

AE₁

Y

O



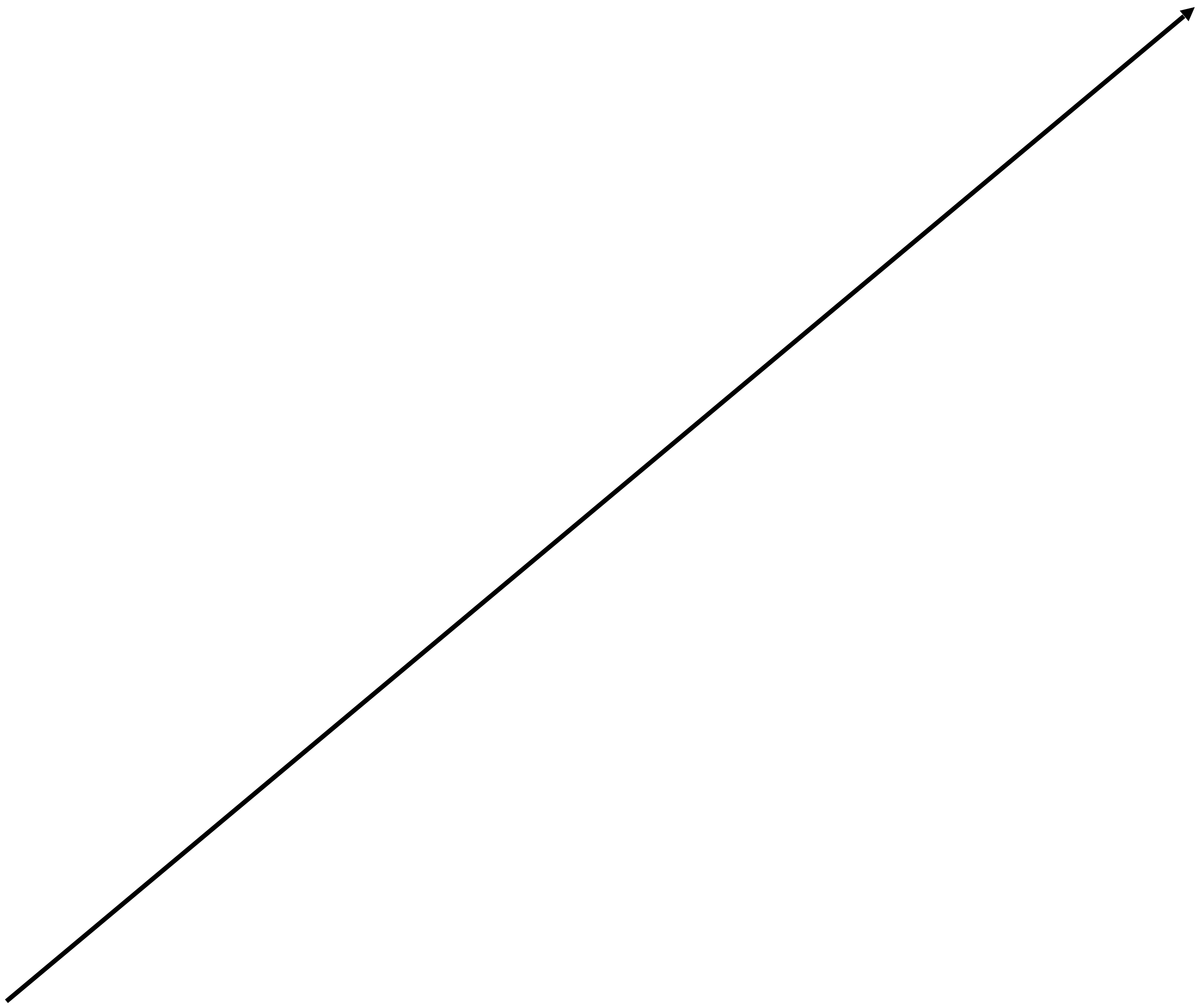




AC

=

90





AEo

Y

1

Y

2



△C

=

81

Y

3







AC = 73





Y

4



Y

5





Y

6





Y

7



Y

8





AC = 54



Increase in
consumption causes
the rest of the increase
in GDP

NY = 1000

The
majority of
the increase
in GDP is due to
the resulting increase
in Consumption

$$\Delta Y = 900$$



$$\text{Total } \Delta Y = 1000 + 9000 = 1,000$$



Y^*

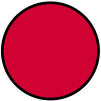
New

Equilibrium





$$\Delta Y = \Delta G$$







$$\Delta G = 100$$

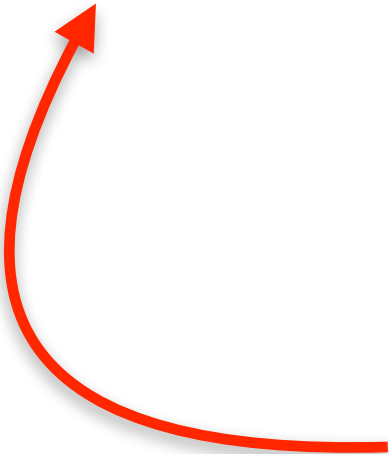


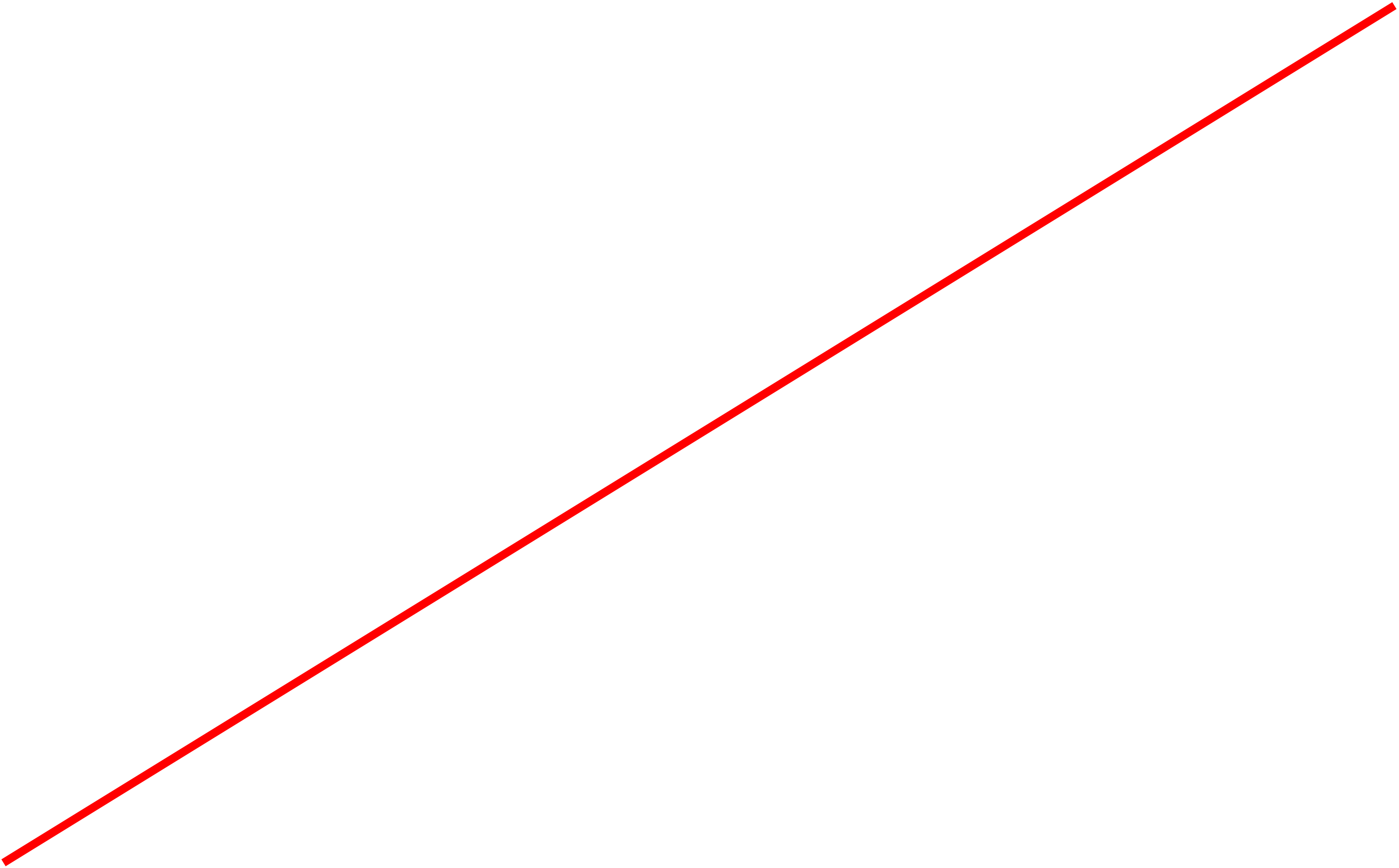
Increase in G cause
an EQUAL increase
in GDP






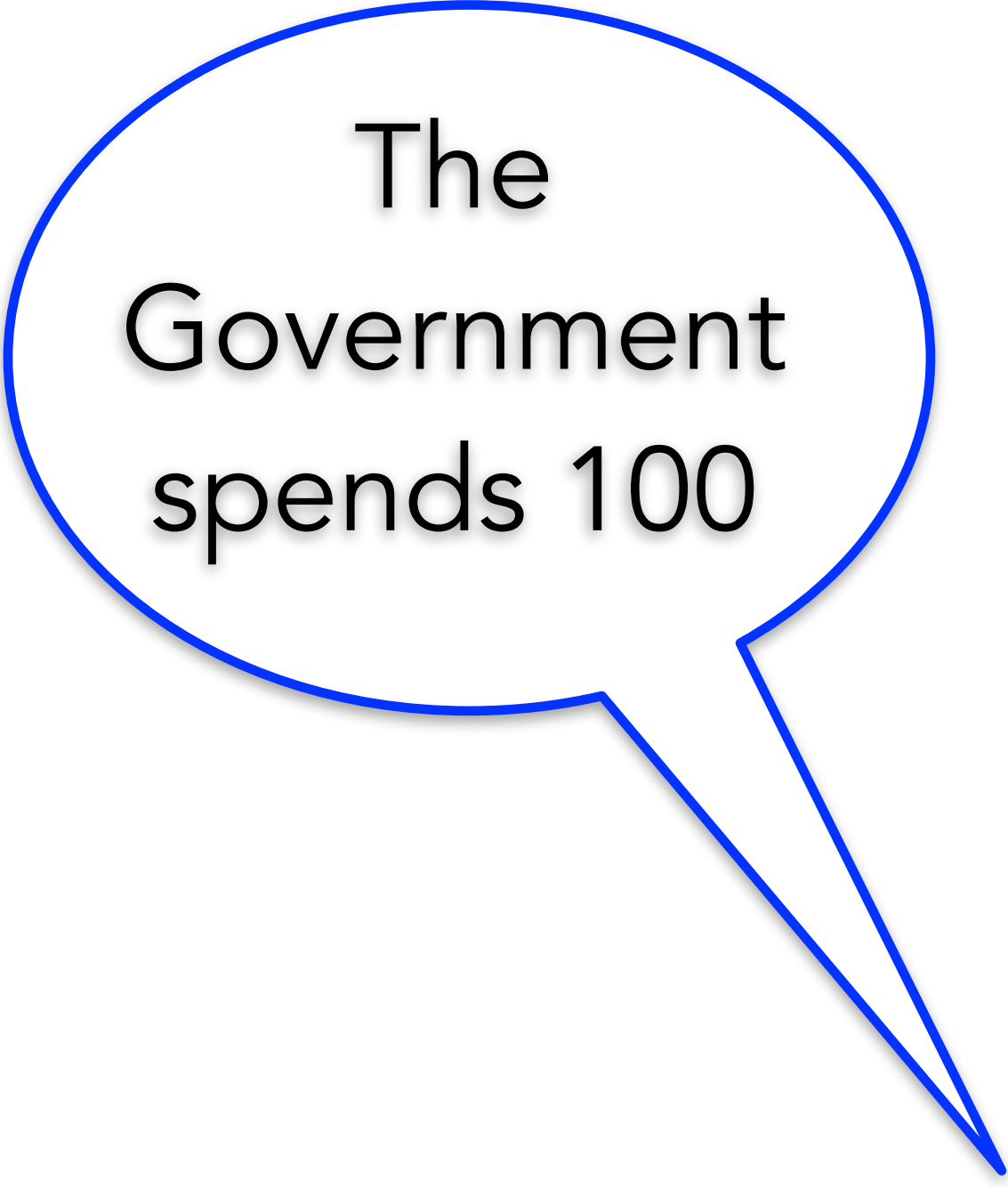
All the
Multiplicative
effect is the result of
additional rounds of
Consumer spending







But it is consumers
who have the biggest
impact



The
Government
spends 100

Fiscal Policy can
NOT work without
the cooperation of
Consumers

$$\left(\frac{1}{1-\text{MPC}} \right)$$

