

45

AE<sub>1</sub>



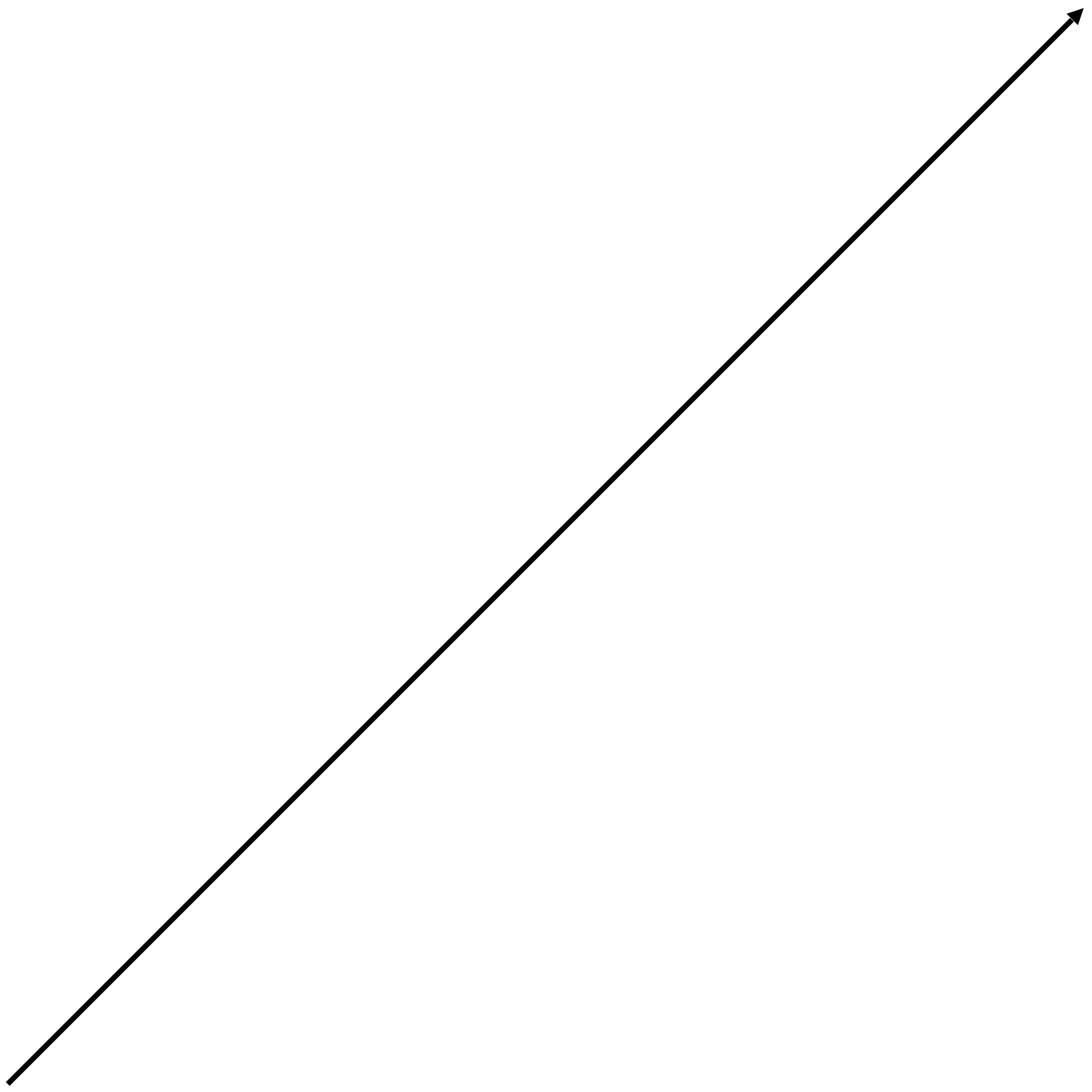
Y

O

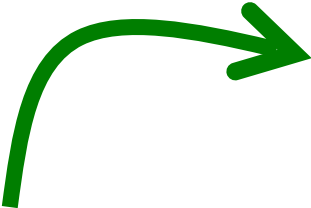
YY<sub>1</sub> = YO + ΔY









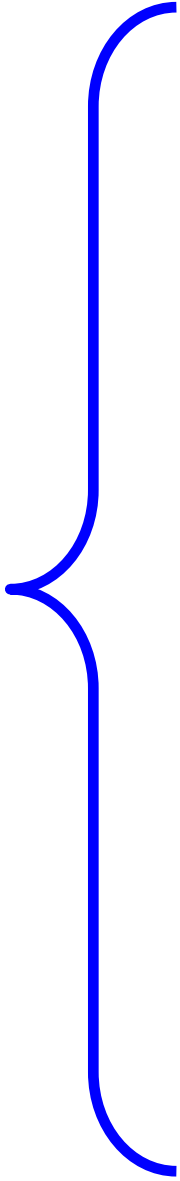


**AE = YO**

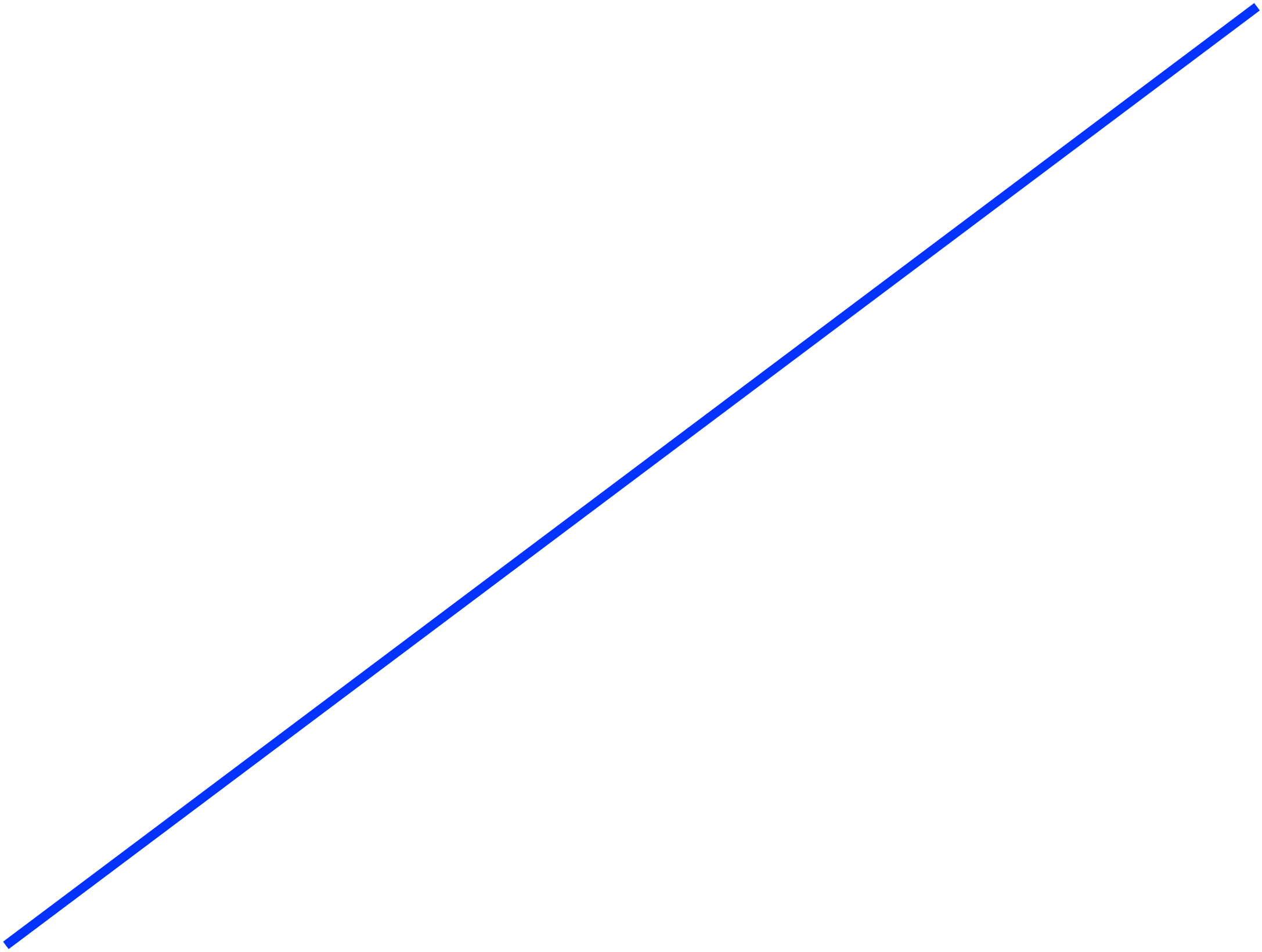
$$AE_1 = Y_1$$



$$\Delta AE = 157.5 + 52.5 = 210$$























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



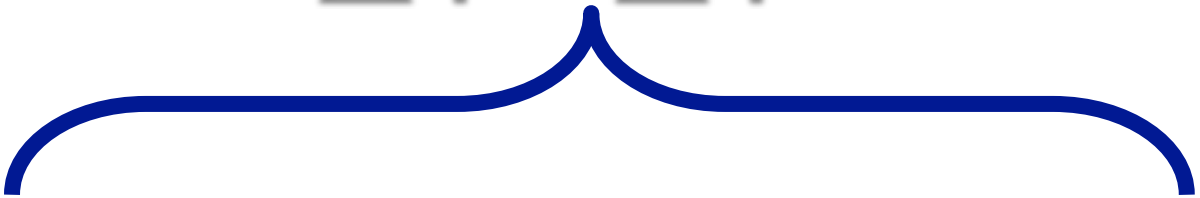
$$\Delta Y = 210$$



AEo



$$\Delta Y = \Delta T$$



NOTES

$$\Delta Yd = +70$$

$\Delta a$






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

$\Delta a = \Delta Y_d$  (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



$MPC = 0.75$

