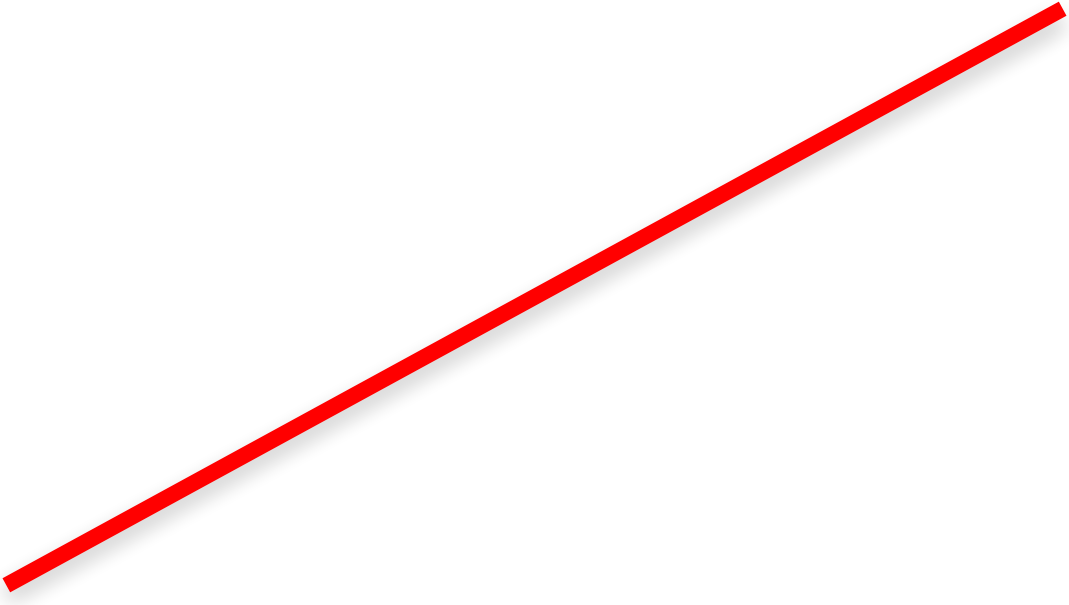
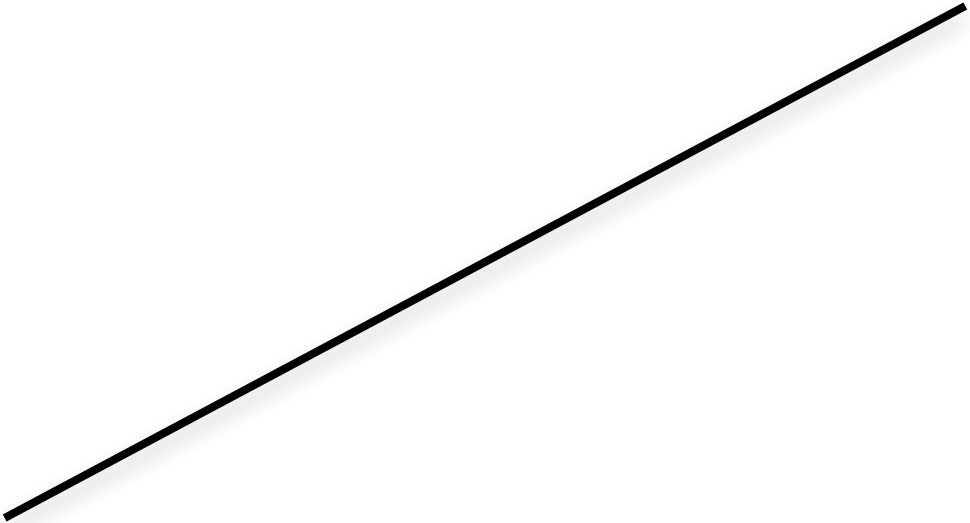
A 200 decrease in government spending cause an 800 decrease in GDP

Example ΔG=-200 MPC =0.75





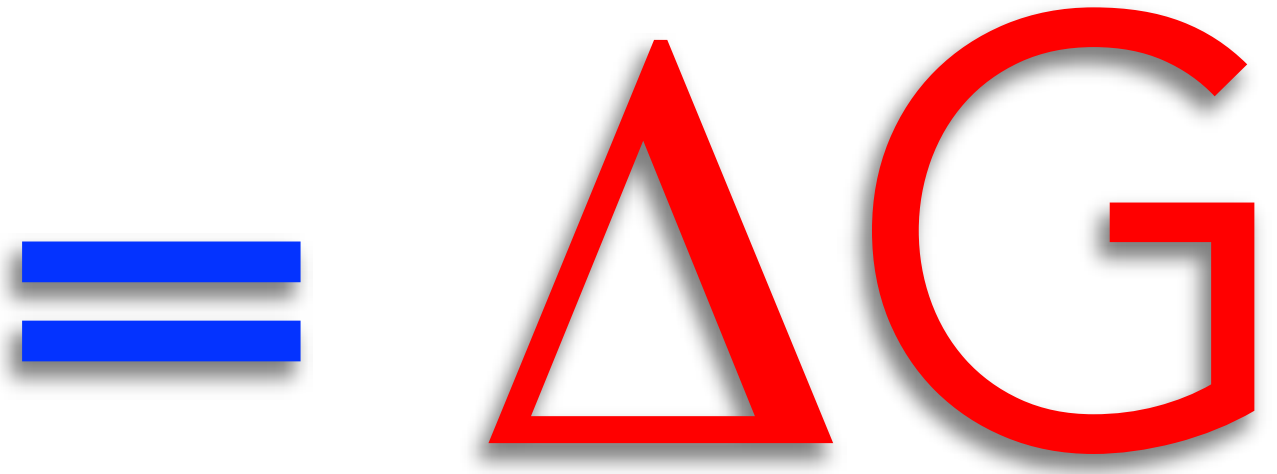
$$\Delta AE = \Delta G = -200$$

$$\Delta Y = -800$$


AE0


AE1

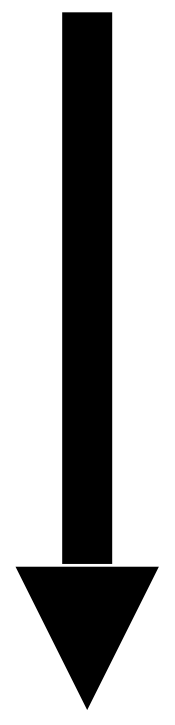
Change in Equilibrium Y :



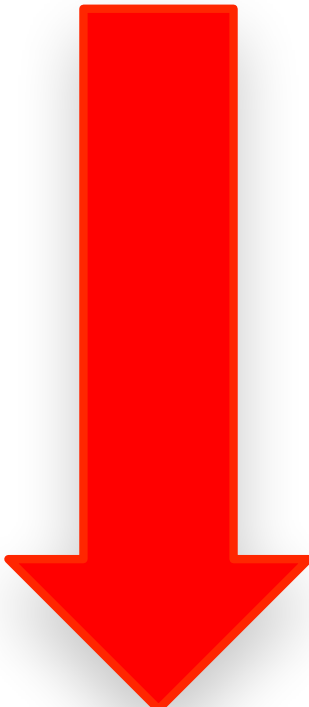

ΔY

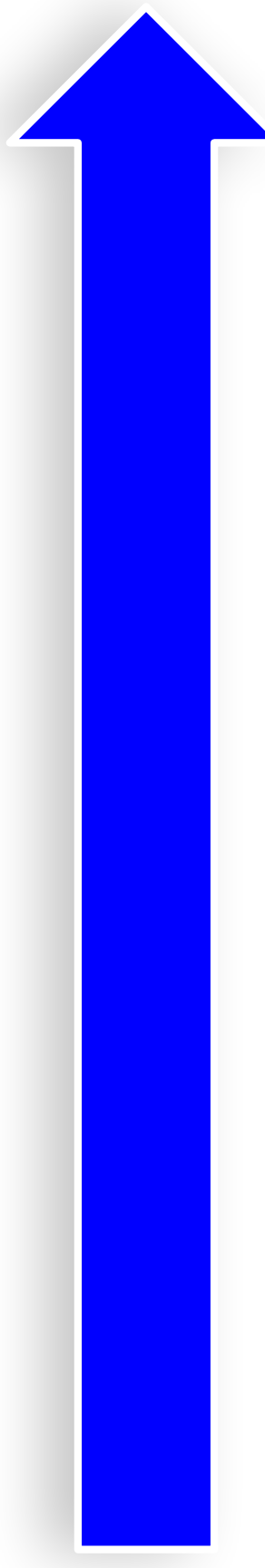

= -200

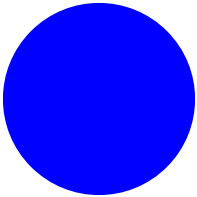

ΔY




ΔY

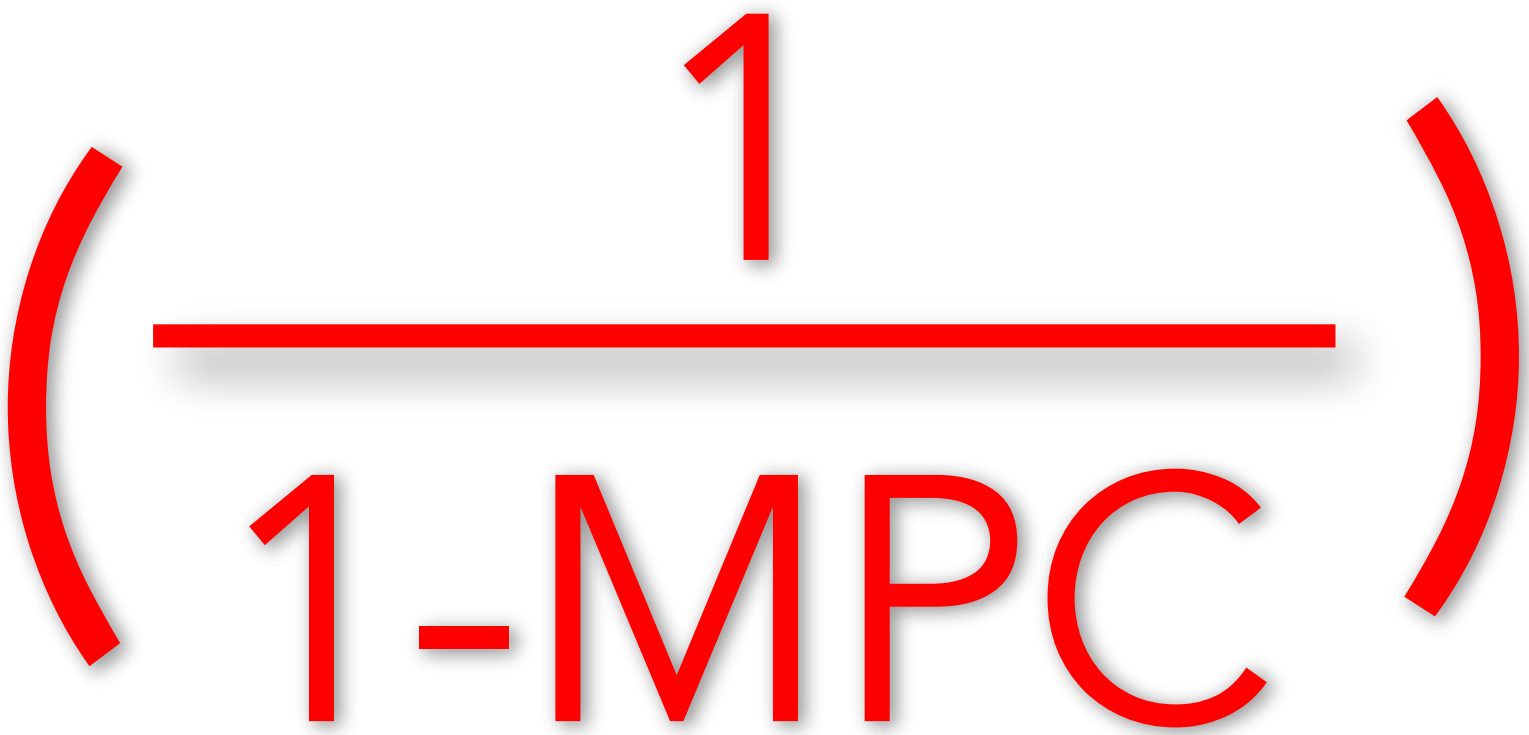






$$\Delta Y = -800$$

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


1
1-MPC


= -200


ΔY


1
0.25

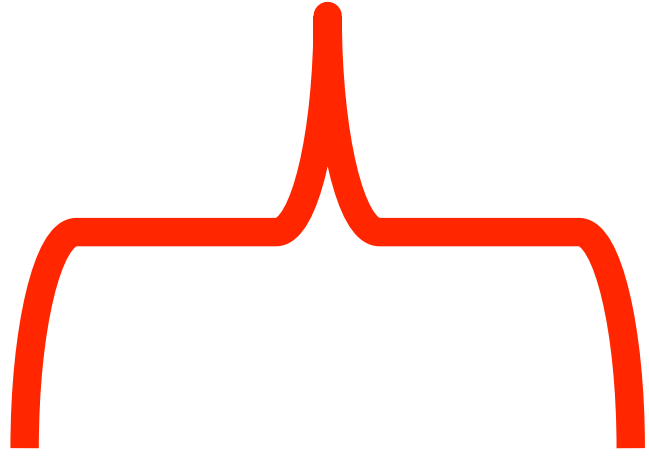

= -200


ΔY

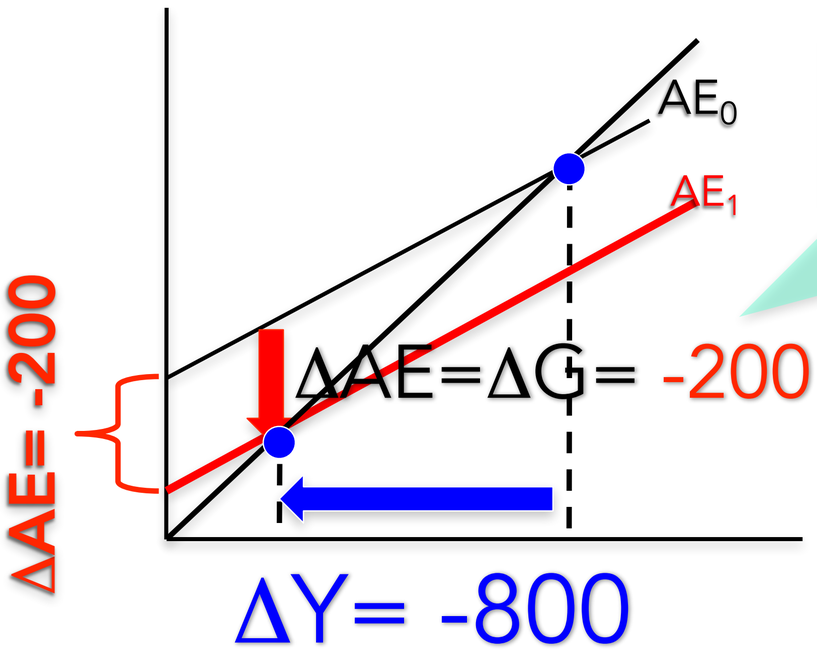
(4)

The size of the shift in AE is the same as the change in G

ΔAE= -200



Example ΔG=-200 MPC =0.75



The size of the shift in AE is the same as the change in G

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: