
Δa

$$\Delta Y = \Delta a$$

$$\Delta C = \Delta Y \text{ (MPC)}$$

Change in Consumption

Change in Deficit

Δ Government's Deficit = $\Delta G - \Delta T$

Spending Multiplier

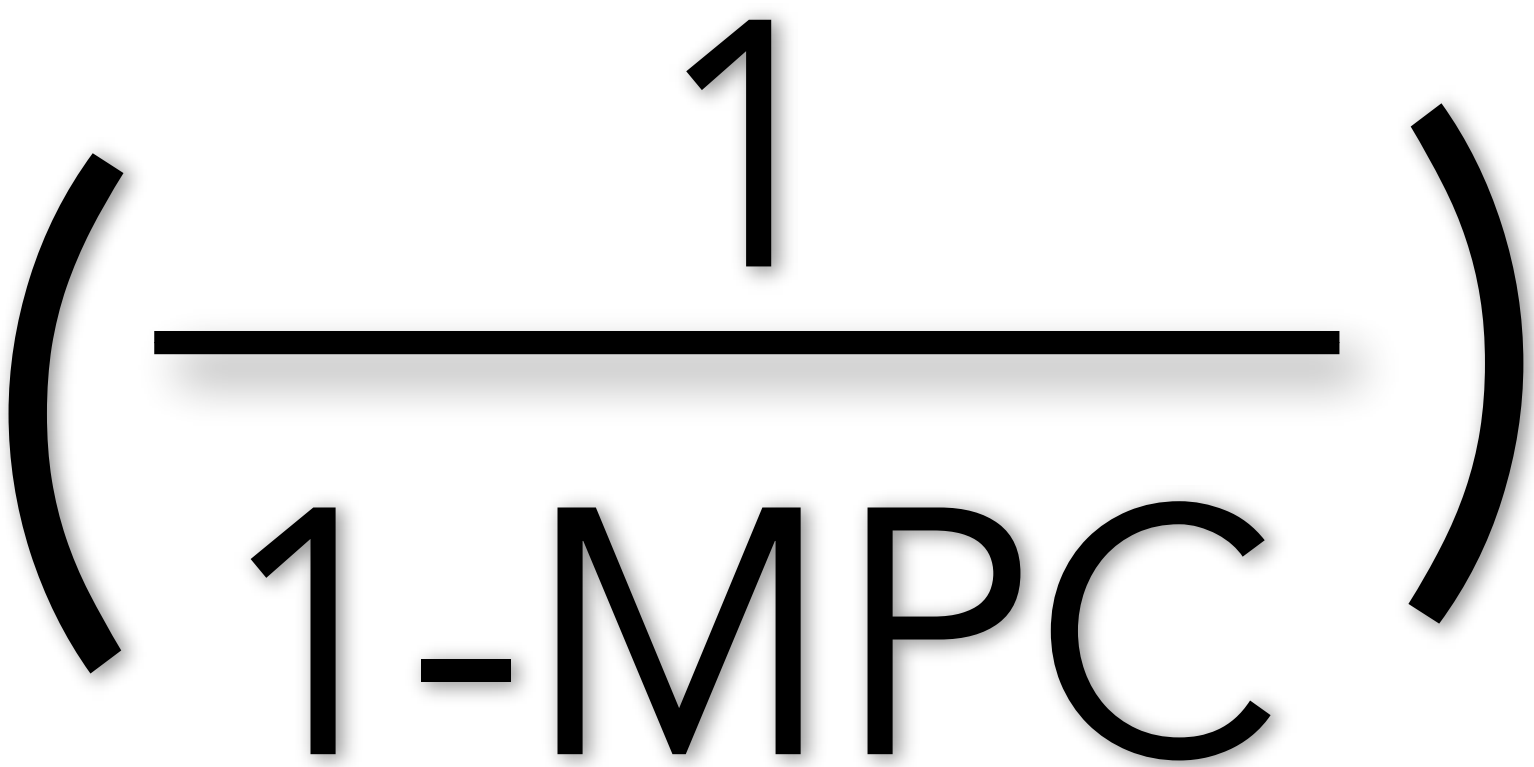
Change in Equilibrium GDP

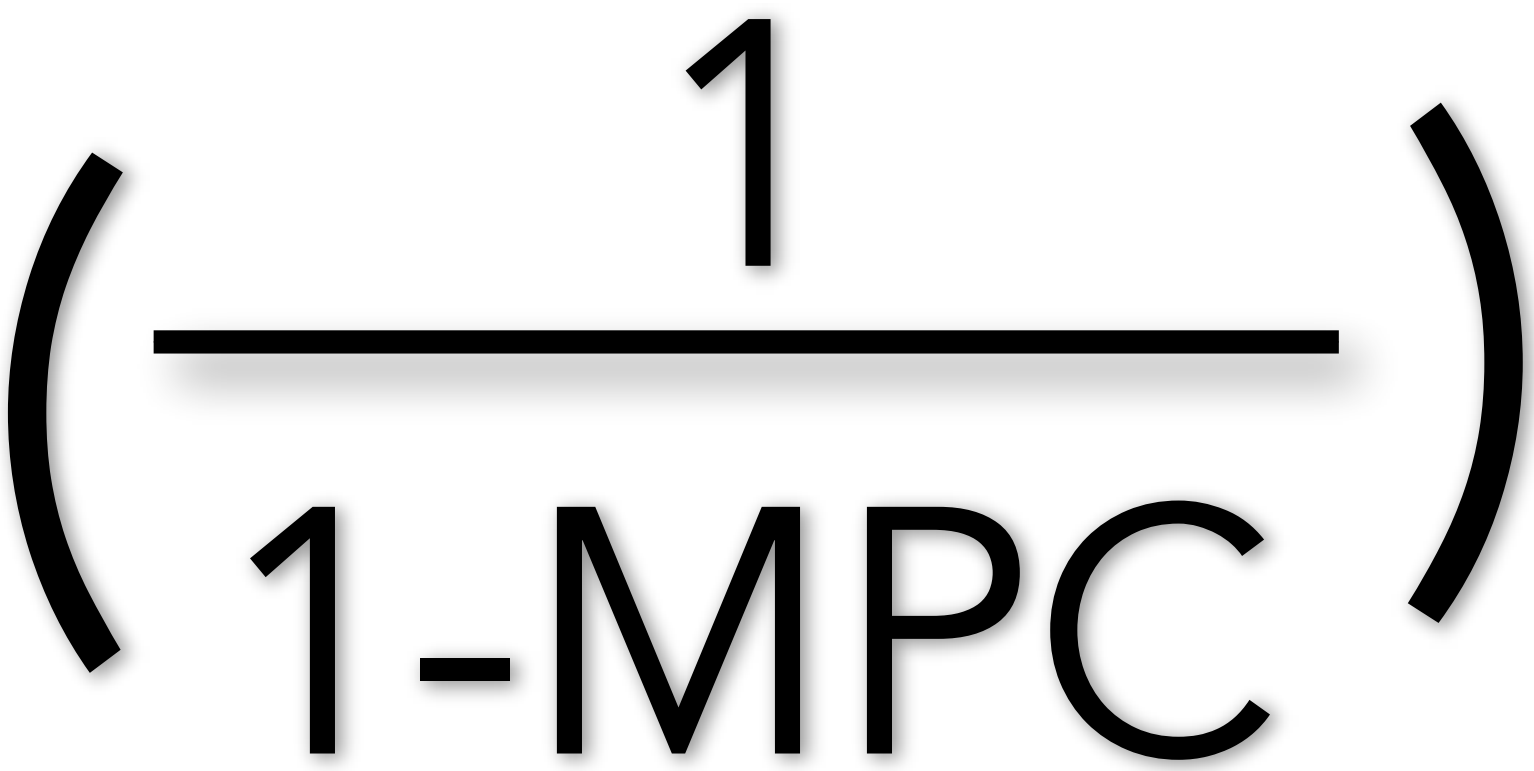
$$\Delta Y = 200$$

$$\Delta C = 1{,}000\ (0.8)$$

$$\Delta \text{ Deficit} = 0 - 0$$

$\Delta a = 200$


1
1-MPC

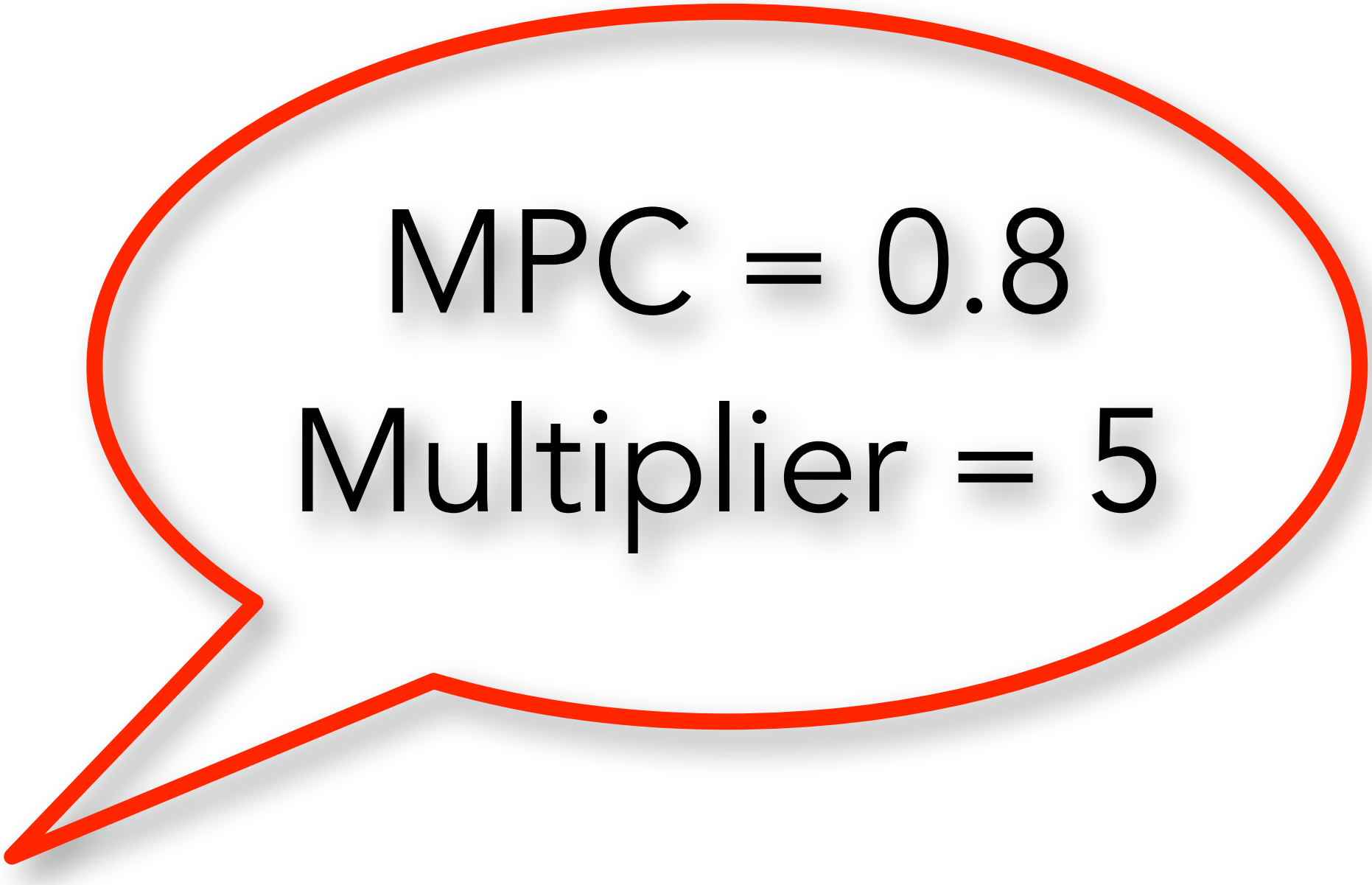

1
1-MPC


1
1-0.8

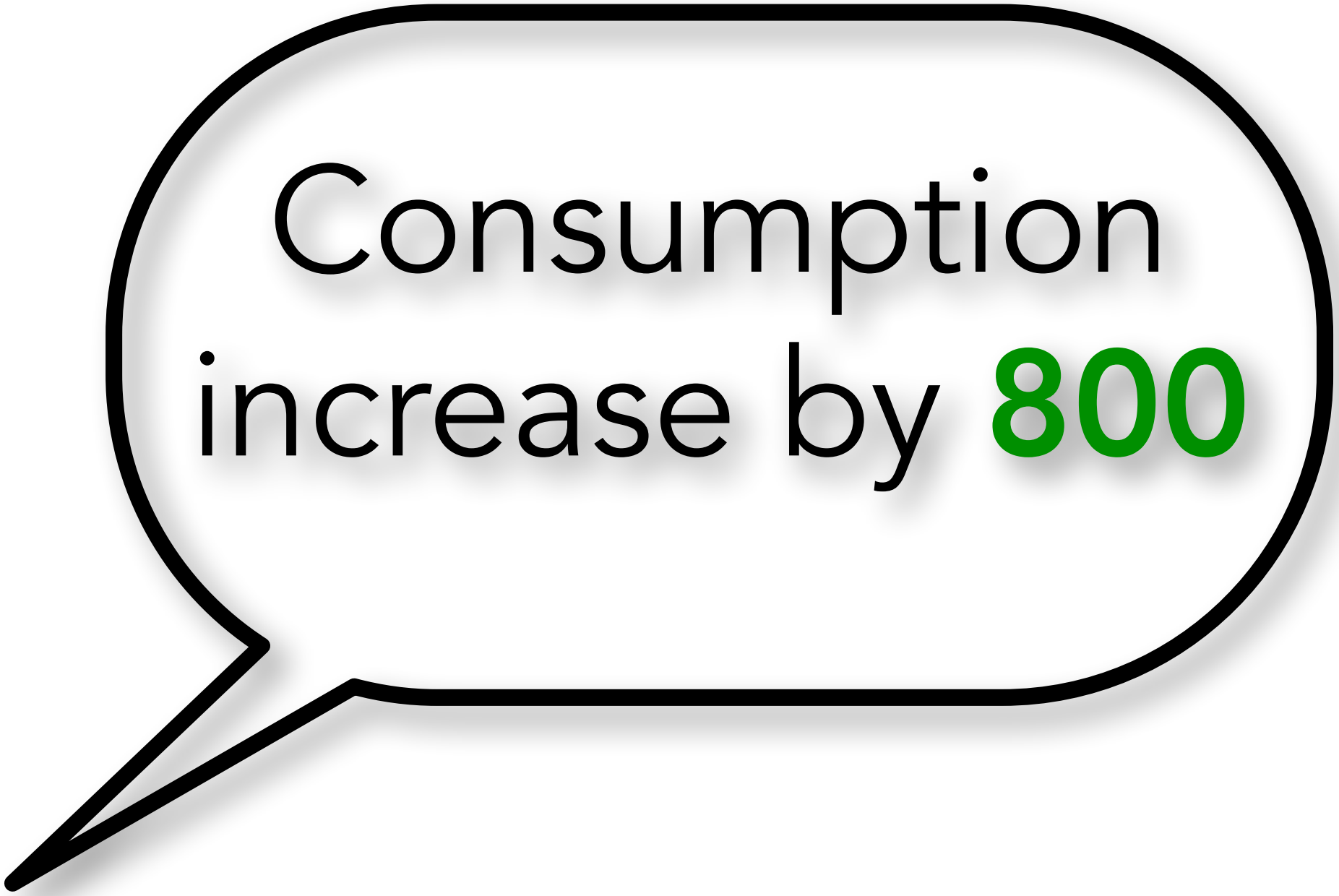
(5)

Formula:

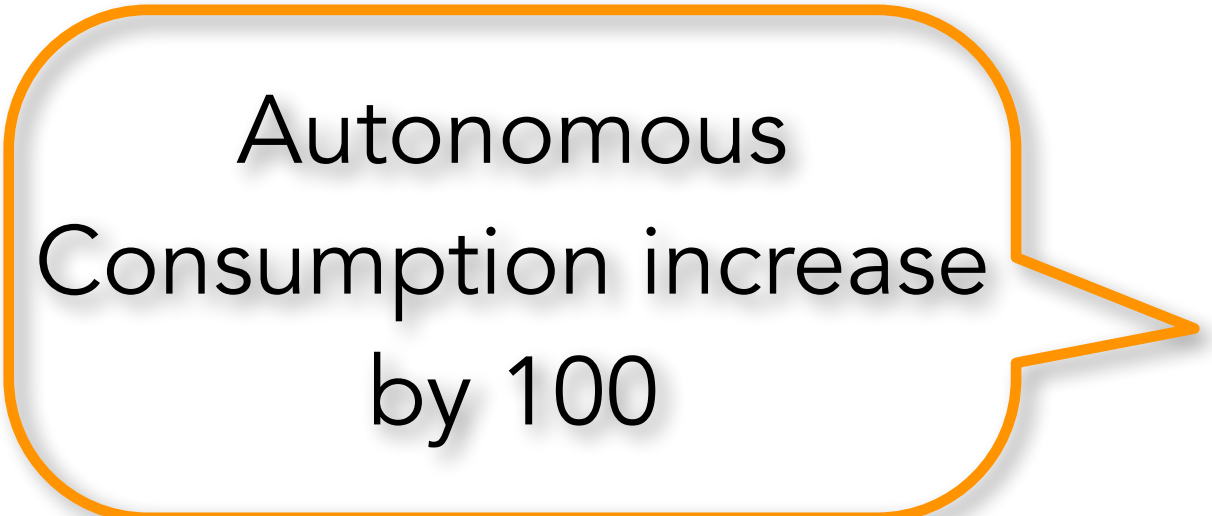
Example:


MPC = 0.8
Multiplier = 5


GDP
increase by
1000


Consumption
increase by 800


No
change


Autonomous
Consumption increase
by 100

Change in AE

$$\Delta AE = \Delta a + \Delta C$$

$$\Delta AE = 200 + 800$$


AE
increase by
1,000

Formula:

Δa

Autonomous Consumption increase by 100

Example:

$\Delta a = 200$

MPC = 0.8
Multiplier = 5

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

$\left(\frac{1}{1\text{-}0.8}\right)$

GDP increase by **1000**

Change in Equilibrium GDP

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

$$\Delta Y = 200(\ 5\ )$$

Consumption increase by **800**

Change in Consumption $\Delta C = \Delta Y\ (MPC)$ $\Delta C = 1{,}000\ (0.8)$

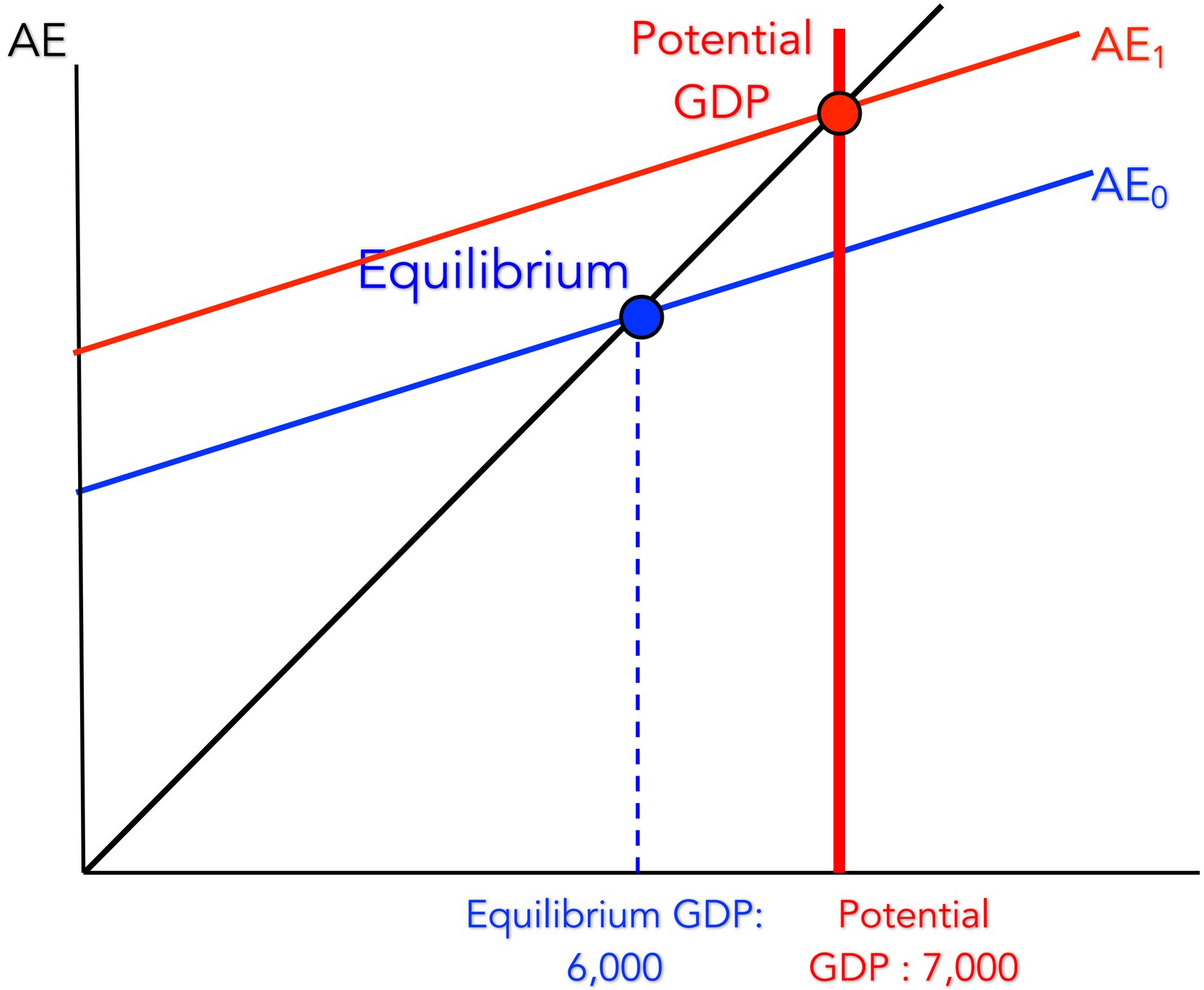
AE increase by **1,000**

Change in AE $\Delta AE = \Delta a + \Delta C$ $\Delta AE = 200 + 800$

Change in Deficit

Δ Government's Deficit = $\Delta G - \Delta T$ Δ Deficit = $0 - 0$

No change


AE
Potential
GDP
AE_1
AE_0
Equilibrium
Equilibrium GDP:
6,000
Potential
GDP : 7,000