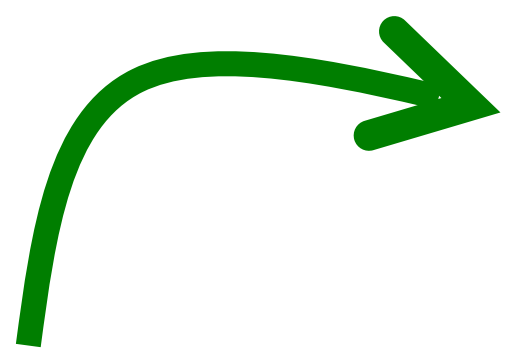
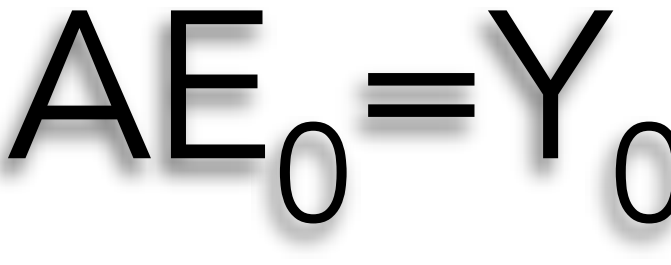
45

AE1

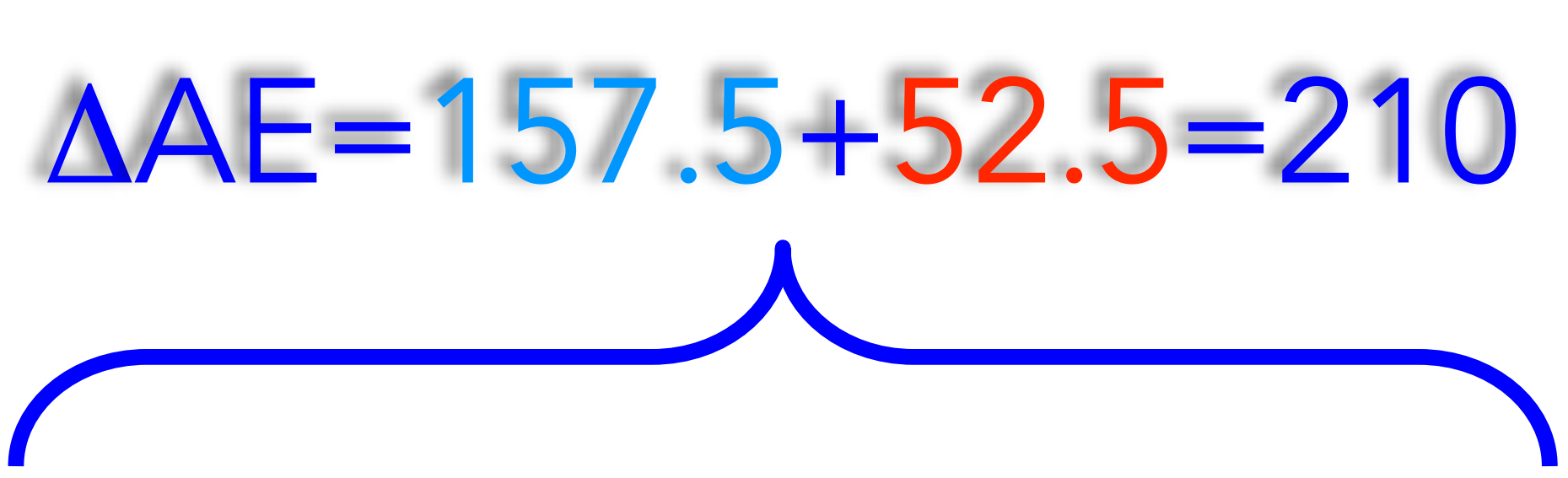
Y
0

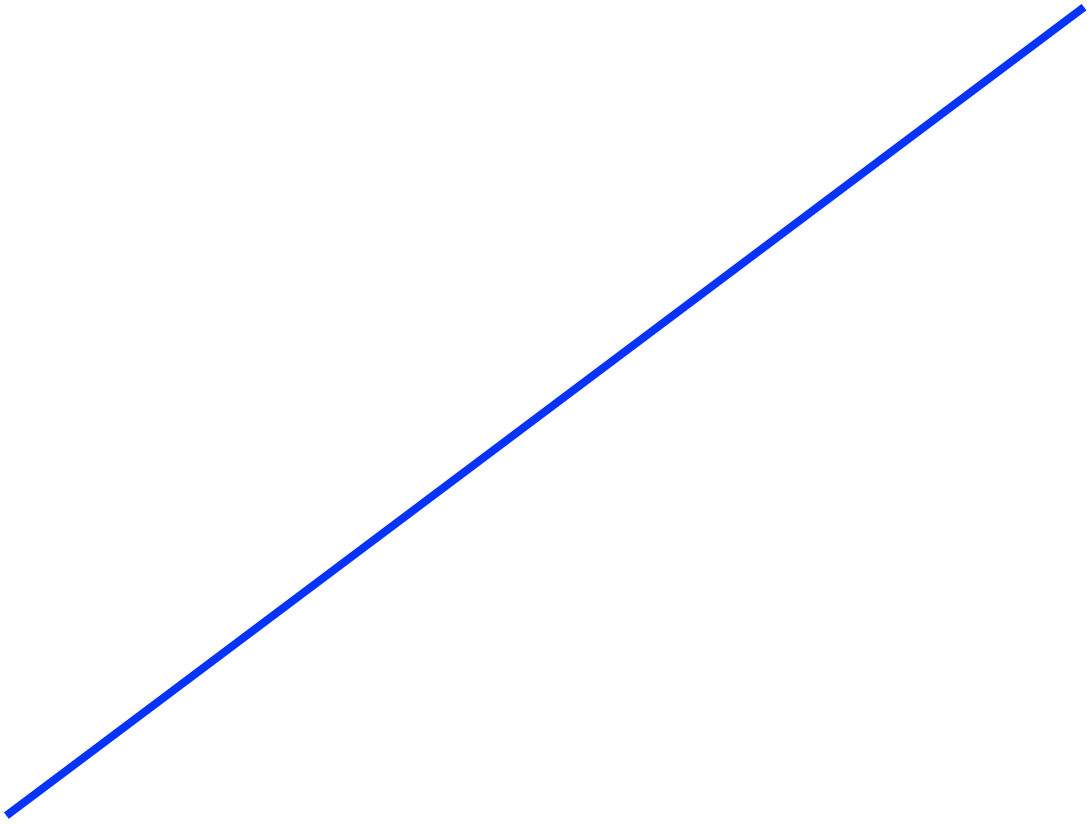
$$Y_1 = Y_0 + \Delta Y$$

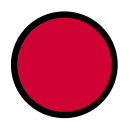


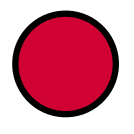

$AE_0 = Y_0$

$AE_1 = Y_1$


ΔAE=157.5+52.5=210







$$\Delta C = 210(0.75) = 157.5$$

$$\Delta Y = 210$$

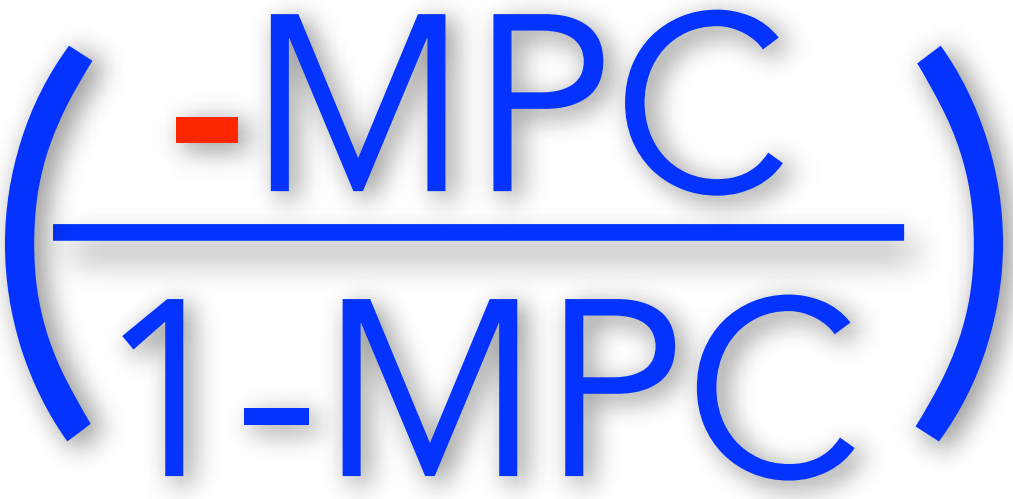
AE0

ΔY=ΔT

$$\Delta T = -70$$

$$\Delta Y^{d} = +70$$

Δa


-MPC
1-MPC

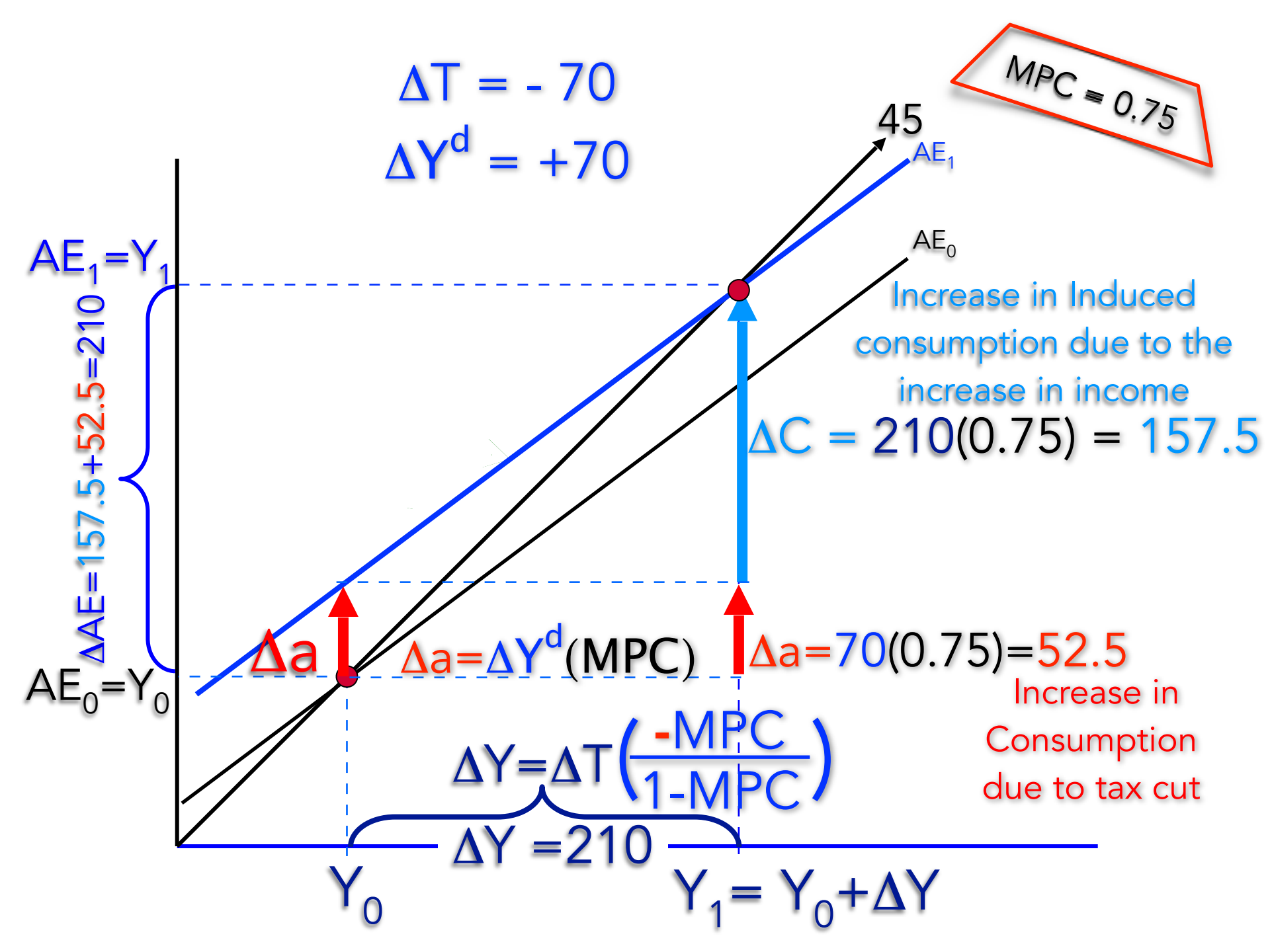
$$\Delta a = \Delta Y^{d}(MPC)$$

$$\Delta a = 70(0.75) = 52.5$$

Increase in Consumption due to tax cut

Increase in Induced consumption due to the increase in income

MPC = 0.75


ΔT = - 70
ΔY^d = +70
MPC = 0.75
45
AE1
AE0
AE1=Y1
AE0=Y0
ΔAE=157.5+52.5=210
Increase in Induced consumption due to the increase in income
ΔC = 210(0.75) = 157.5
Δa
Δa=ΔY^d(MPC)
Δa=70(0.75)=52.5
Increase in Consumption due to tax cut
ΔY=ΔT(-MPC / 1-MPC)
ΔY =210
Y0
Y1= Y0+ΔY