

Larger increase in Output

Same increase in Consumption

Same increase in the Deficit

NC = 210

AY

=

280

XY = 210


NC = 210

Δ Deficit = 70

Δ Deficit = 70



Government
buys an extra 70b



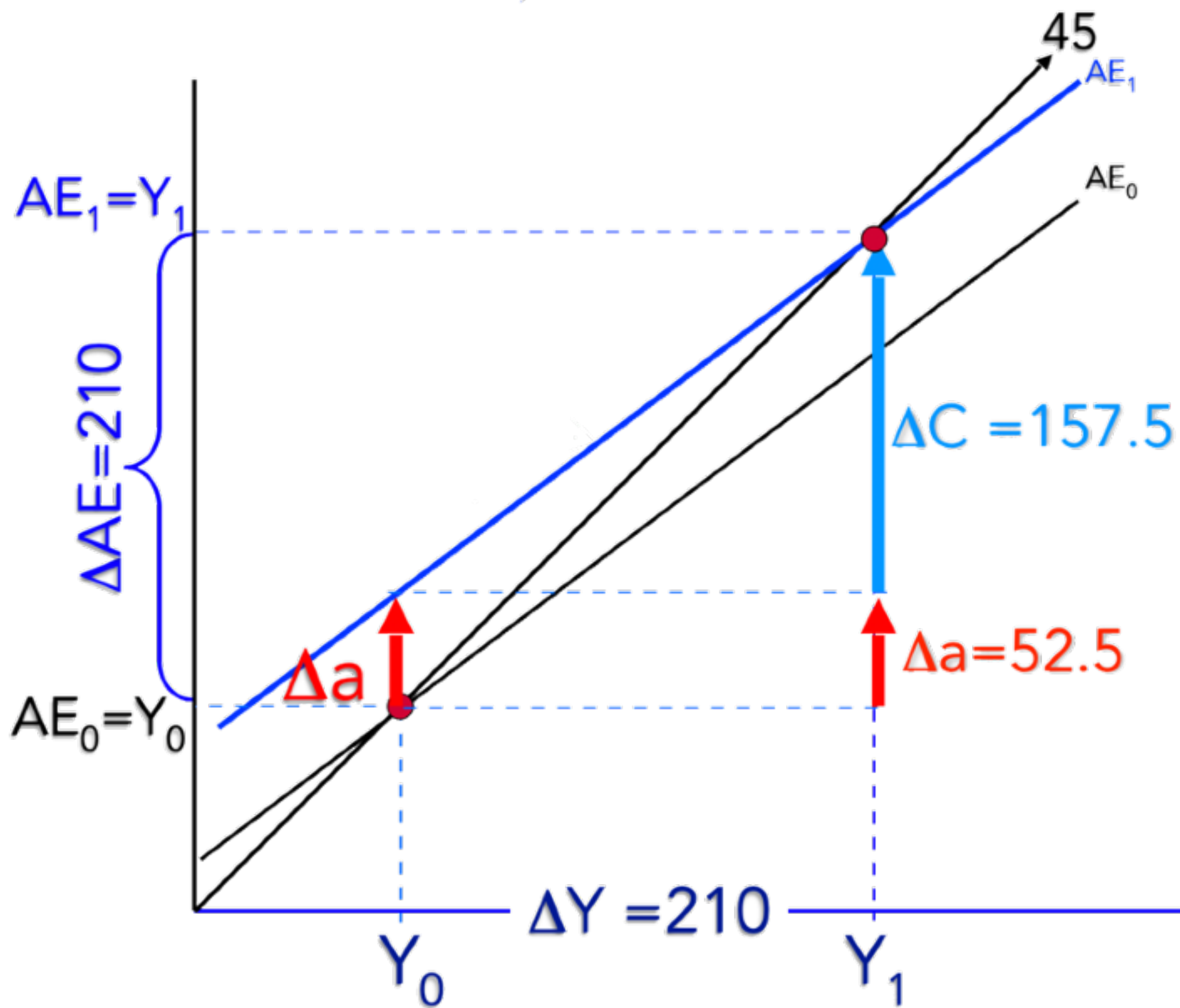
Government
"gives" us an extra
70b to spend

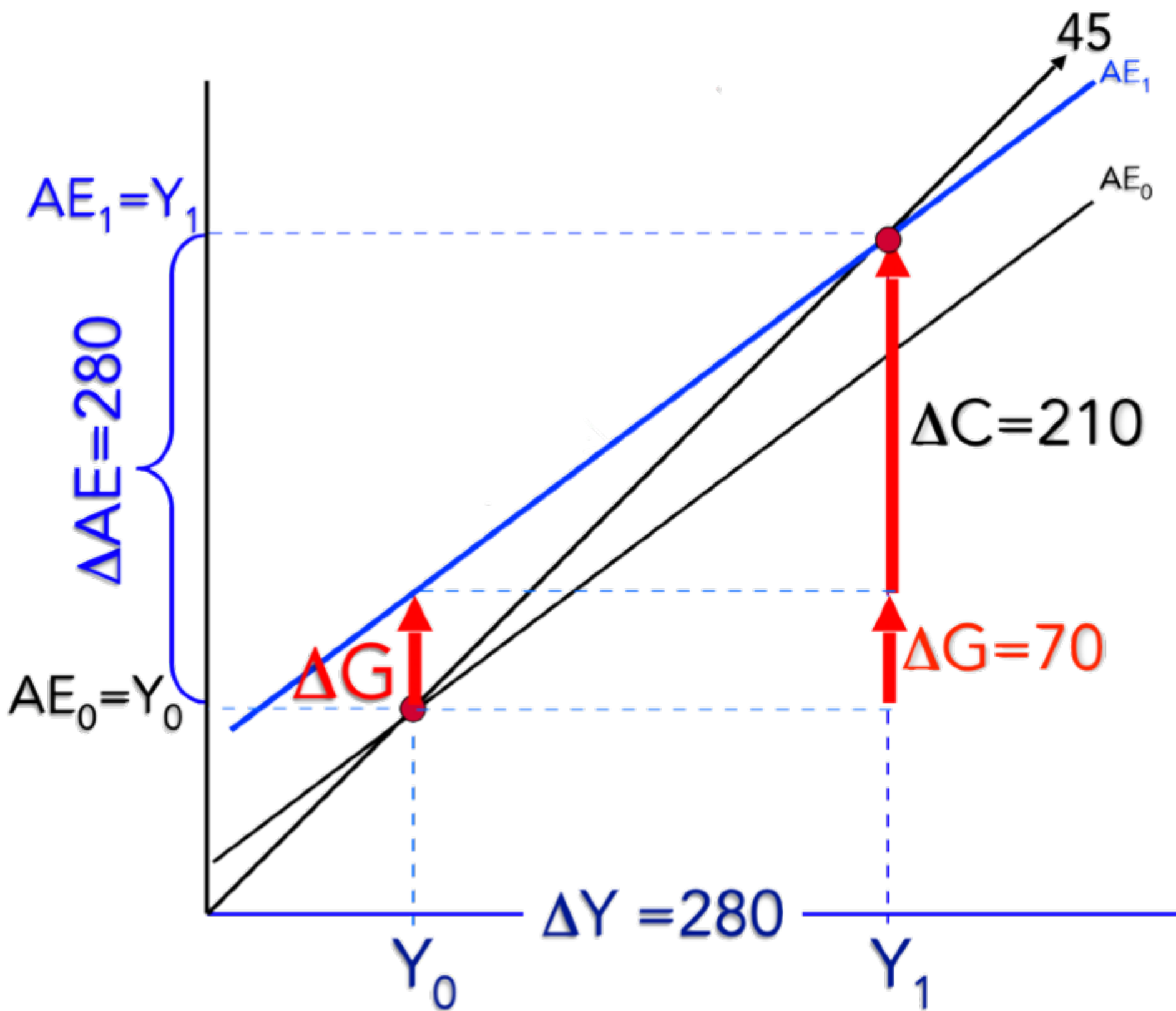


Increasing
Spending is more
effective than a tax
cut

AG = 70


NT = 70



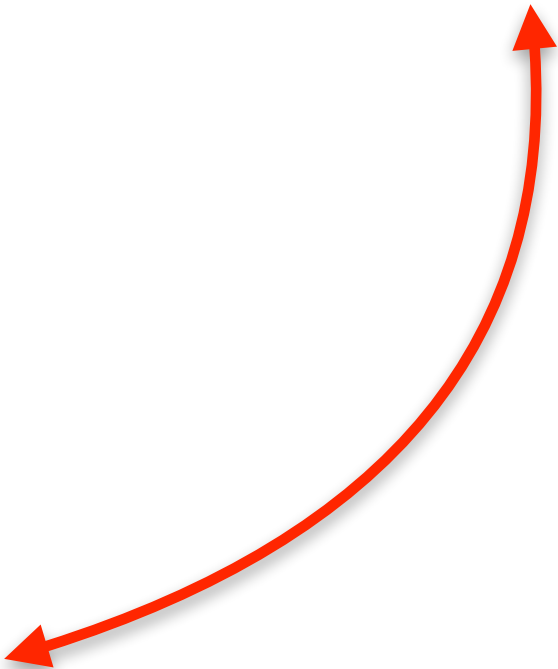


The Government spends
the full 70B

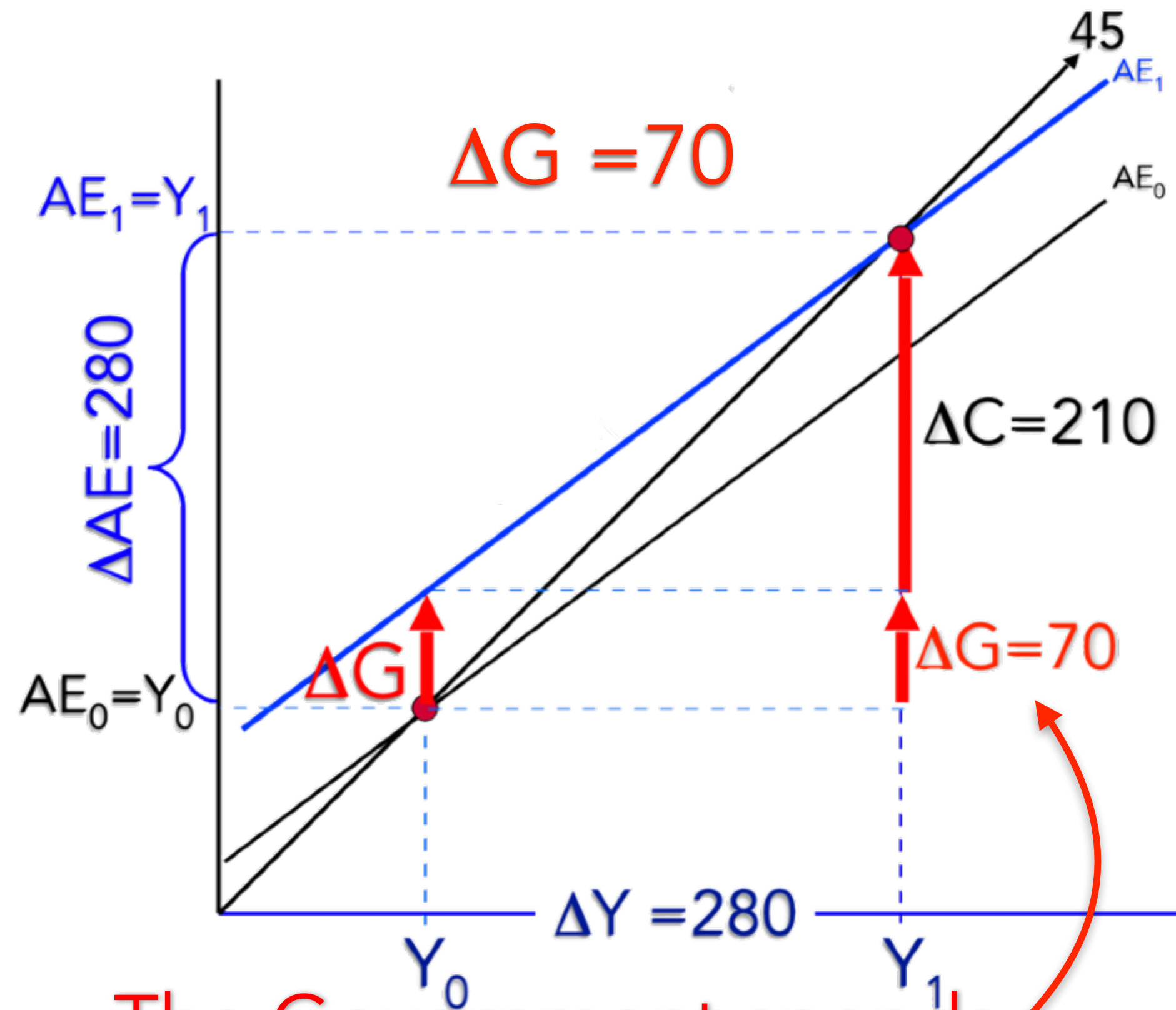
Consumers spend
only 75% of the 70B



$MPC = 0.75$





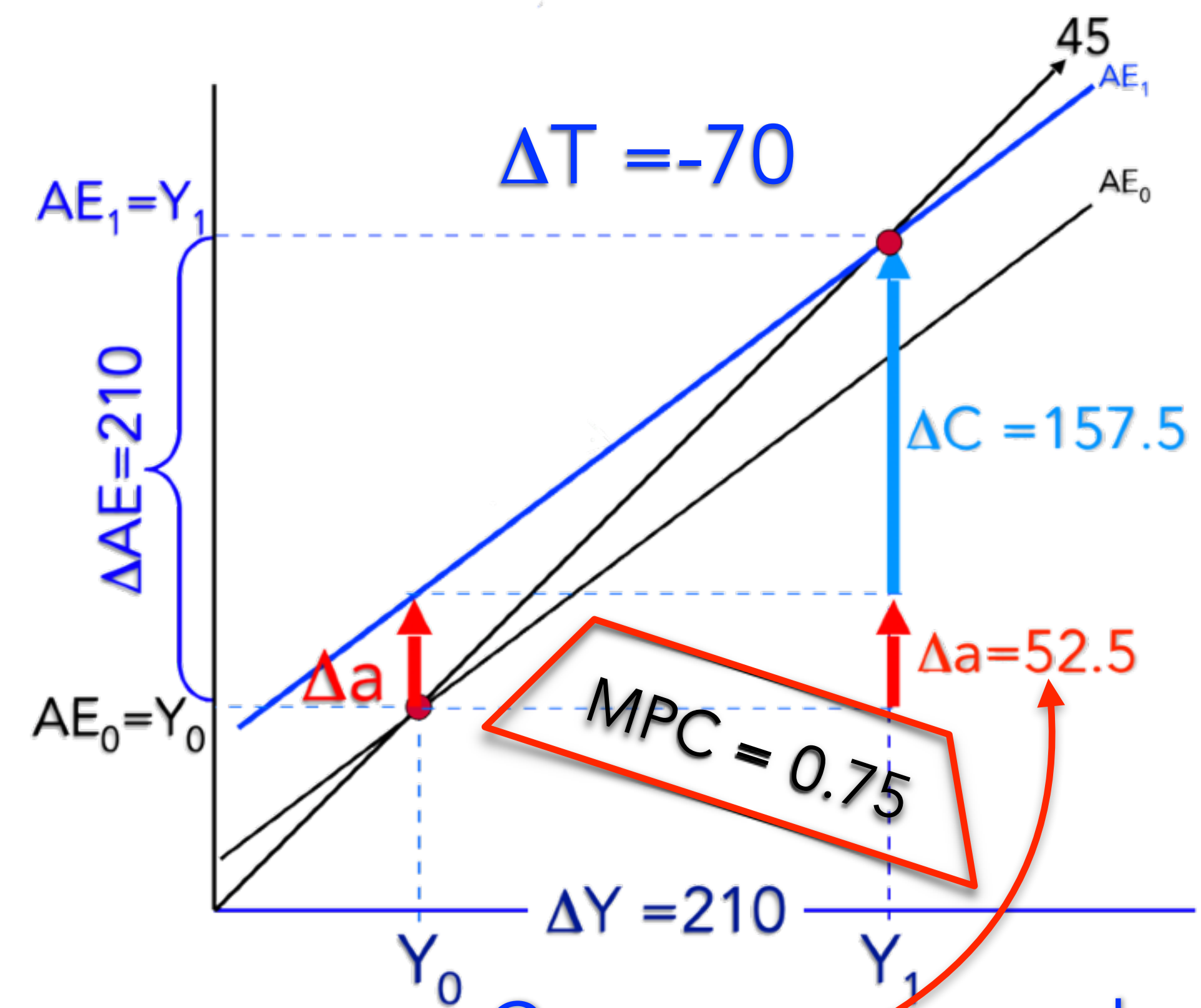


The Government spends the full 70B

Larger increase in Output
 $\Delta Y = 280$

$\Delta C = 210$

$\Delta \text{Deficit} = 70$



Consumers spend only 75% of the 70B

$\Delta Y = 210$

$\Delta C = 210$

$\Delta \text{Deficit} = 70$

Increasing Spending is more effective than a tax cut

