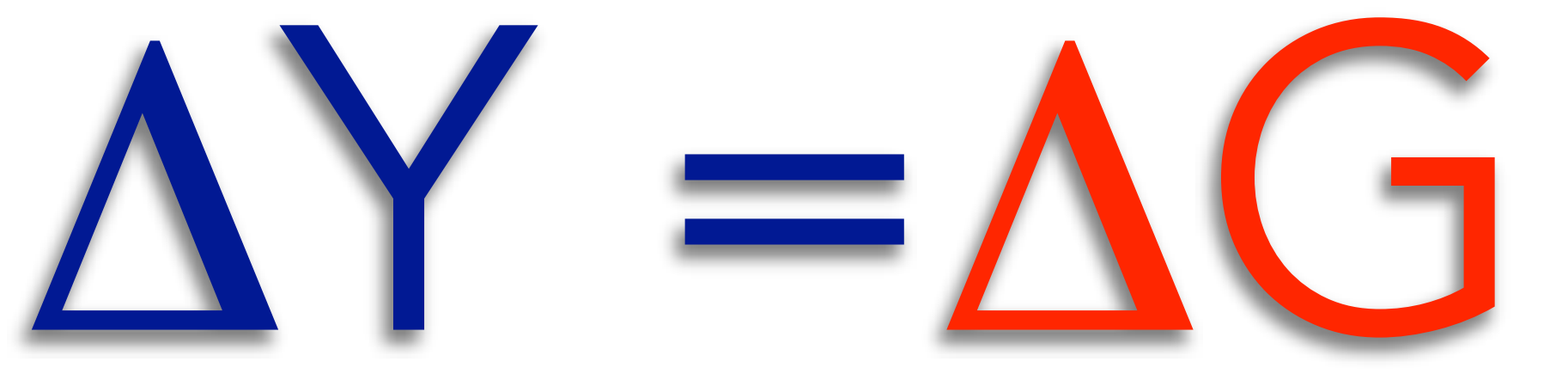
$\Delta G = +70$


ΔY = ΔG

$\Delta C = \Delta Y$ (MPC)

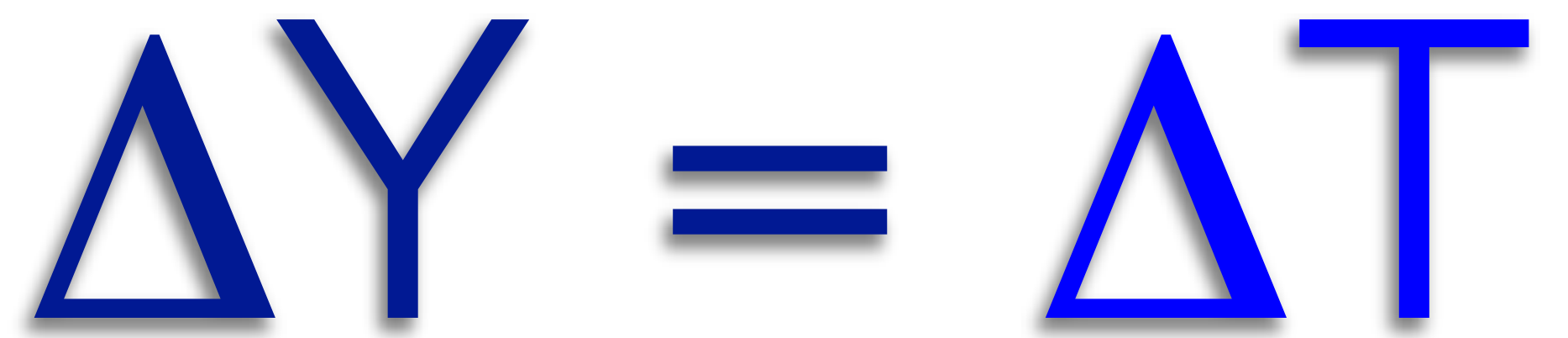
Calculate the change in Equilibrium GDP

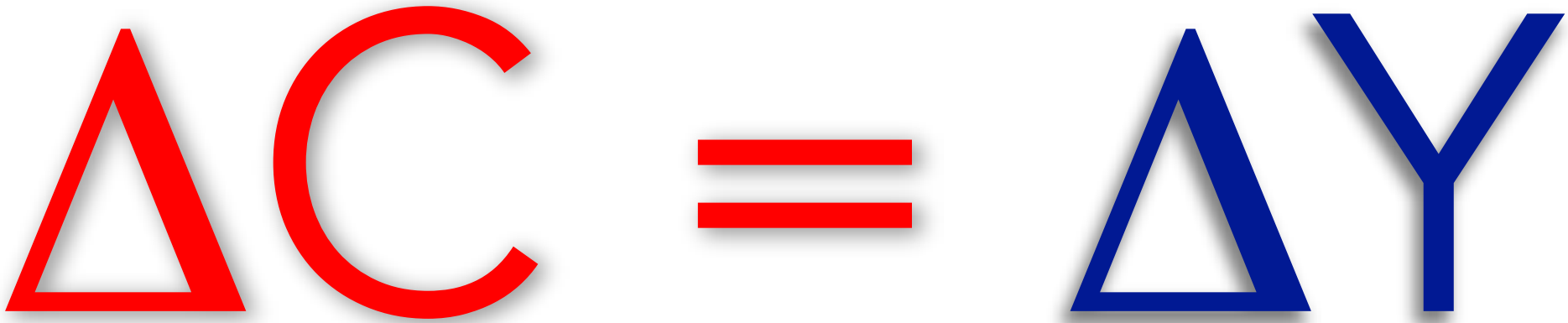
Calculate the change in Consumption

Calculate the change in Gvmt's Budget Deficit

$$\Delta \text{ Deficit} = \Delta G - \Delta T$$

$$\Delta T = -70$$


ΔY = ΔT


ΔC = ΔY

Calculate the Spending Multiplier

Calculate the Tax Multiplier

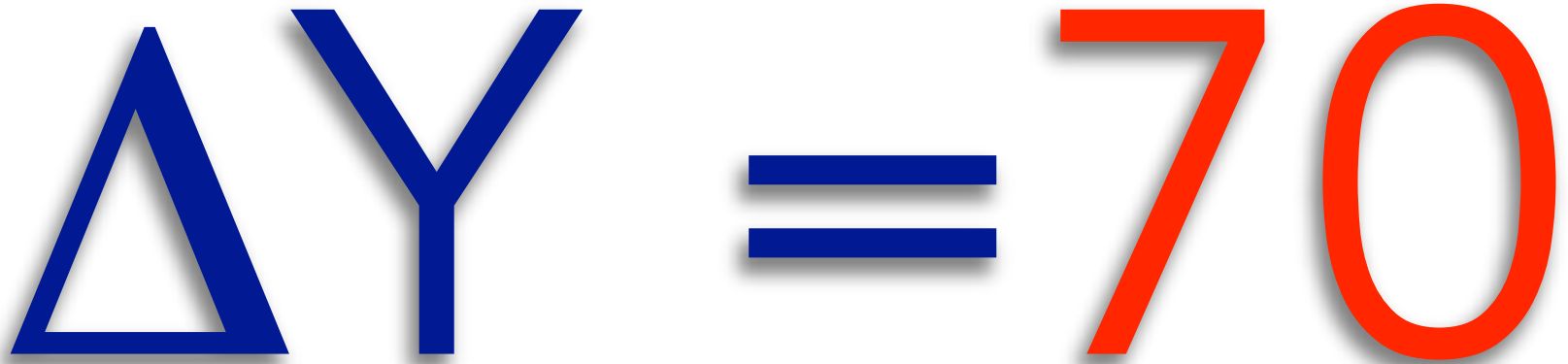

1
1-MPC


1
1-0.75


1
0.25


(4)


1
1-MPC

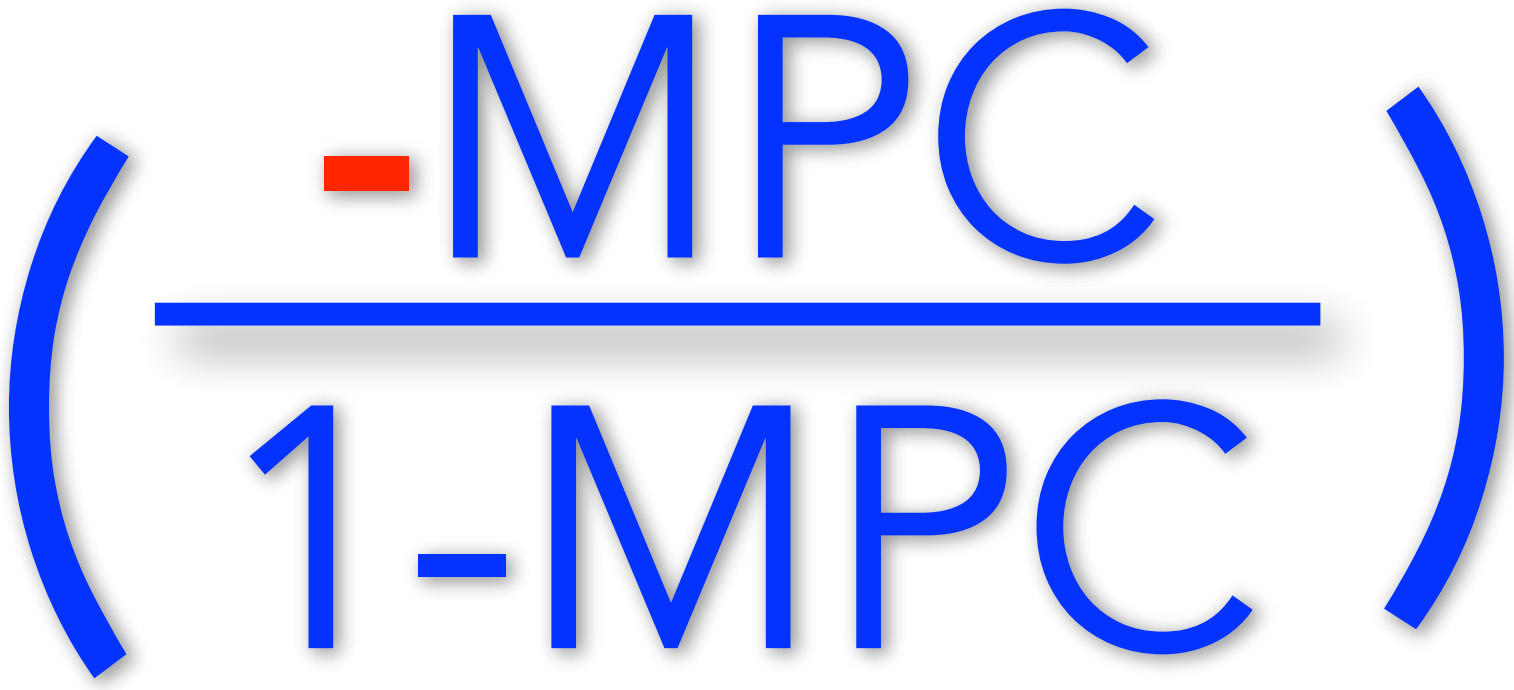

ΔY = 70

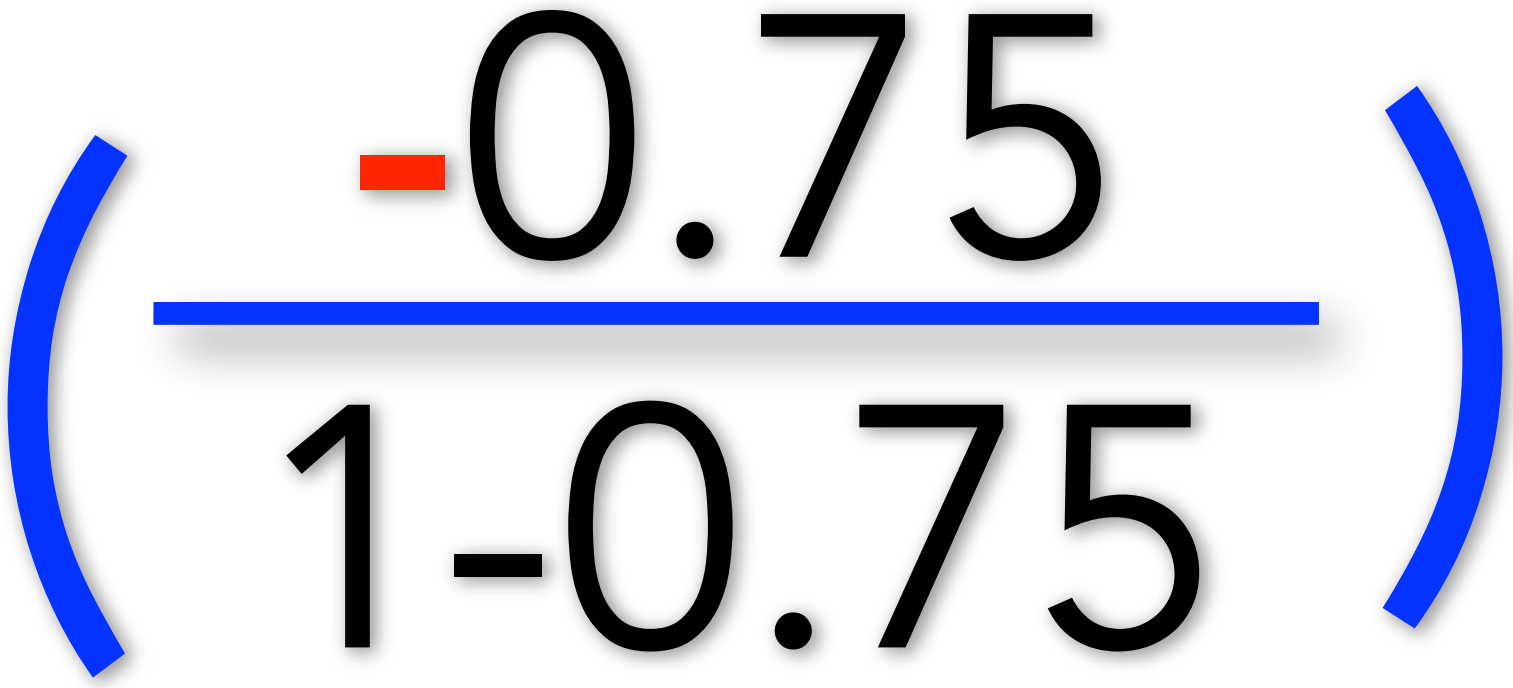

(4)

