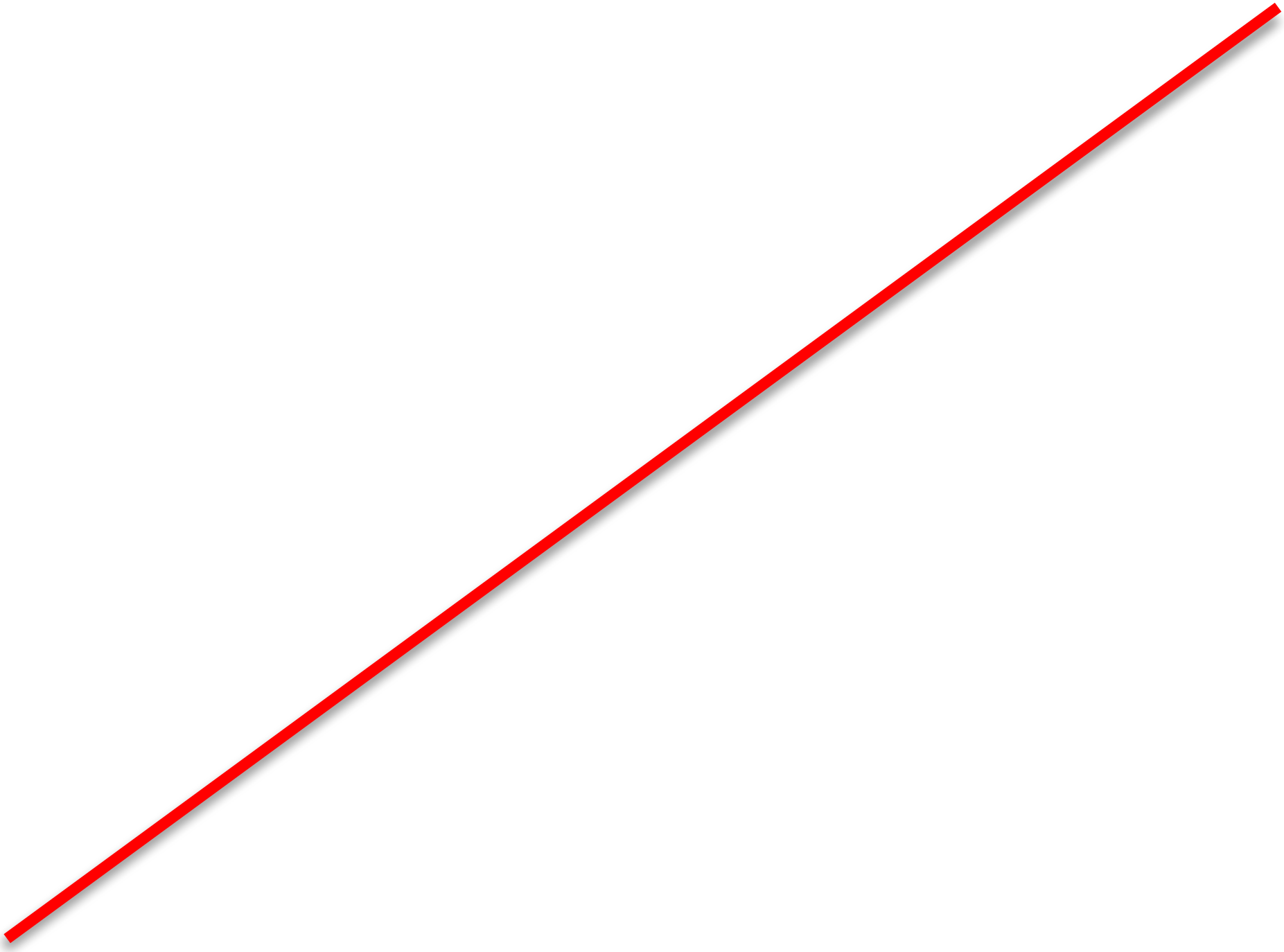
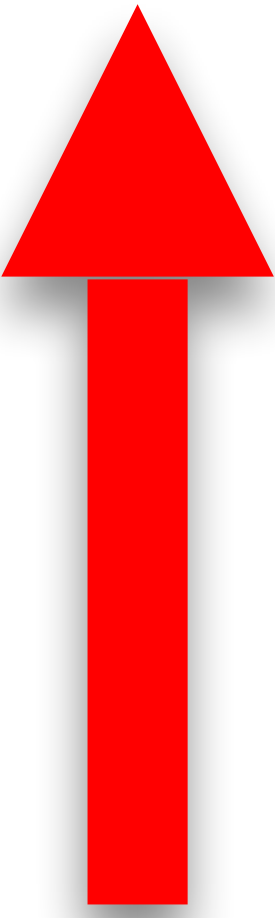
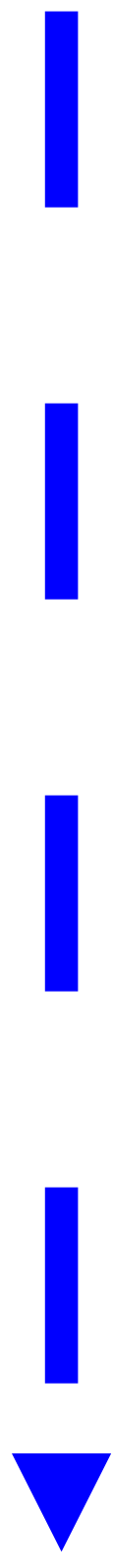


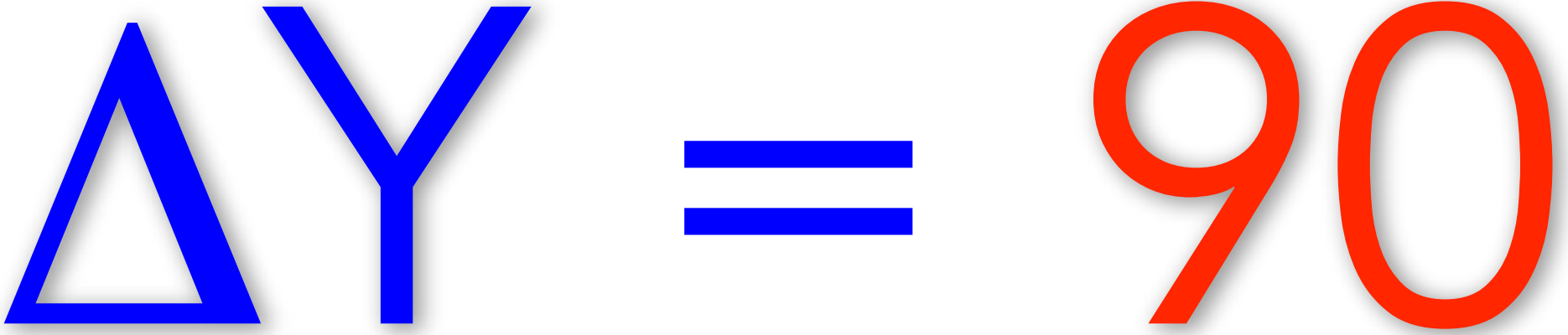

AE0




AE1

$$\Delta AE = \Delta a = 90$$



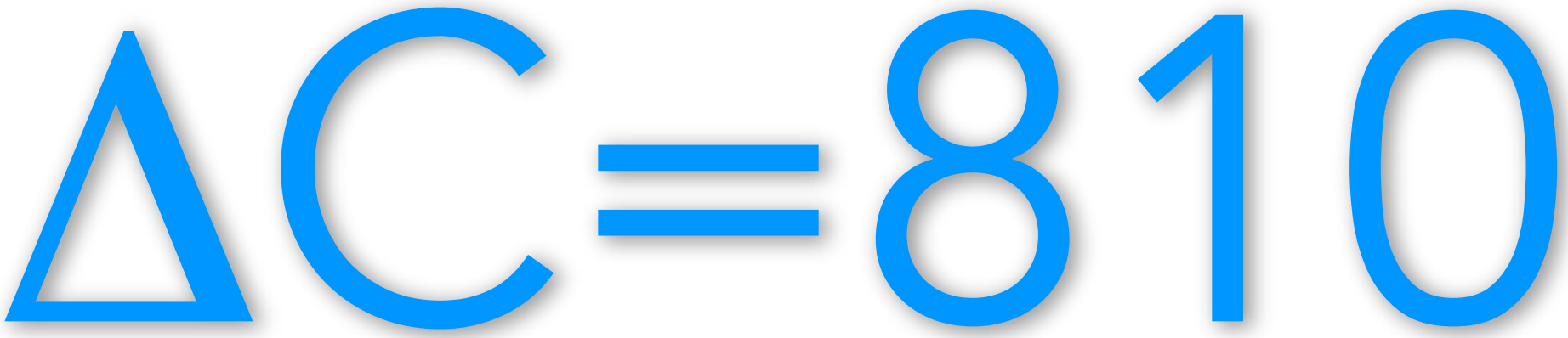

ΔY = 90

Equilibrium Income increase

$$\Delta a = 90$$

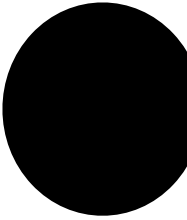
$$\Delta C = \Delta Y * MPC$$

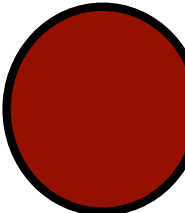
$$\Delta C = 900 * 0.9$$


ΔC=810

$$\Delta C = 90 + 810$$

$$\Delta Y = 90(10)$$



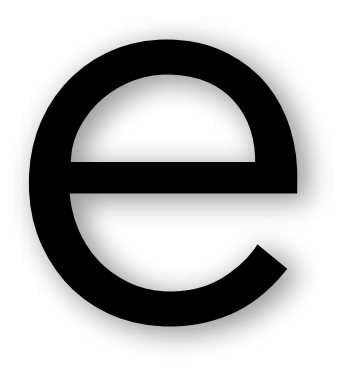


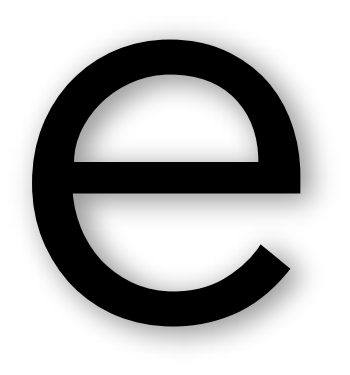
$$\Delta Y = 900$$

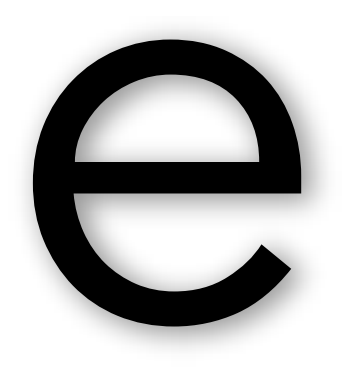
$$\Delta Y^d = +100$$

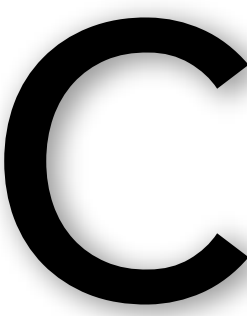
$$\Delta T = -100$$

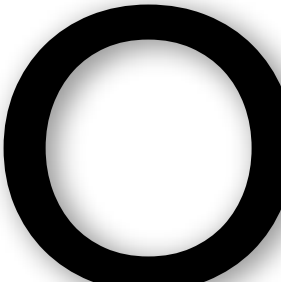
$$\Delta a = 90$$

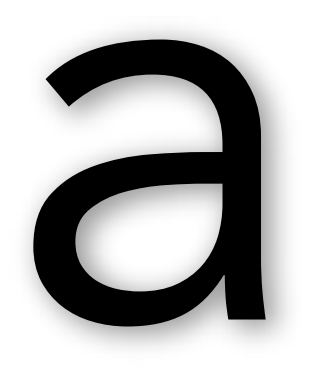


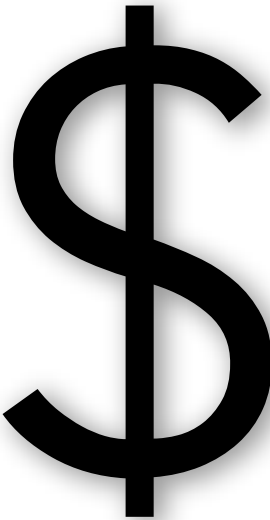


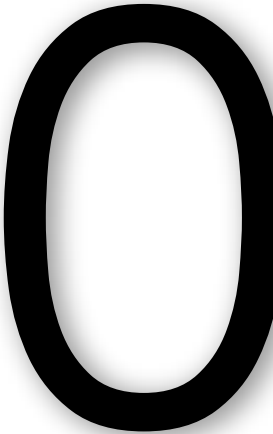


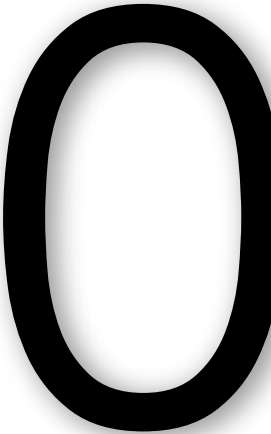


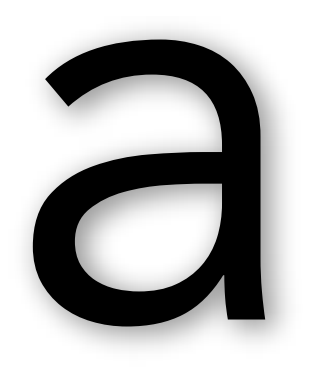


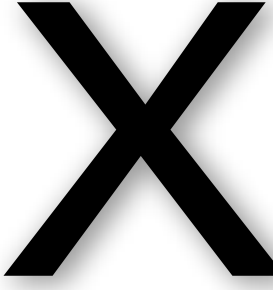

a

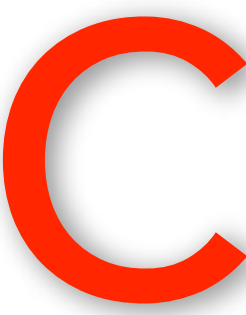


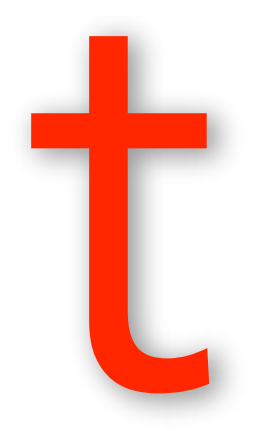





a





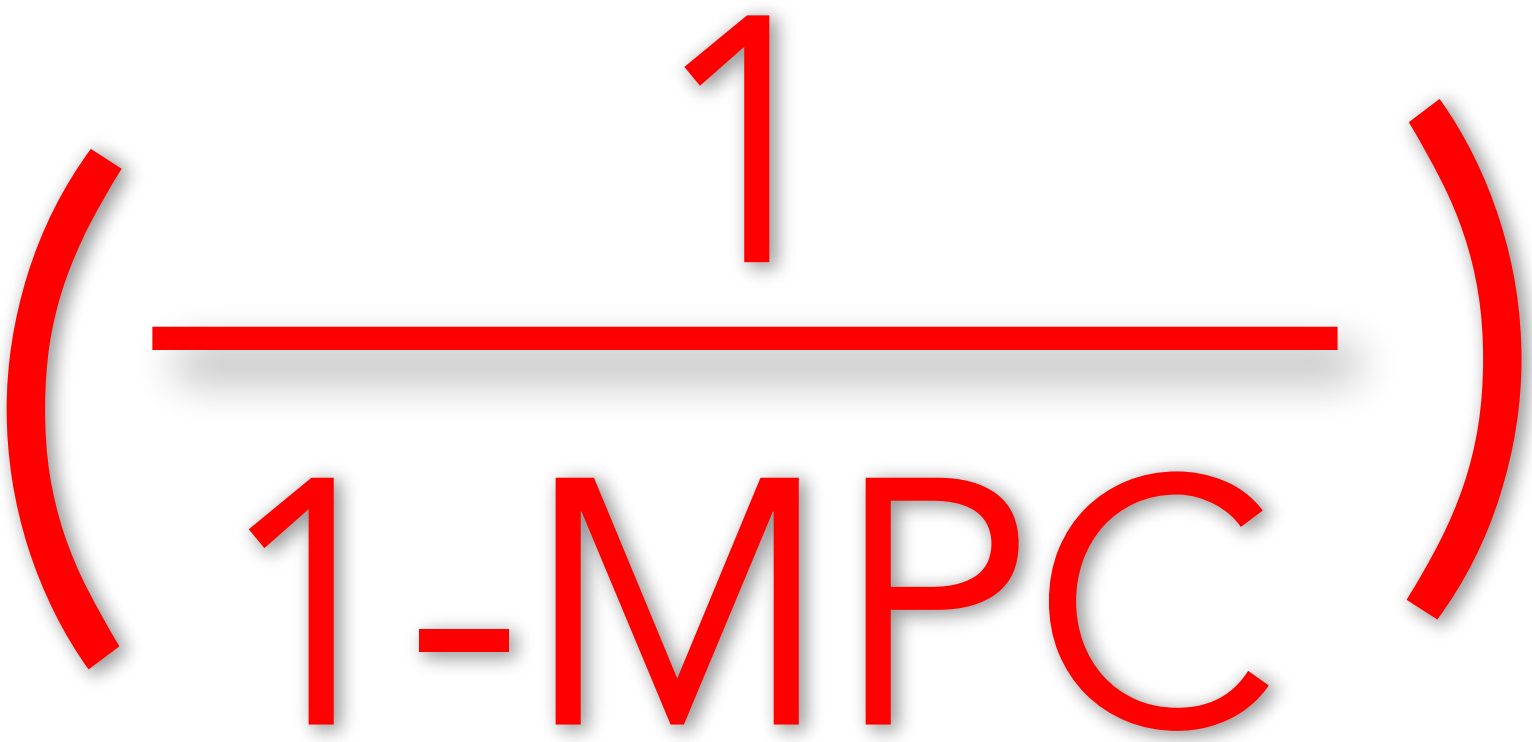


Increase in Induced consumption due to the resulting increase in income

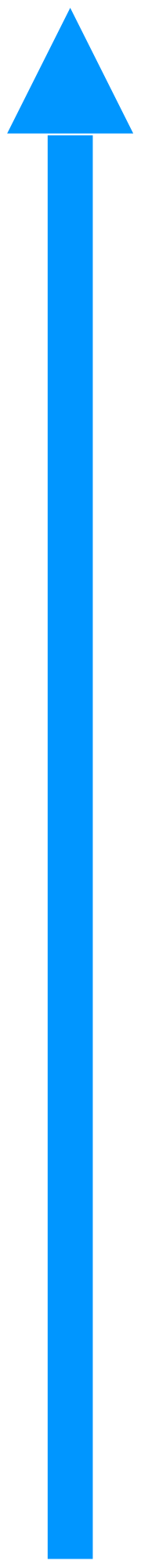
$$\Delta Y = \Delta a(\text{Multiplier})$$

All the increase in AE caused by the change in taxes is due to a change in Consumption

Increase in Consumption due to tax cut


1
1-MPC

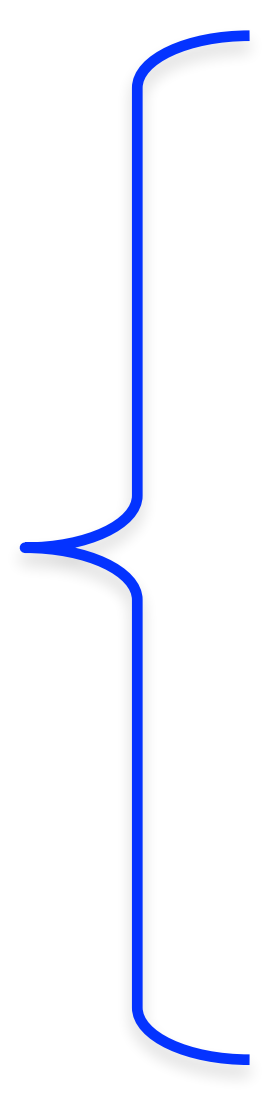

1
1-0.9

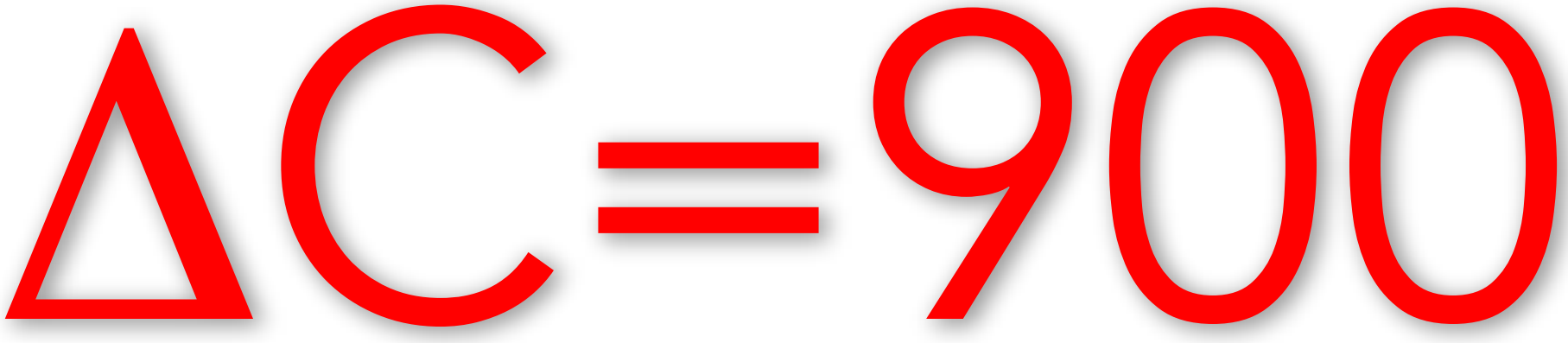


$\Delta AE = 900$


45⁰

$$\Delta a = 0.9 * 100$$




ΔC≡900

The effect of a $100b tax cut

$$\Delta C = \Delta Y * MPC$$

$$\Delta C = 900 * 0.9$$

$$\Delta C = 810$$

The effect of a $100b tax cut

$\Delta T = -100$

$\Delta Y^d = +100$

$\Delta a = 0.9 * 100$