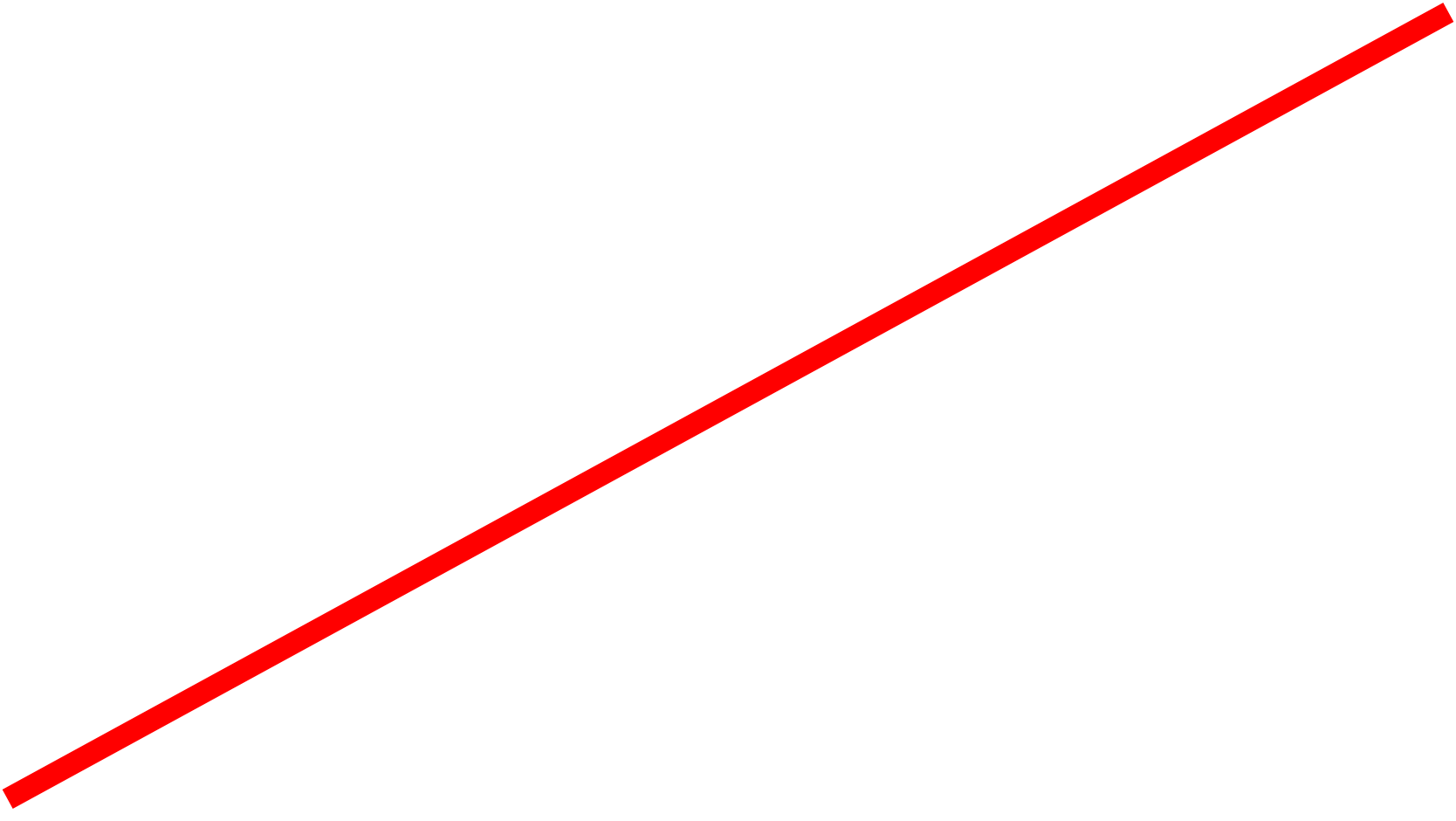
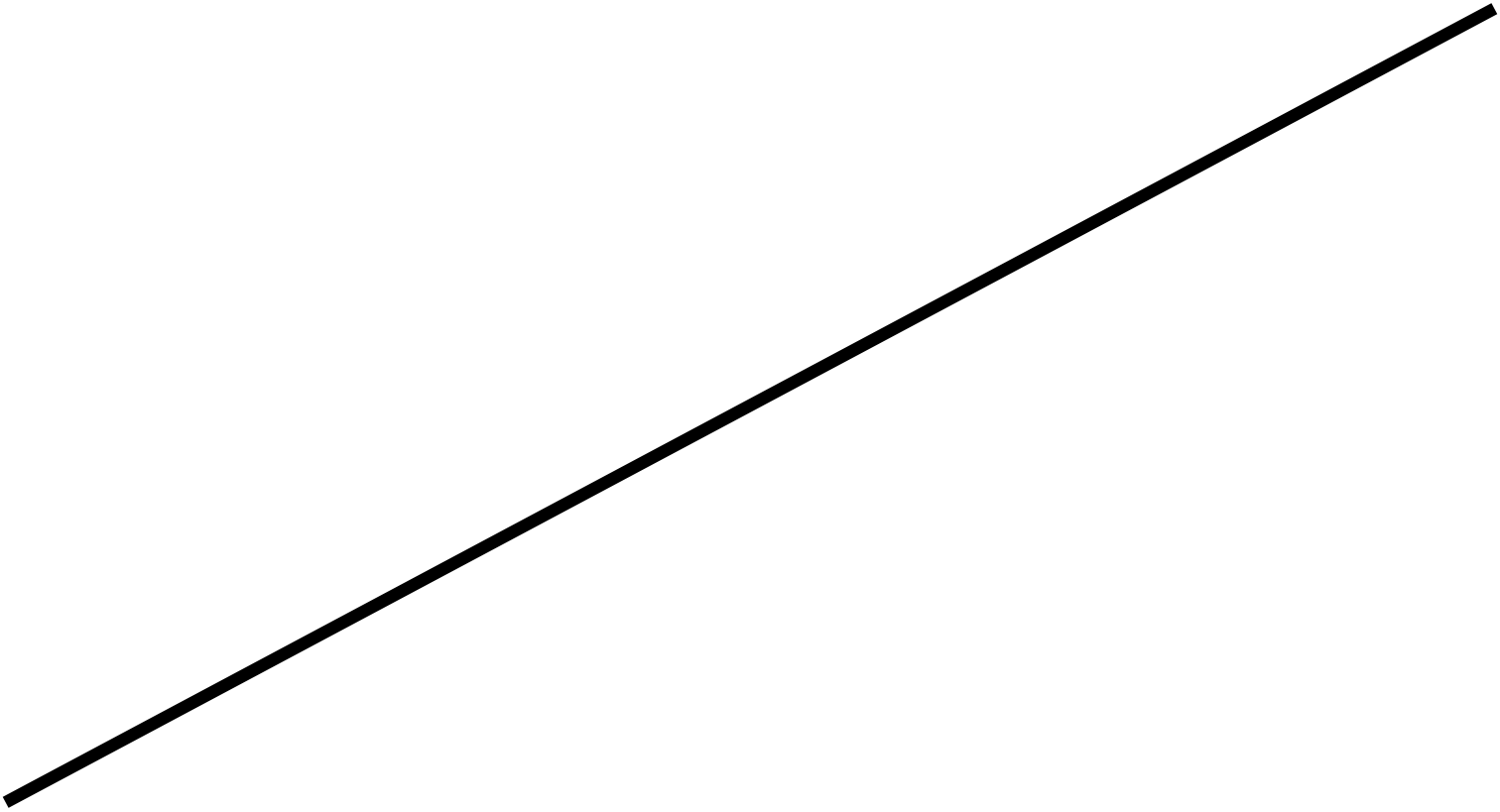
A 200 decrease in government spending cause an 800 decrease in GDP

