

AG = 100

Government **spends more** to fix bridges, airports
and highways

NY

=

1

0

0

Construction suppliers sell more, contractors
and newly employed workers **earn** more
income

$$AC = 100 * 0.9 = 90$$

Contractors and workers **spend** their new income on goods and services



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

AC = 90 * 0.9 = 81

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

AY

=

81

One person's **spending** is someone else's
income

AC











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

$\Delta Y \dots$
 ΔC
 ΔY
 ΔC
 ΔY
 ΔC

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$$\Delta Y = 81$$

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

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Contractors and workers **spend** their new income on goods and services

$$\Delta Y = 100$$

Construction suppliers sell more, contractors and newly employed workers **earn** more income

$$\Delta G = 100$$

Government **spends more** to fix bridges, airports and highways

The Multiplier Process