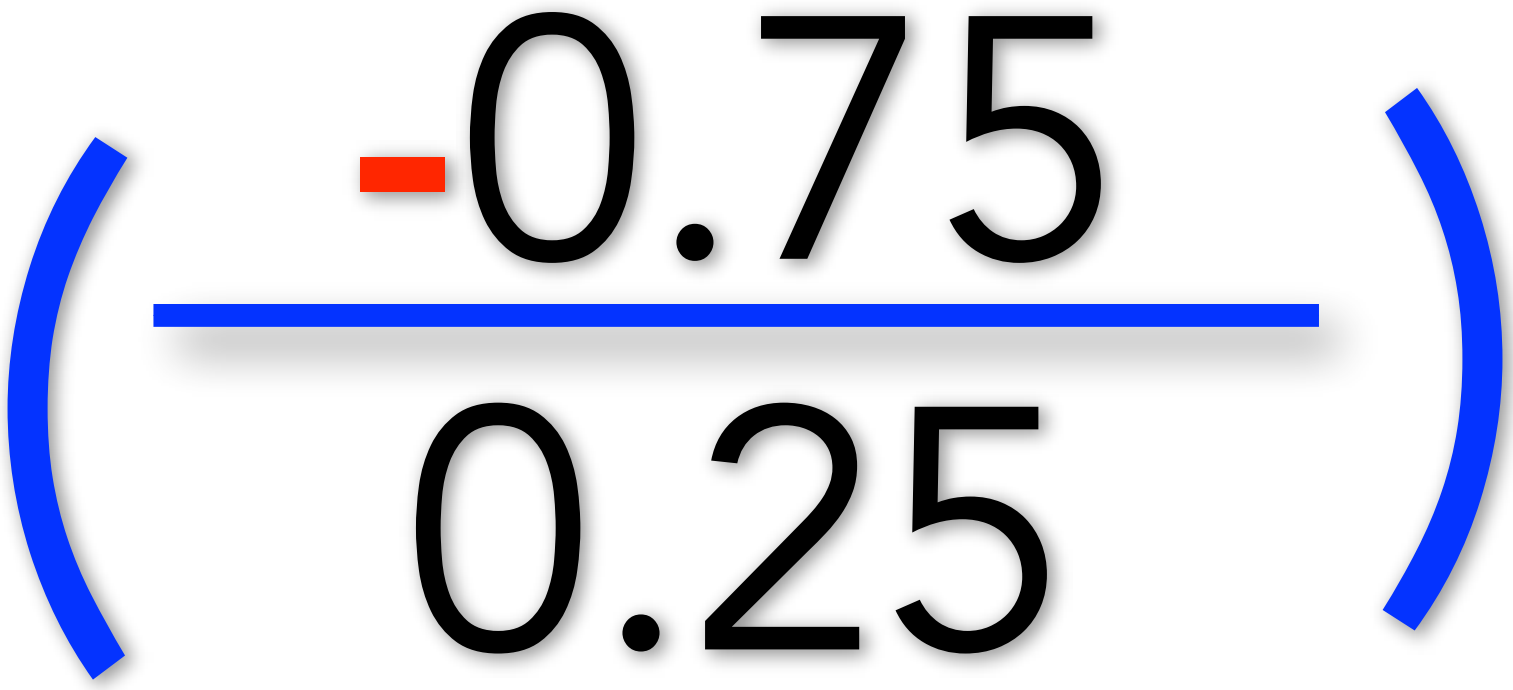
$$\Delta Y = 280$$

$$\Delta C = 280(0.75) = 210$$

$$\Delta \text{ Deficit} = 70 - 0 = 70$$

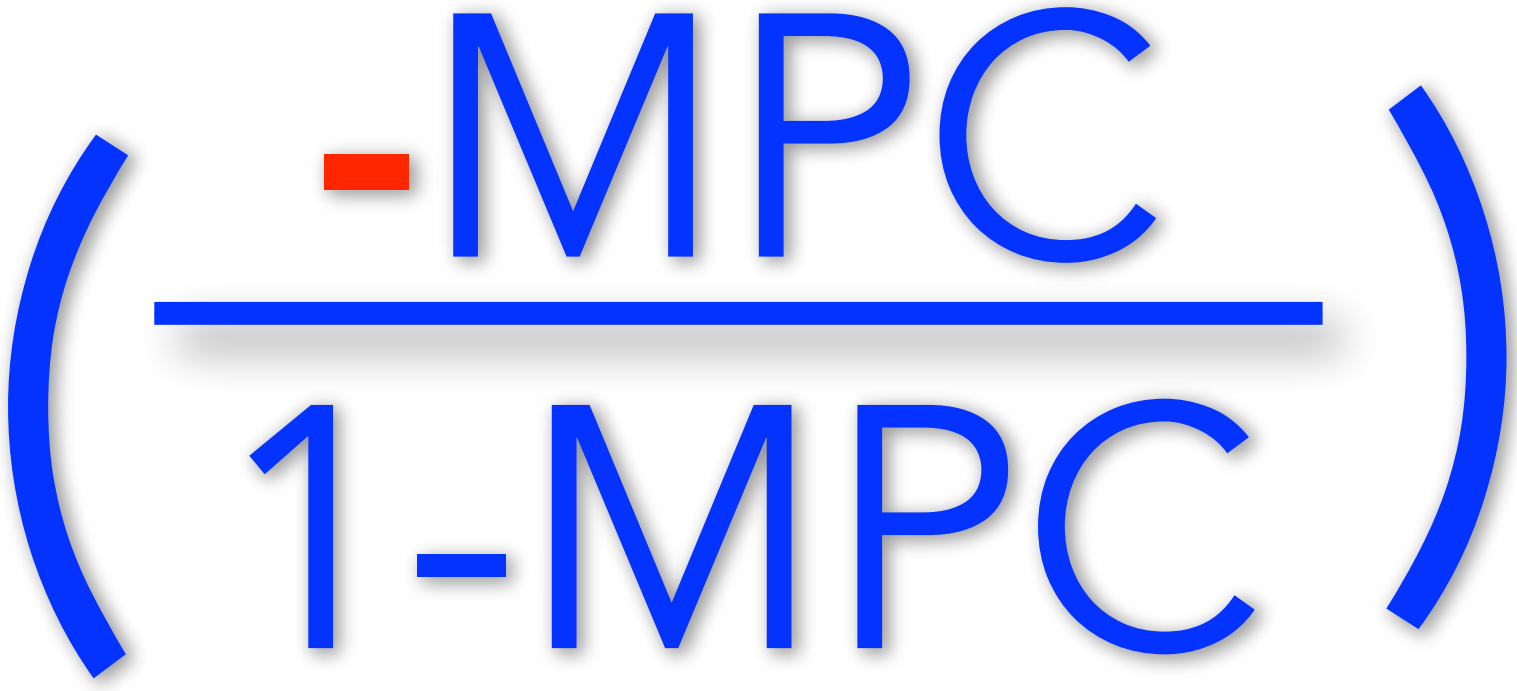

-MPC
1-MPC

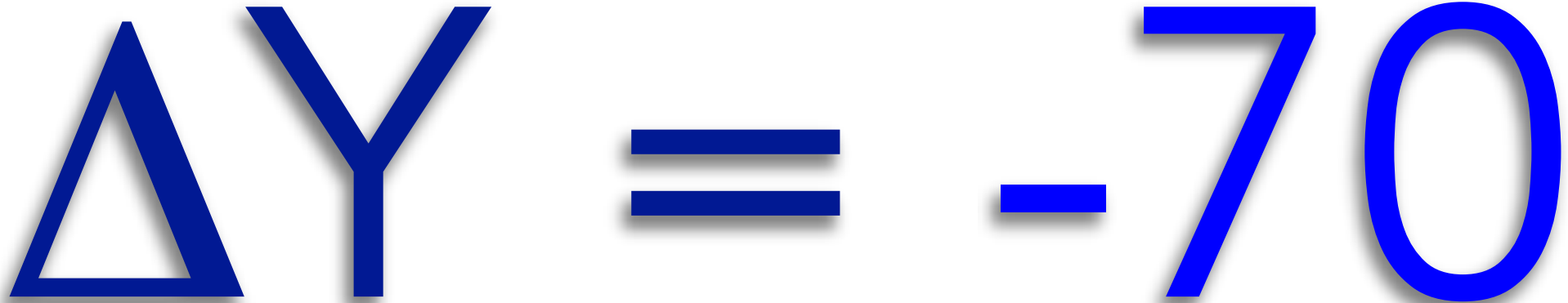

-0.75
1-0.75


-0.75
0.25


(-3)

Calculate the change in Equilibrium GDP


-MPC
1-MPC


ΔY = -70


(-3)

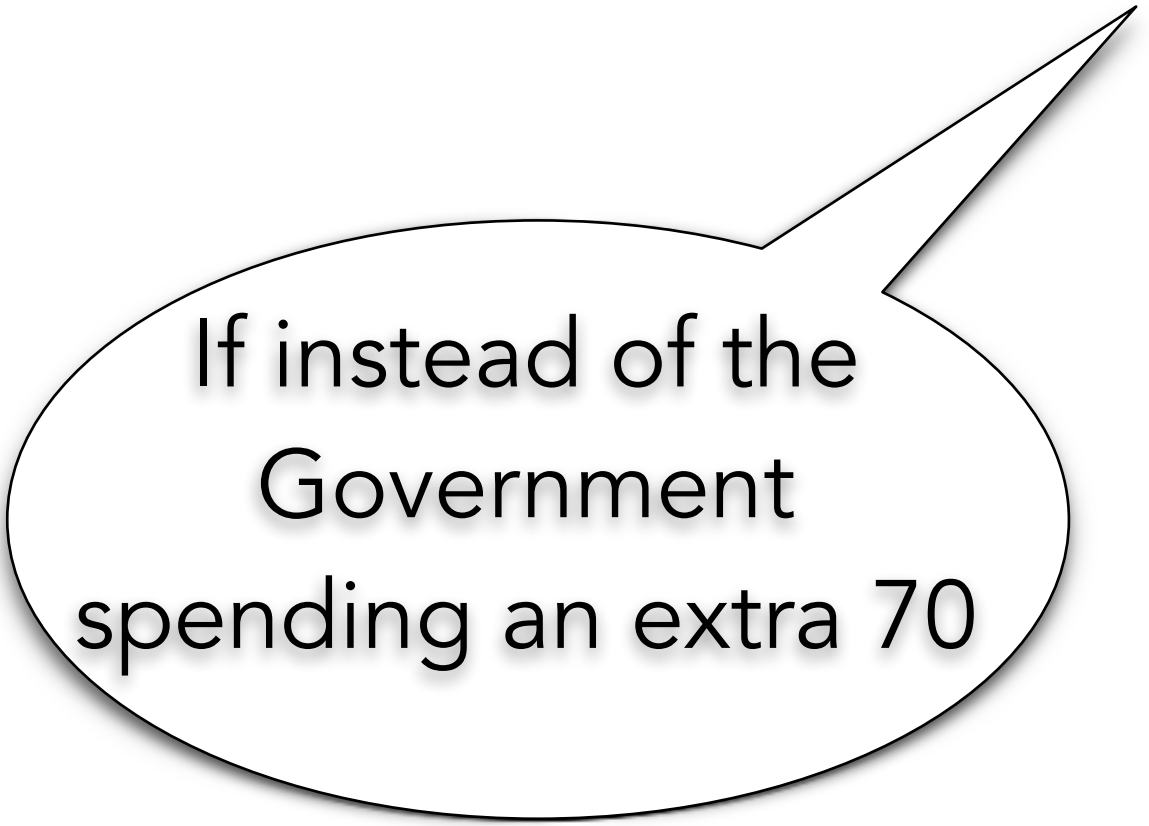
$$\Delta Y = +210$$

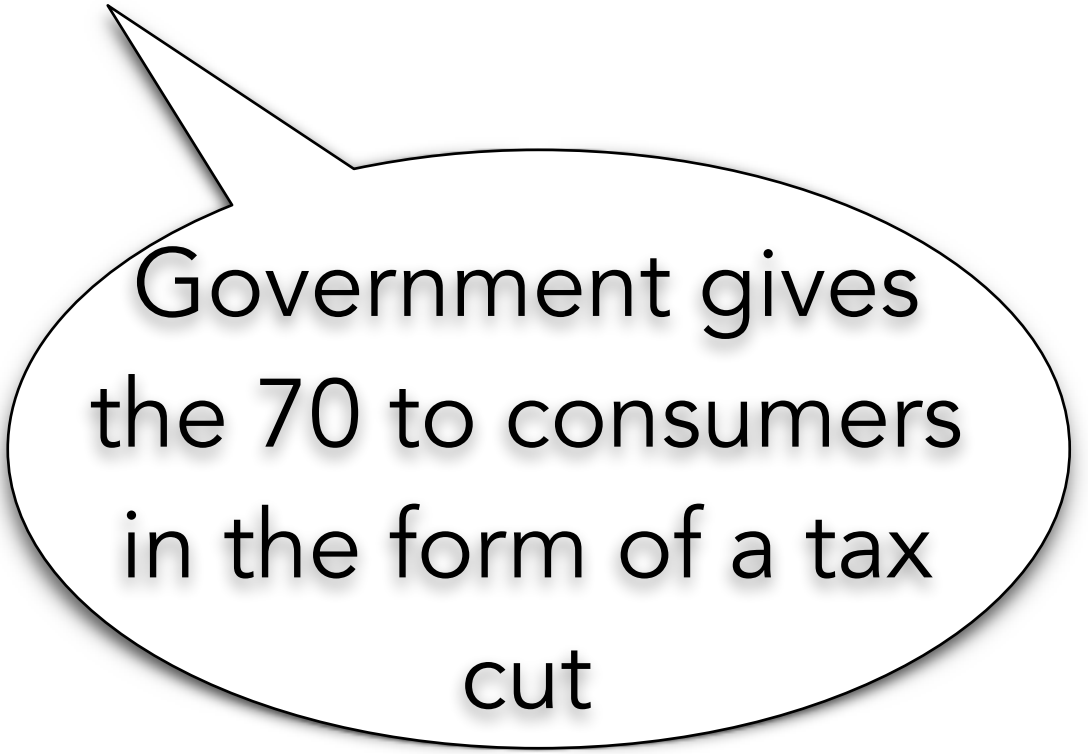
Calculate the change in Consumption

$$\Delta C = 210$$

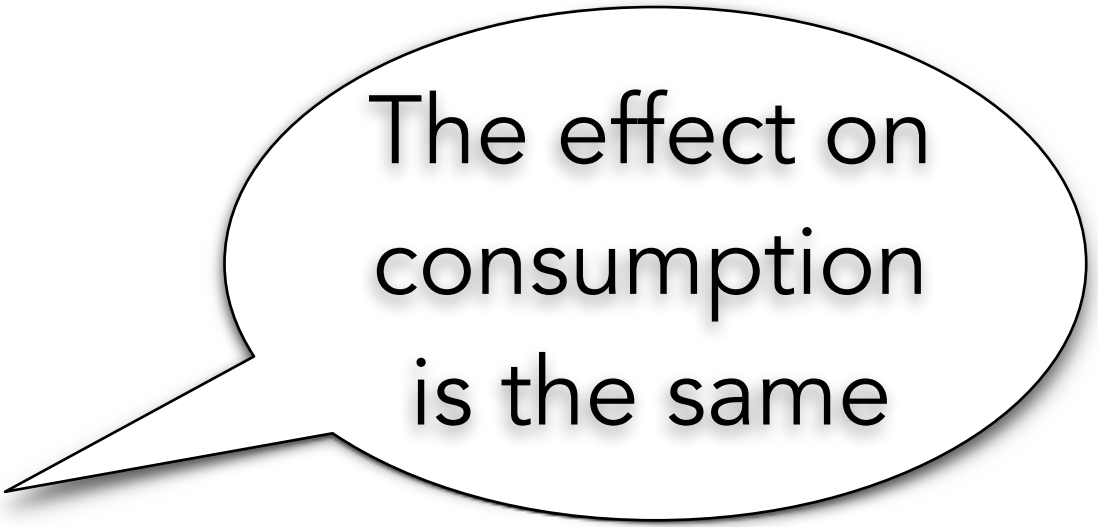
$$\Delta \text{ Deficit} = 0 - (-70) = +70$$

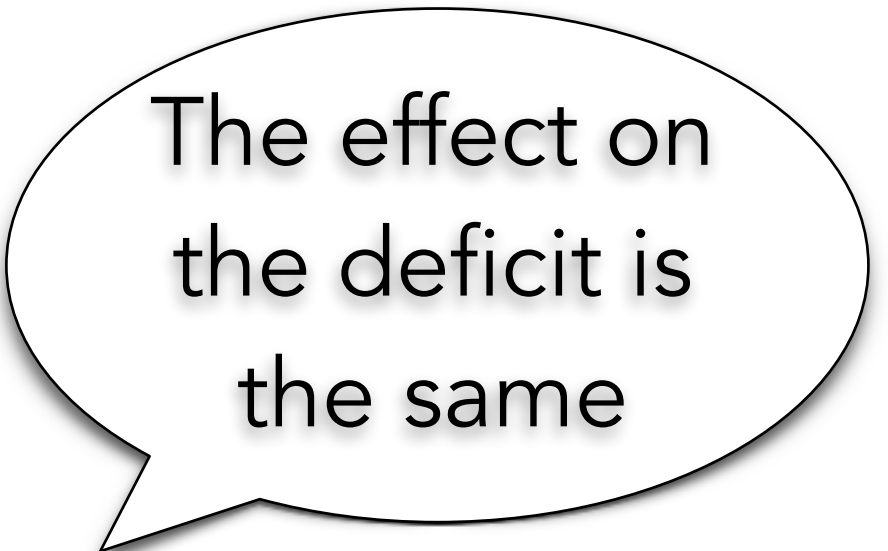

MPC = 0.75


If instead of the
Government
spending an extra 70


Government gives the 70 to consumers in the form of a tax cut


The effect on GDP is smaller


The effect on
consumption
is the same


The effect on
the deficit is
the same

Output increase more if Government spends the extra 70 than if consumers are given the opportunity to spend that same extra 70

MPC = 0.75

$\Delta G = +70$

Calculate the Spending Multiplier

$\left(\frac{1}{MPC}\right) \quad (4)$

If instead of the Government spending an extra 70

$\Delta T = -70$

Calculate the Tax Multiplier

$(-3) \quad \left(\frac{-M}{1-M}\right)$

Government gives the 70 to consumers in the form of a tax cut

Calculate the change in Equilibrium GDP

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

$\Delta Y = 70\,(4) \quad \Delta Y = 280$

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

$\Delta Y = -70(-3) \quad \Delta Y = +210$

The effect on GDP is smaller

Calculate the change in Consumption

(MPC)

(0.75) = 210

$\Delta C = \Delta Y$

$\Delta C = 210$

The effect on consumption is the same

Output increase more if Government spends the extra 70 than if consumers are given the opportunity to spend that same extra 70

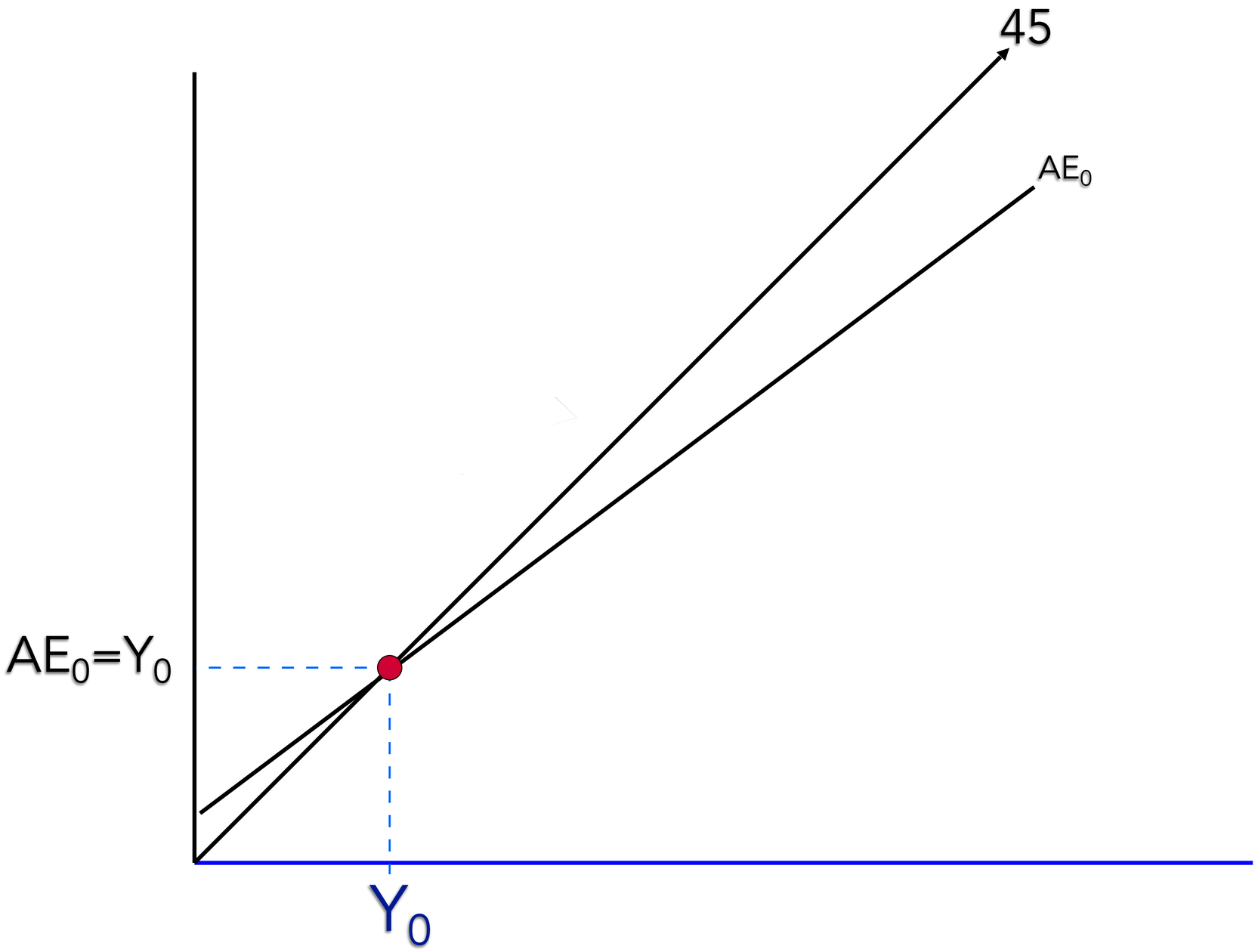
e the change in Gvmt's Budget Deficit

Δ Deficit $= \Delta G - \Delta T$

it $= 70 - 0 = 70$

Δ Deficit $= 0 - (-70) = +70$

The effect on the deficit is the same


45
AE_0
$AE_0=Y_0$
Y_0