Example ΔG=-200 MPC =0.75





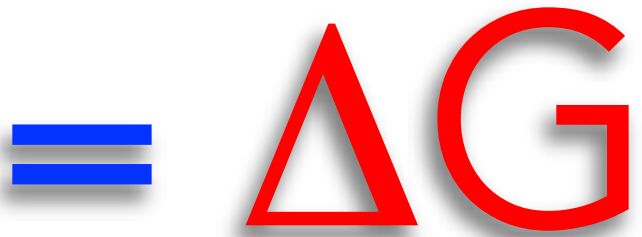
$\Delta AE = \Delta G = -200$

$\Delta Y = -800$

AE0

AE1

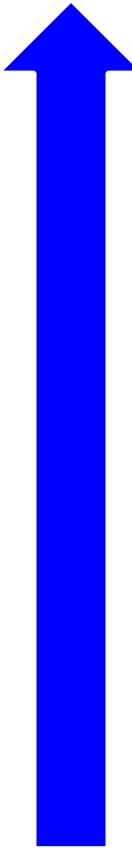
Change in Equilibrium Y :

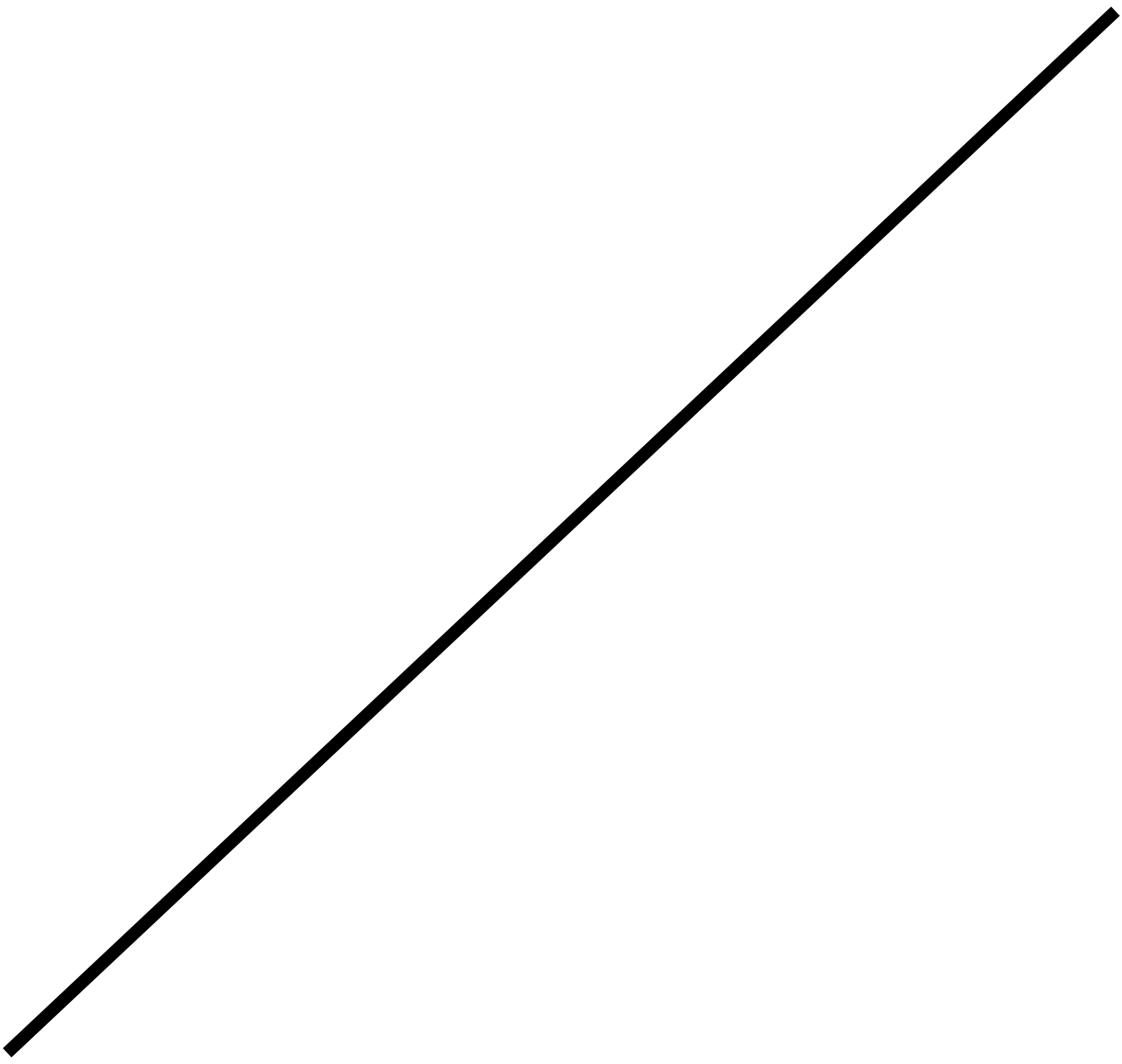

= ΔG

ΔY

ΔY

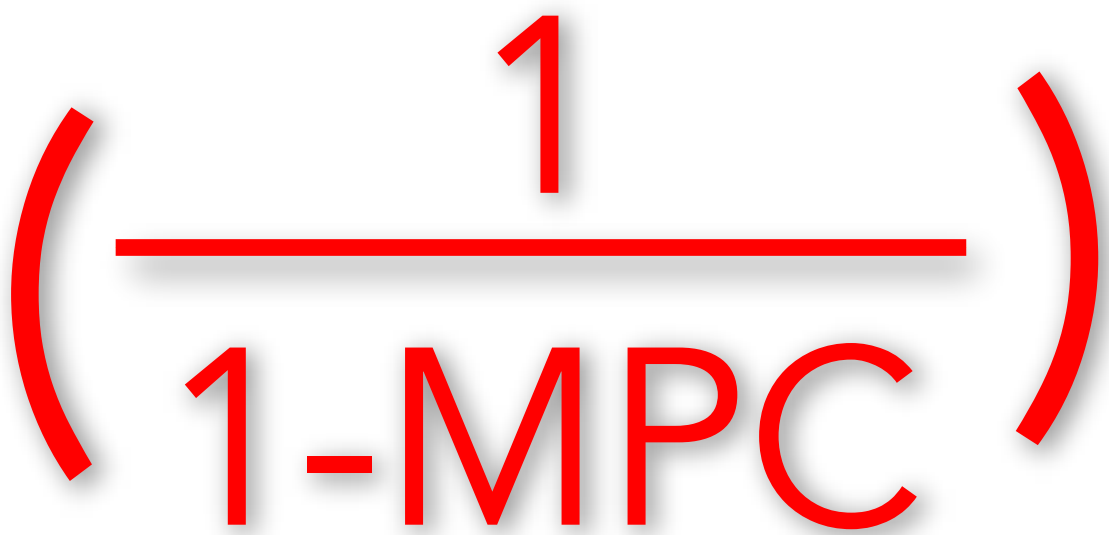
ΔY





$$\Delta Y = -800$$

1
1-0.75

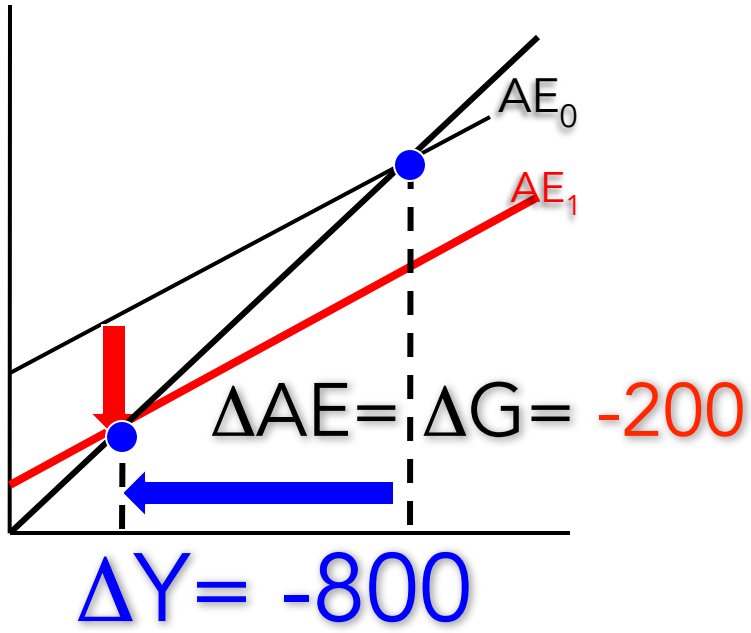

1
1-MPC

ΔY

ΔY

(4)

Example ΔG=-200 MPC =0.75



Change in Equilibrium Y :

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

$$\Delta Y = -200\left(\frac{1}{1\text{-}0.75}\right)$$

$$\Delta Y = -200\left(\frac{1}{0.25}\right)$$

$$\Delta Y = -200\left(4\right)$$

$$\Delta Y = -800$$

A 200 decrease in government spending cause an 800 decrease in GDP

Formula:

Example: