

$$\text{Disposable Income}(Y^d) = \text{Income}(Y) - \text{Taxes}(Tx) + \text{Transfers}(Tr)$$

Disposable Income: Income left for consumption and saving after paying **Taxes** and receiving **Transfers**

Without Government: $C \equiv a + MPC(Y)$

We need to change the consumption function to reflect this change:

With Government: $C = a + MPC(Y - T_x + T_r)$

Yod

=

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X

+

Tr

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$$Y^d = Y - Tx + Tr$$

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With Government: