

$\Delta G = \Delta T = +70$ simultaneous Increase

$$\Delta Y = \Delta G = \Delta T = +70$$

Change in Consumption

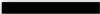
$$\Delta C = \text{Zero}$$

Change in Deficit

$$\Delta \text{ Deficit} = \text{Zero}$$

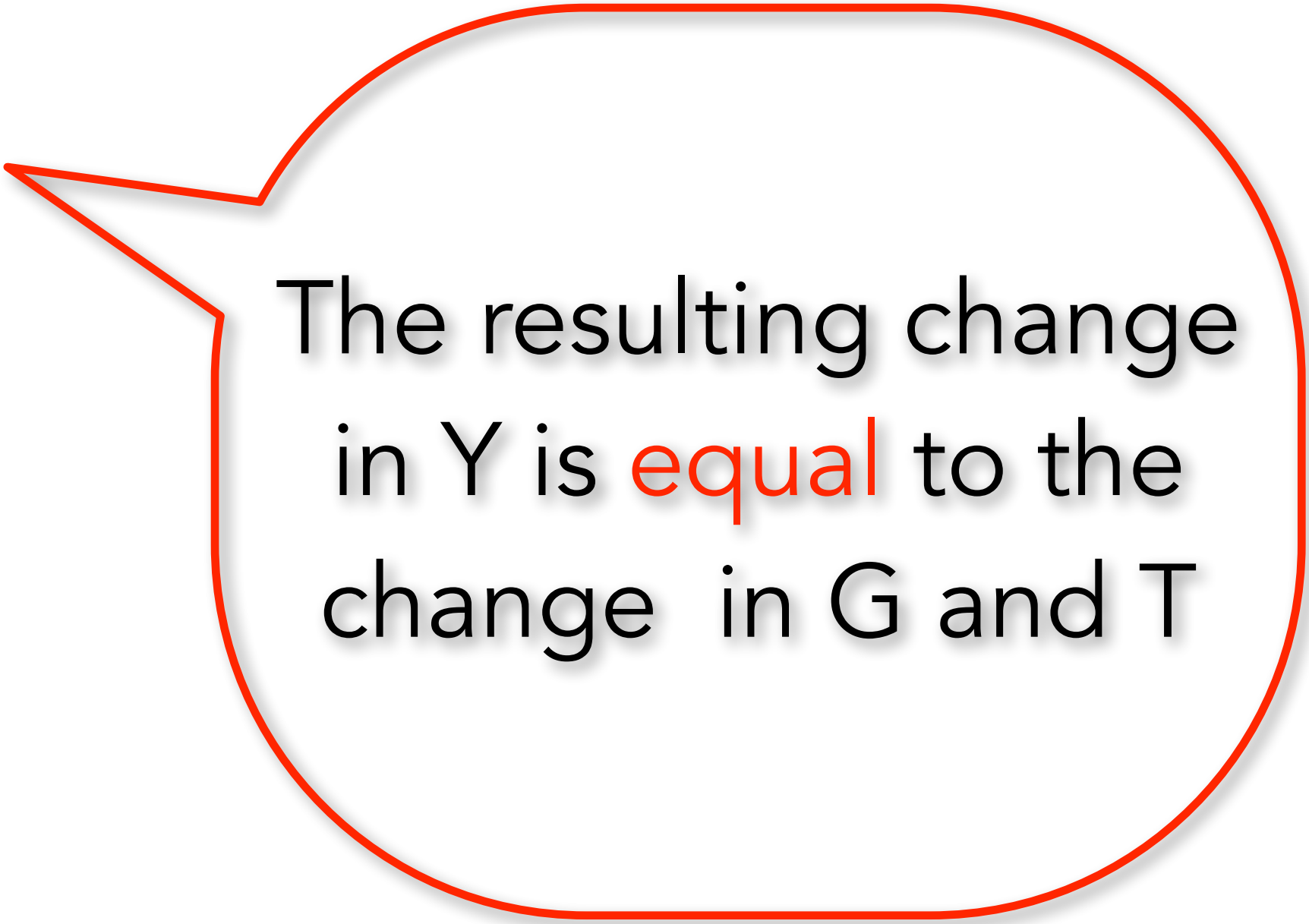
Balanced Budget Multiplier

Change in Equilibrium GDP

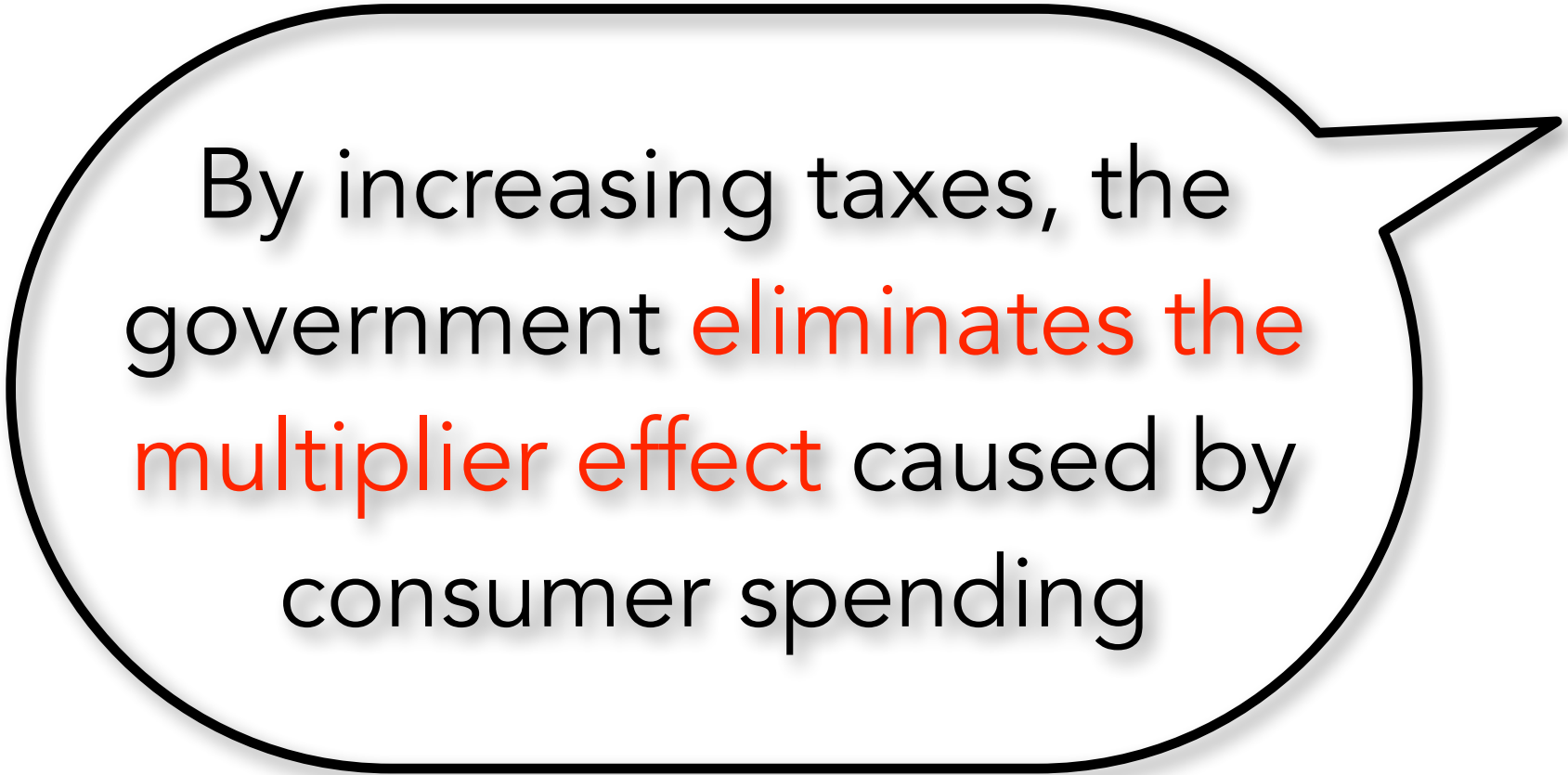




This is a
“balanced budget”
change in taxes and
Spending because it
leaves the Budget
unchanged



The resulting change
in Y is **equal** to the
change in G and T



By increasing taxes, the government eliminates the multiplier effect caused by consumer spending























G



P



















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U

































6









G

The effect on GDP is no longer a multiple
of the increase in G

$\Delta G = \Delta T = +70$ simultaneous Increase

By increasing taxes, the government eliminates the multiplier effect caused by consumer spending

Change in Equilibrium GDP

$$\Delta Y = \Delta G = \Delta T = +70$$

The resulting change in Y is equal to the change in G and T

The effect on GDP is no longer a multiple of the increase in G

Balanced Budget Multiplier = 1

Change in Consumption

$$\Delta C = \text{Zero}$$

Change in Deficit

$$\Delta \text{Deficit} = \text{Zero}$$