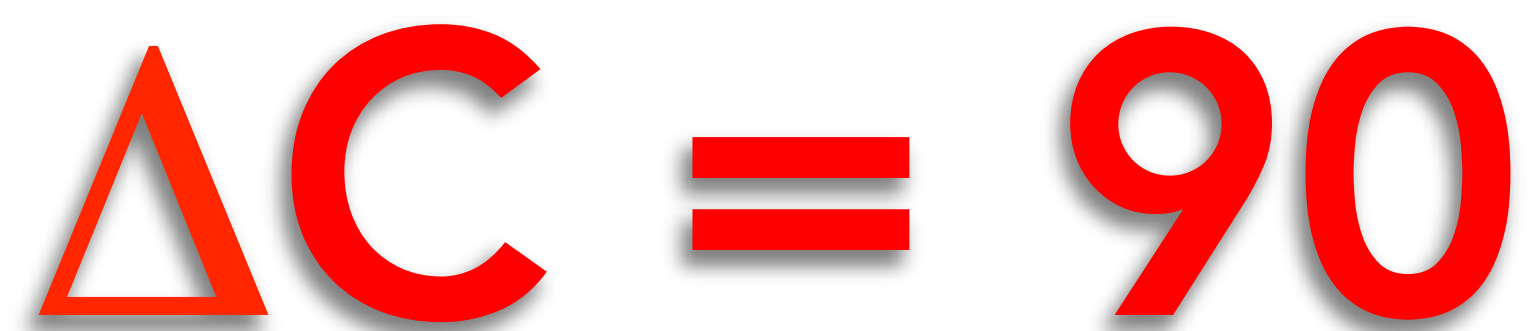

AE1


Y*
0

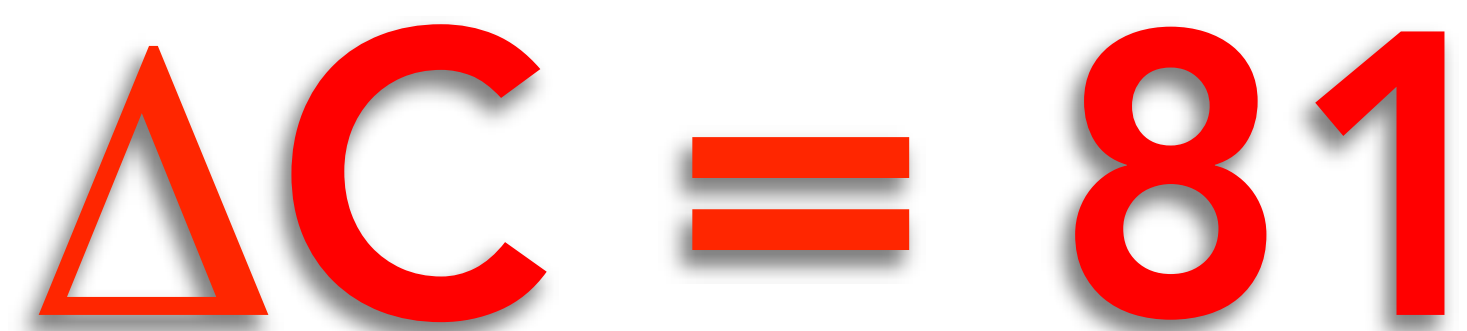
[redacted] [redacted] [redacted] [redacted]


ΔC = 90

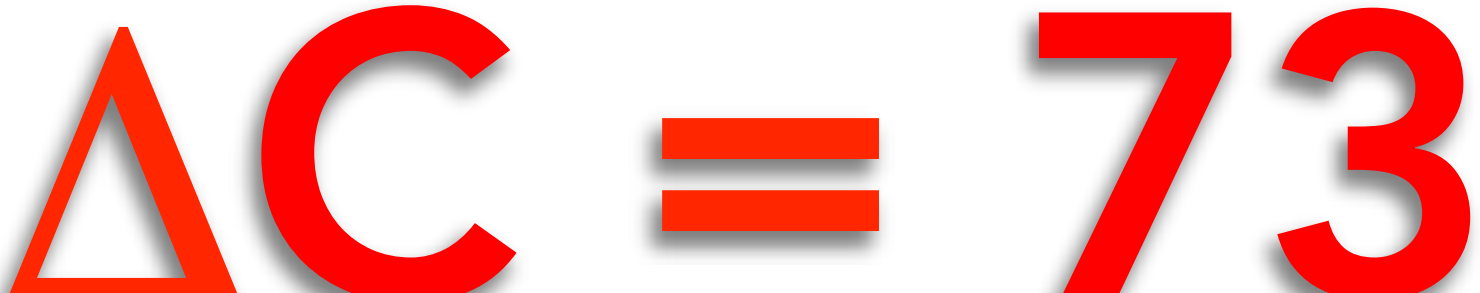

AE_0

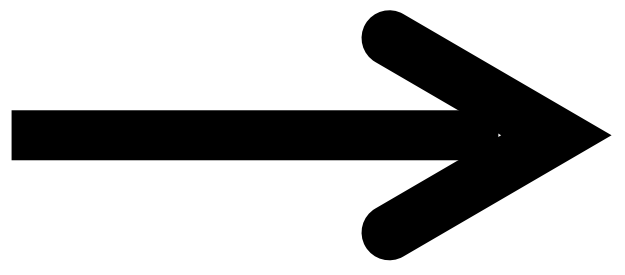

Y1


Y 2


ΔC = 81

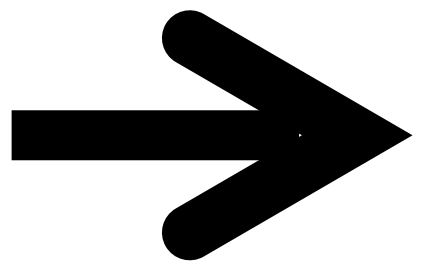

Y 3


ΔC = 73

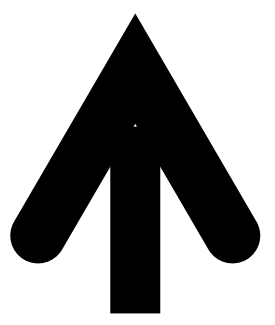



Y
4


Y 5

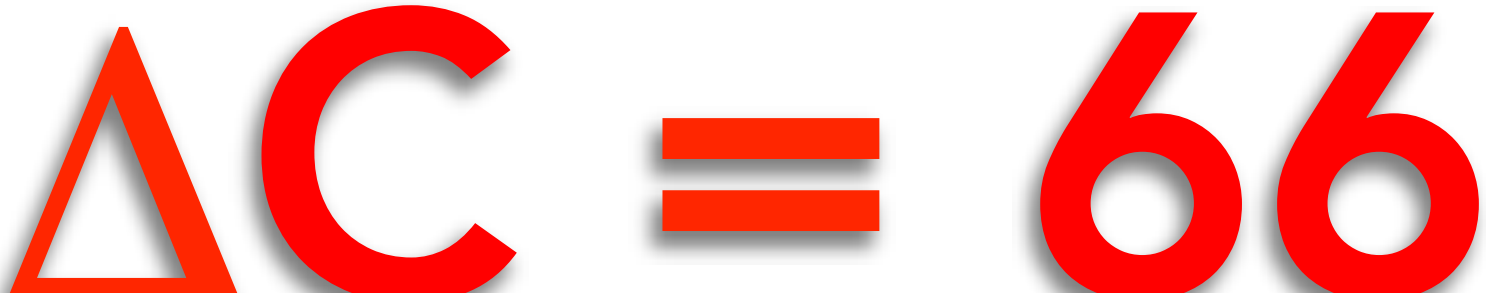


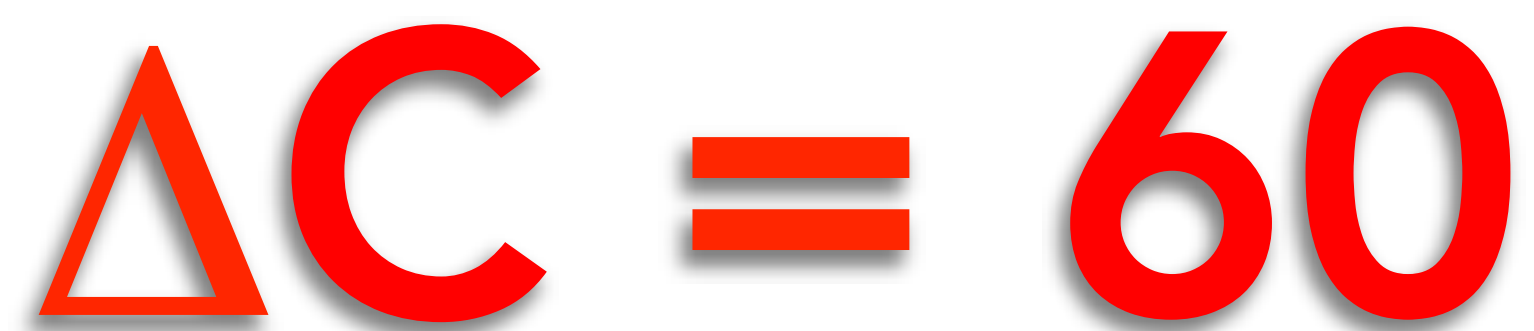

Y 6

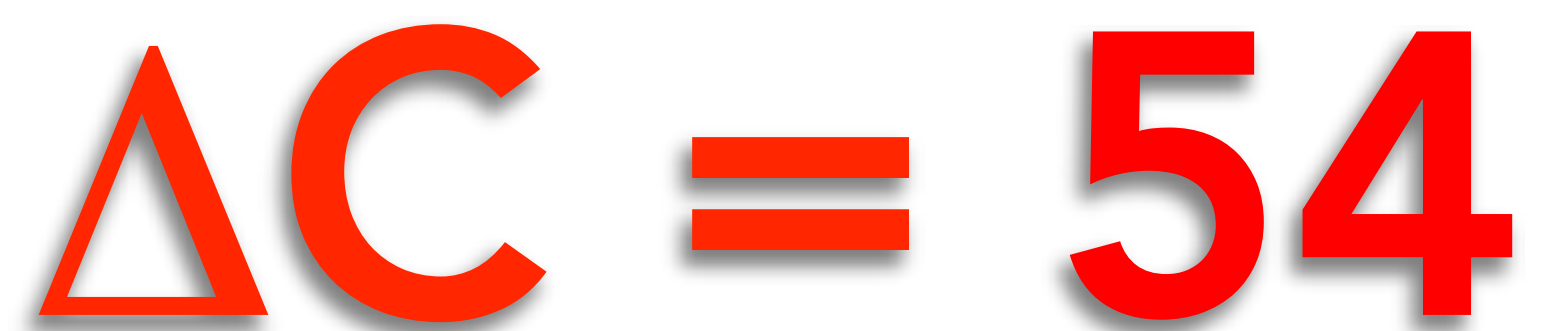



Y7


Y 8

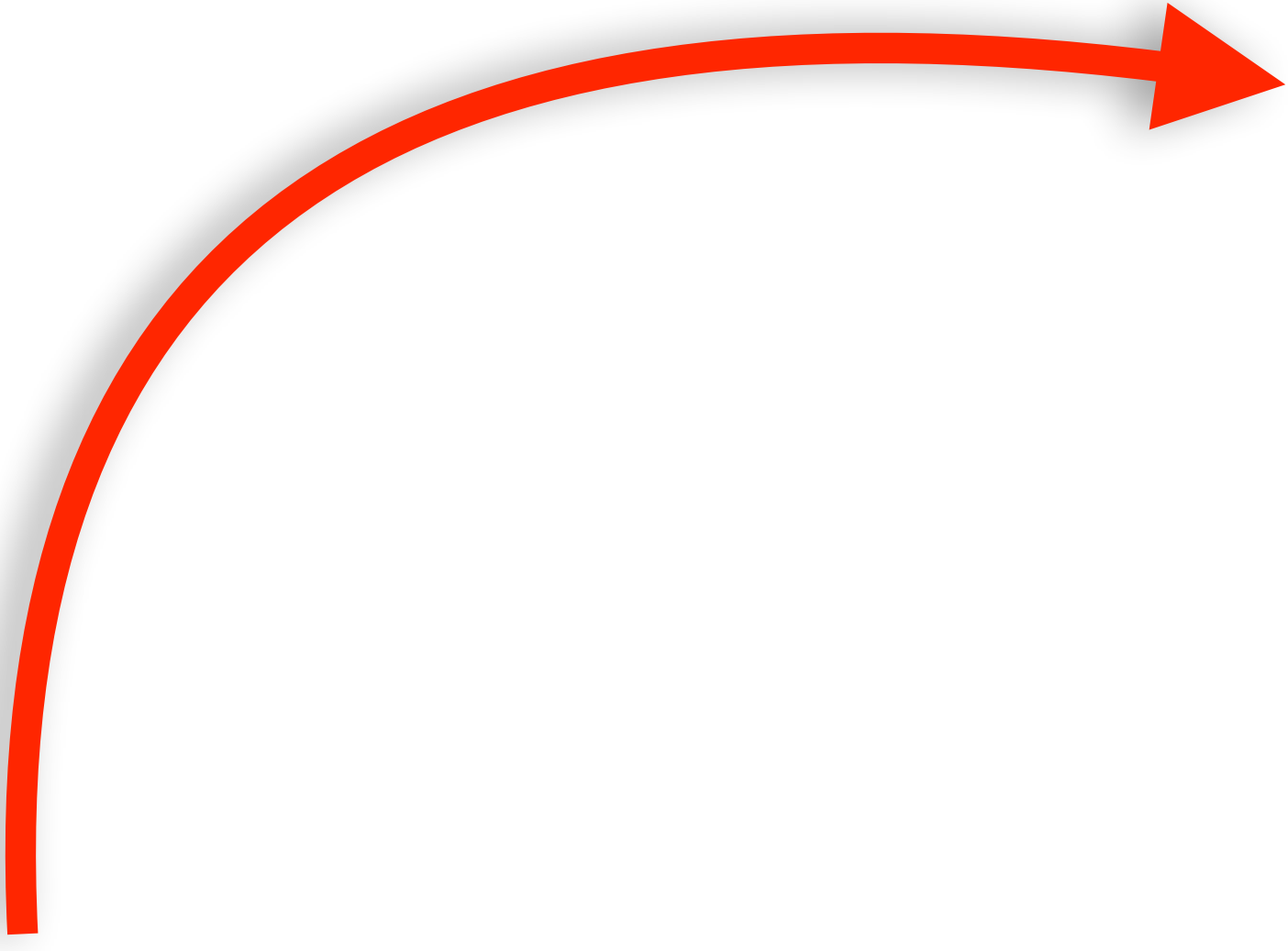

ΔC = 66


ΔC = 60


ΔC = 54

$\Delta Y=900$

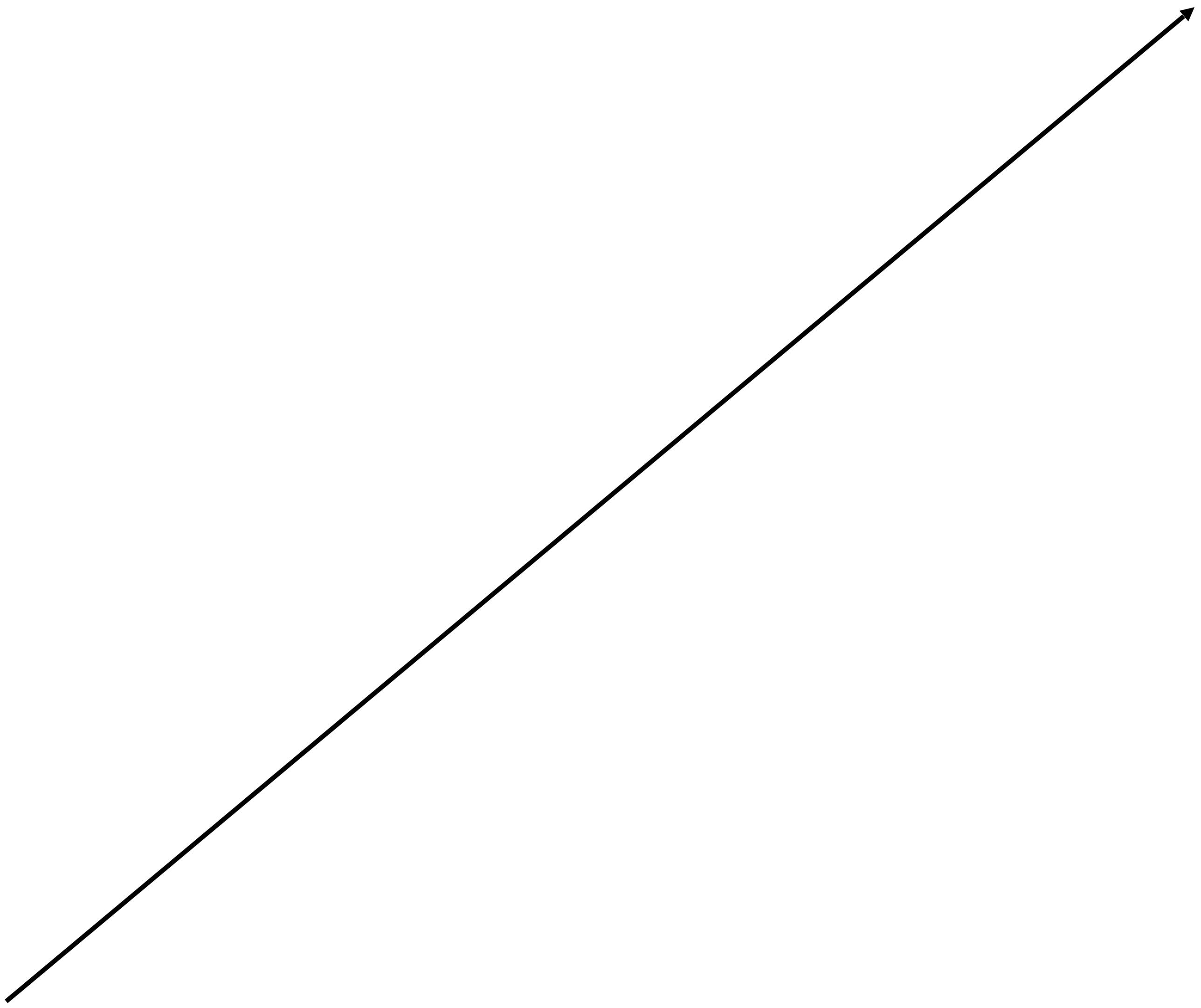
$$\Delta Y = \Delta a$$

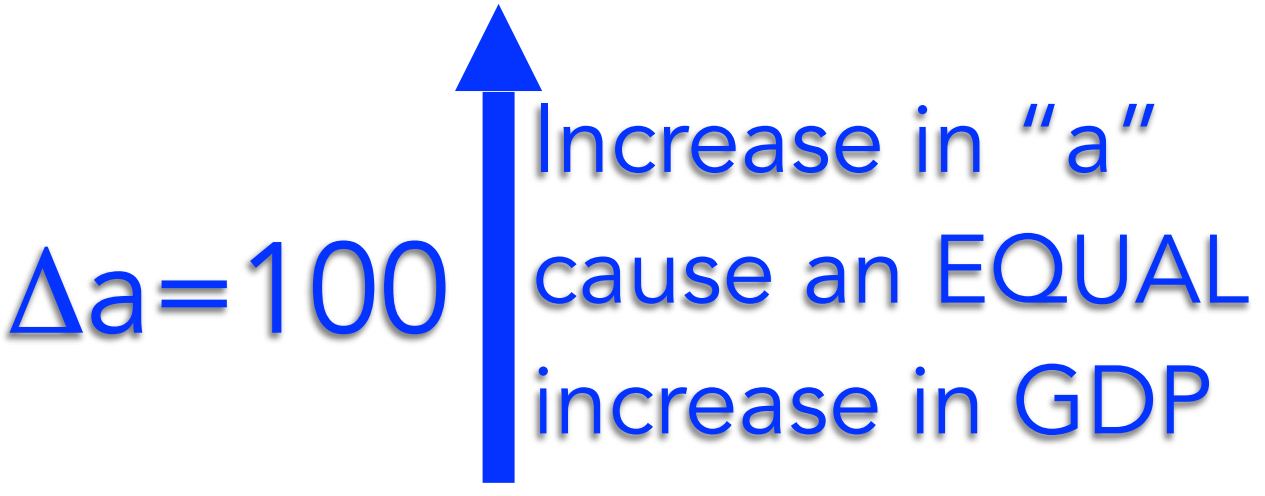


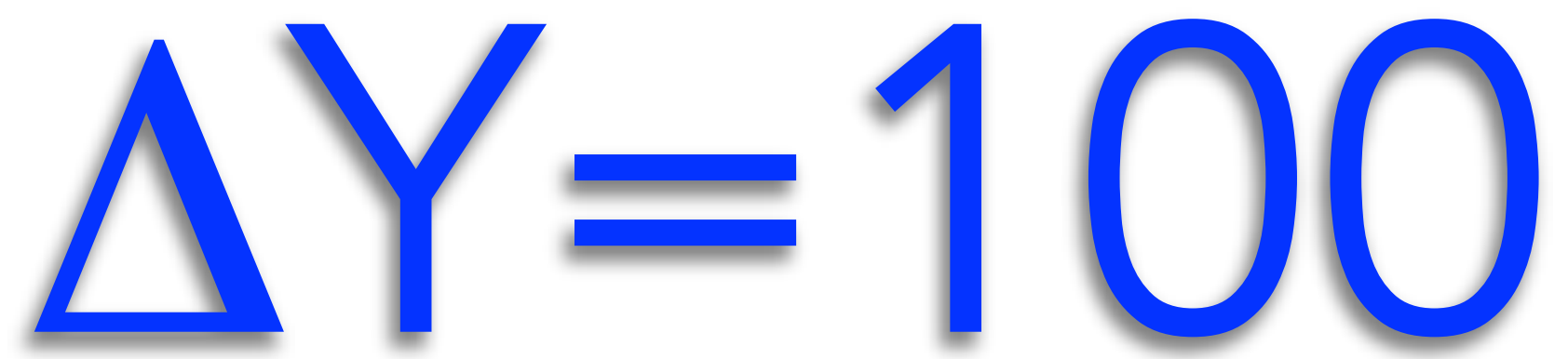

Y1


Consumers
spend 100


1
1-MPC




Δa=100
Increase in "a"
cause an EQUAL
increase in GDP


ΔY=100

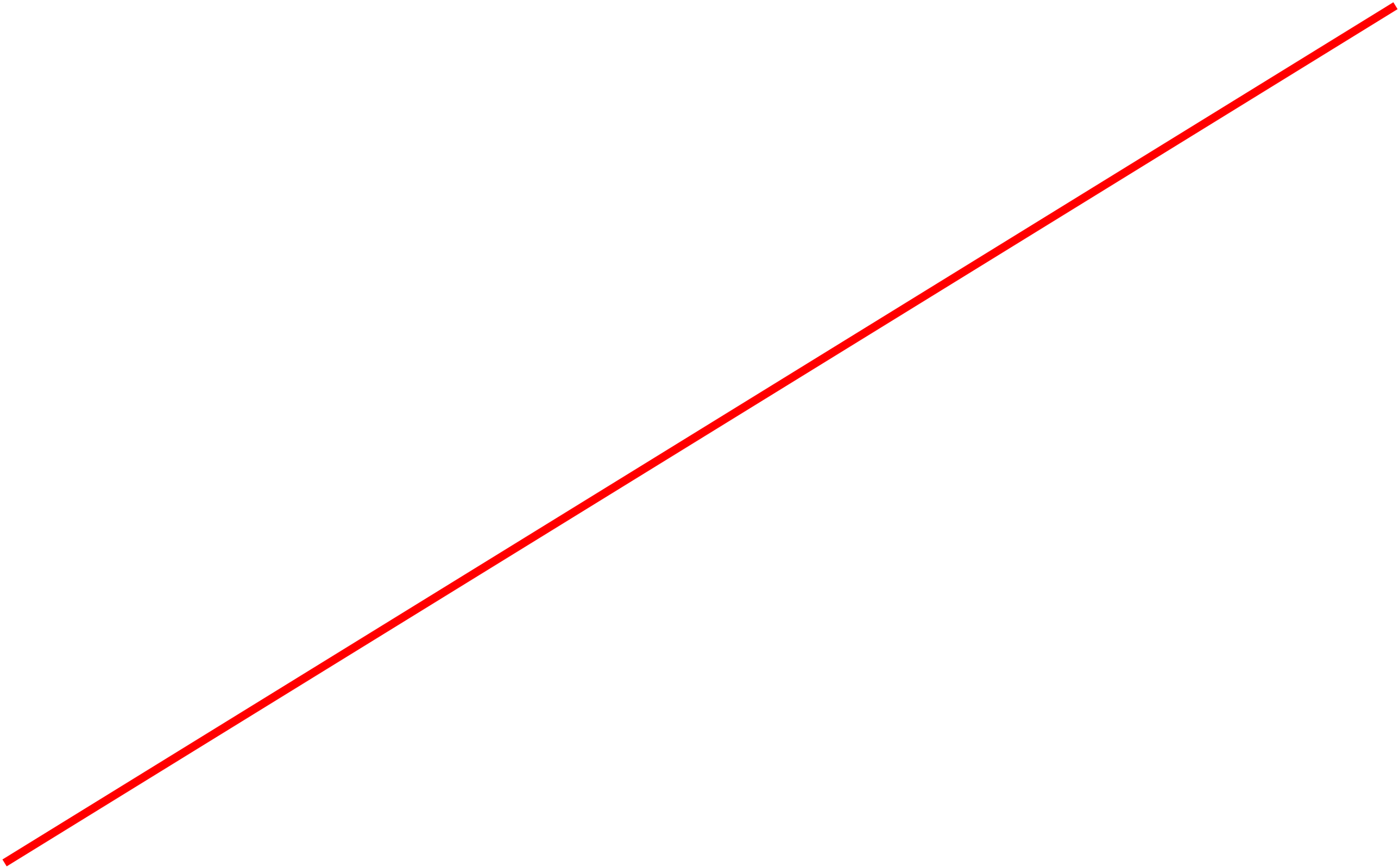
Increase in consumption causes the rest of the increase in GDP

$$\Delta Y = 100 + 900 = 1{,}000$$

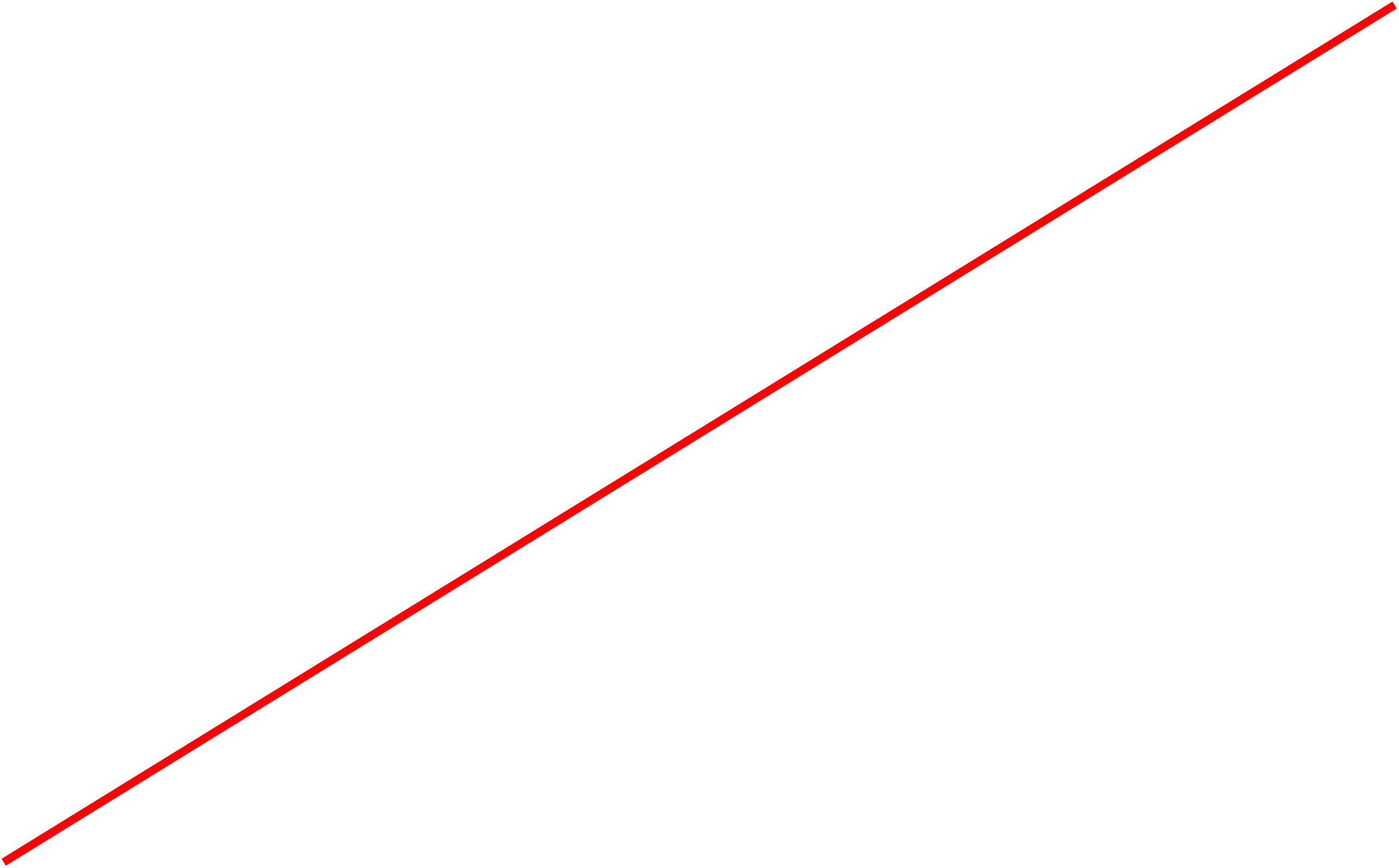
Y^*_1

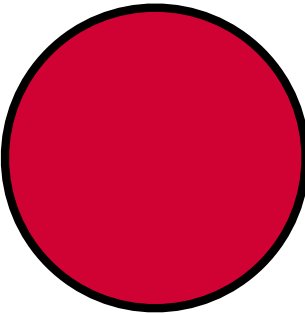
New Equilibrium

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

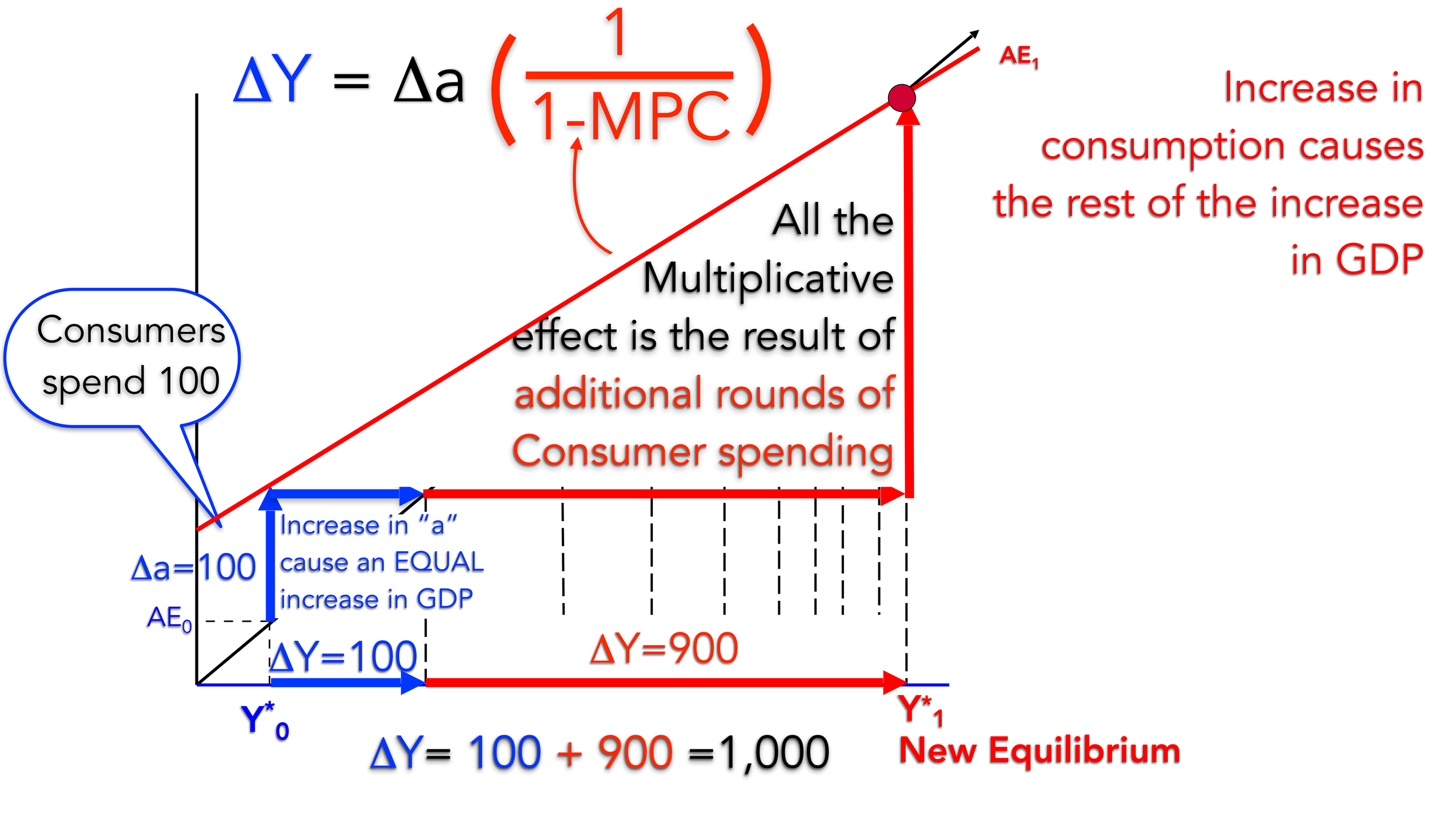



AE0





$$\Delta Y = \Delta a \left(\frac{1}{1\text{-MPC}} \right)$$



The Spending Multiplier