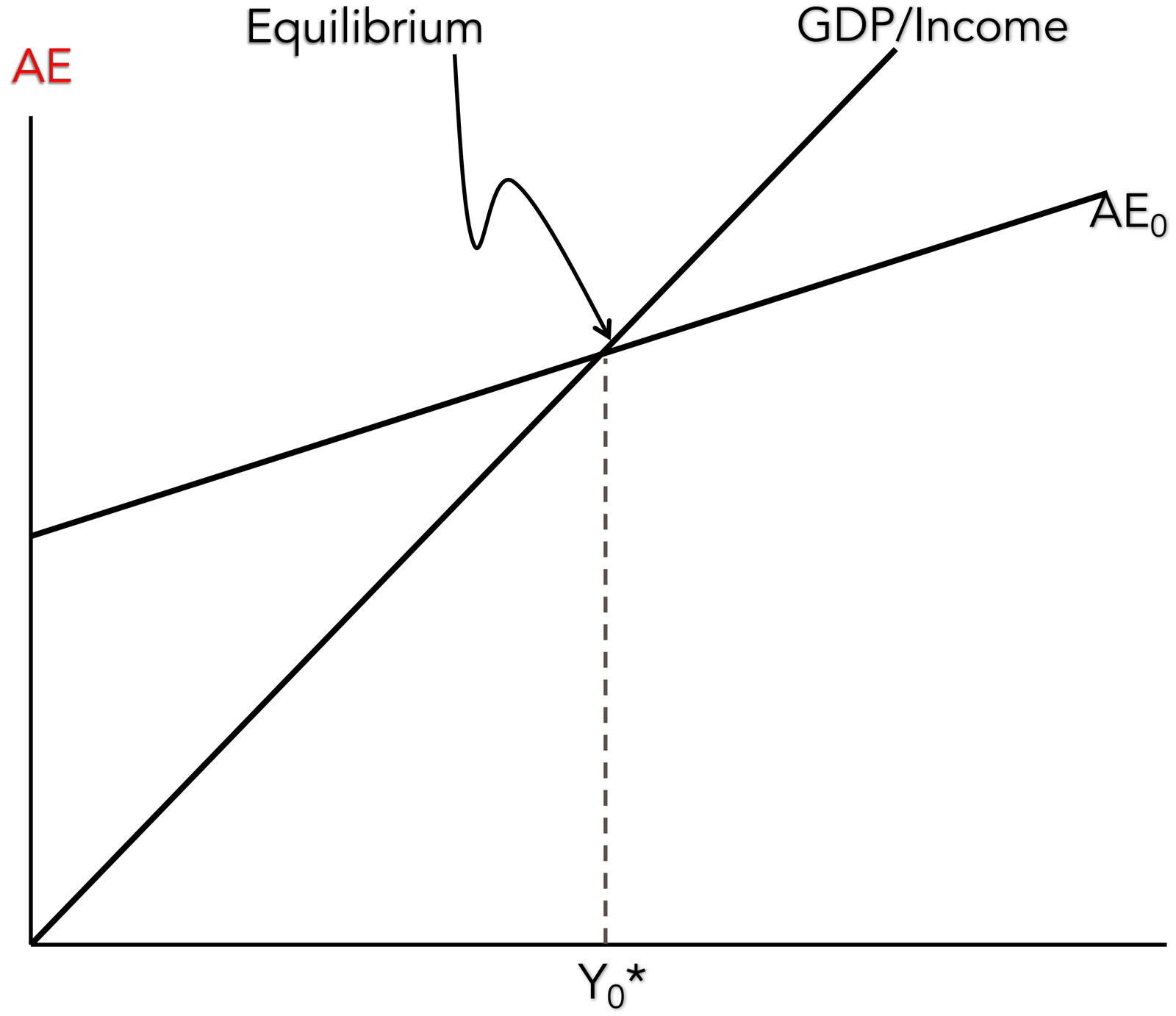
Contractors and workers spend their new income on goods and services

ΔY=100

Construction supplies companies sell more, contractors and newly employed workers earn more income

ΔG=100

Government spends more to fix bridges, airports and highways


Equilibrium
GDP/Income
AE
AE_0
Y_0*