

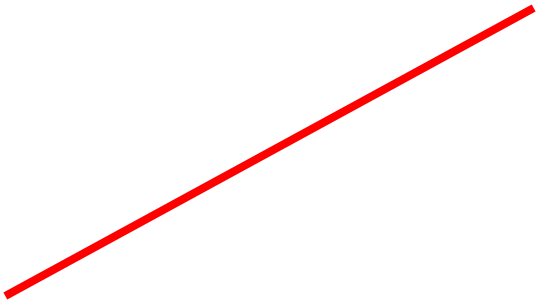


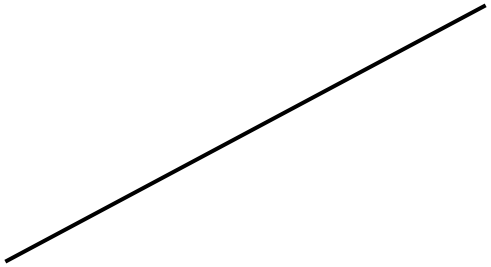
A 200 decrease in government spending
cause an 800 decrease in GDP

Example $\Delta G = -200$ MJC $= 0.75$









AAE = AG = -200





XY = 800

AEOL

AE

Change in Equilibrium Y:

=

ΔG



=

-200

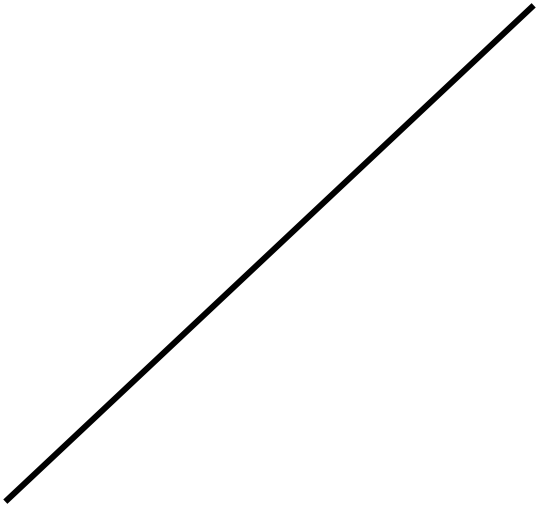














NY

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88

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$$\left(\frac{1}{1-0.75} \right)$$

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

=

-

200



$$\left(\frac{1}{0.25} \right)$$

=

-

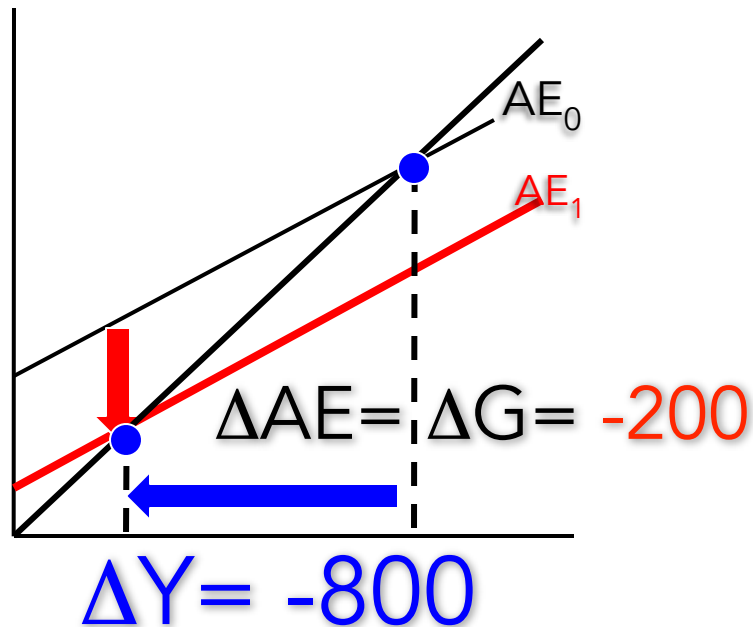
200



(4)

Example $\Delta G = -200$ $MPC = 0.75$

Change in Equilibrium Y :



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

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

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

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

$$\Delta Y = -800$$

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

Formula:

Example: