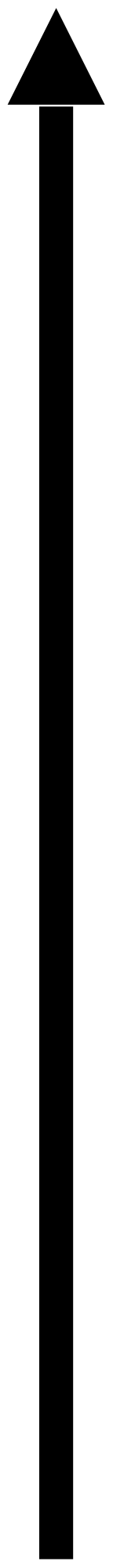
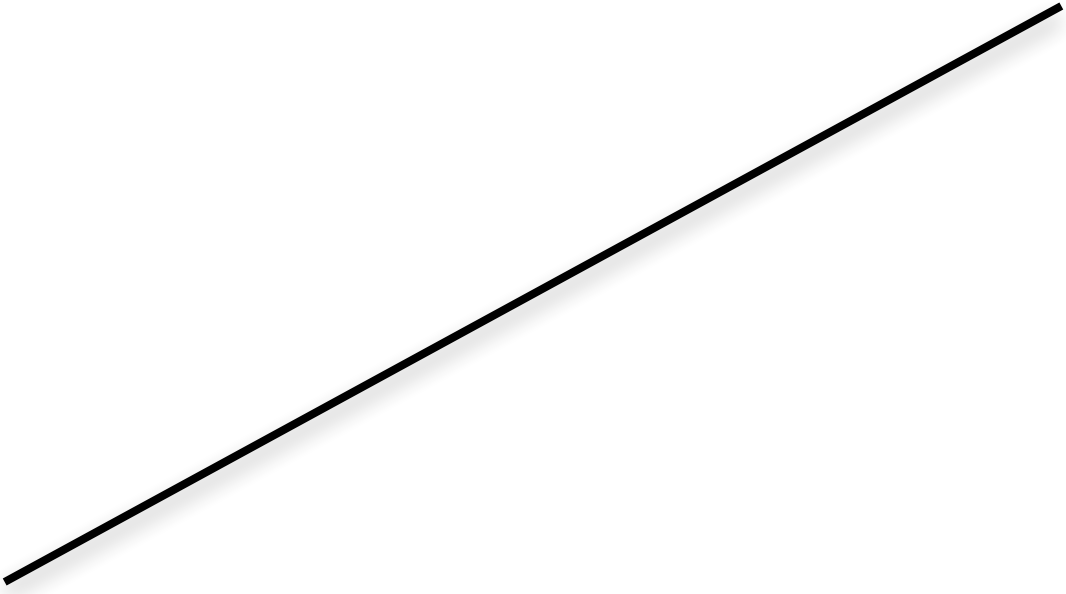
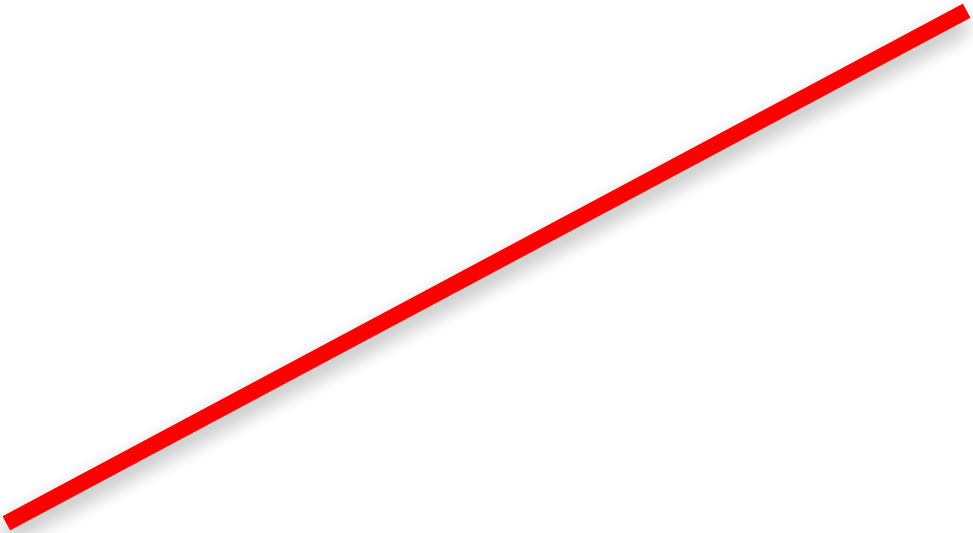
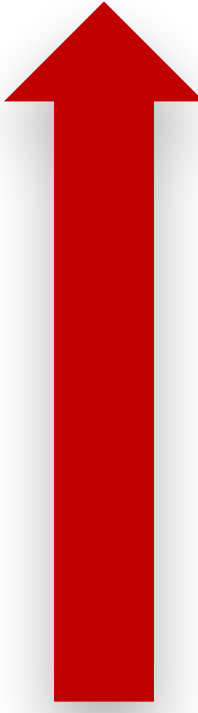


A 700 increase in government spending generates a 3,500 increase in GDP

Example: $\Delta G = 700$ MPC = 0.8







$$\Delta Y = 3{,}500$$


AE1


AE0

Change in Equilibrium Y :

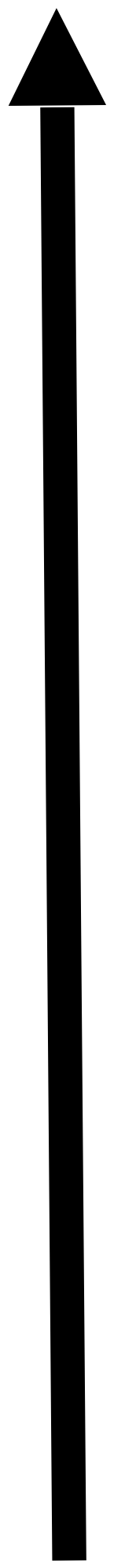
$= \Delta G$


1
1 - MPC


ΔY

=700

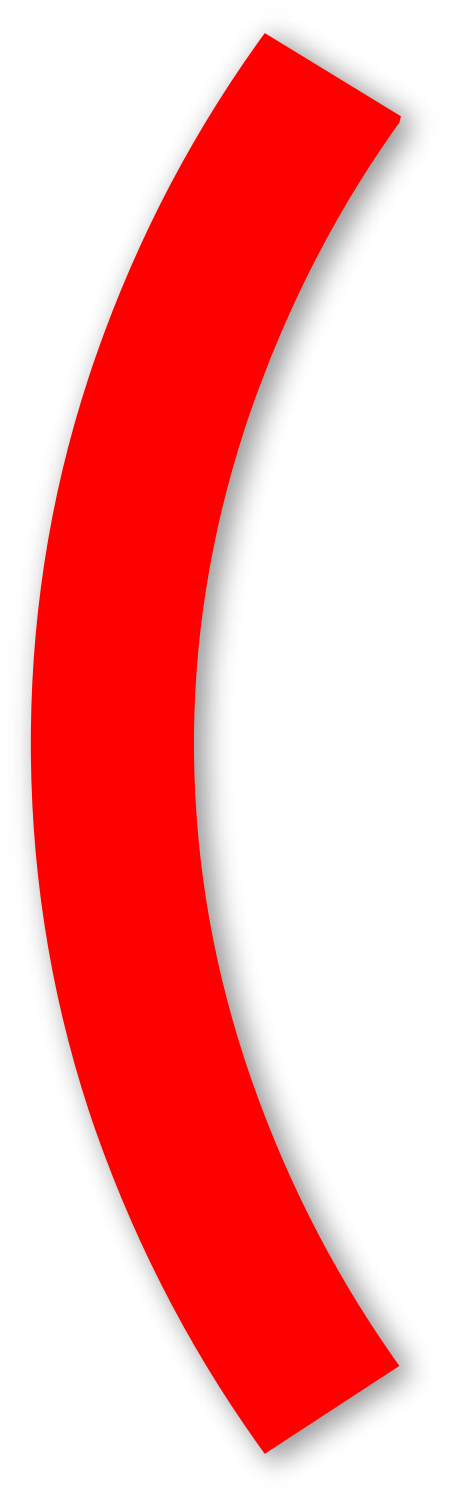
1 - 0.8

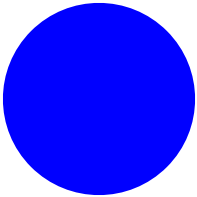



0.2


ΔY

5



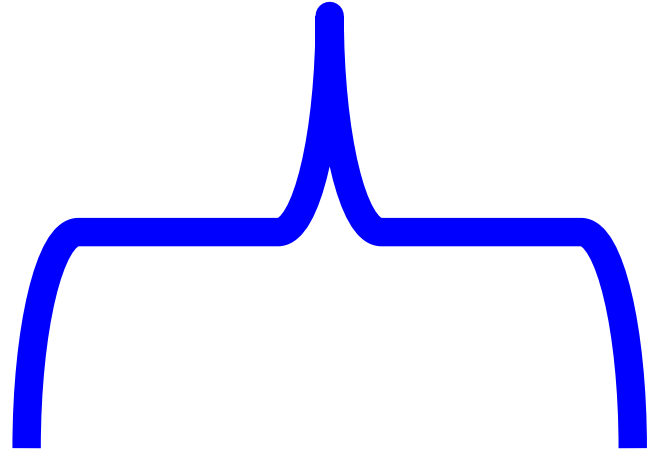


$\Delta AE = \Delta G = 700$

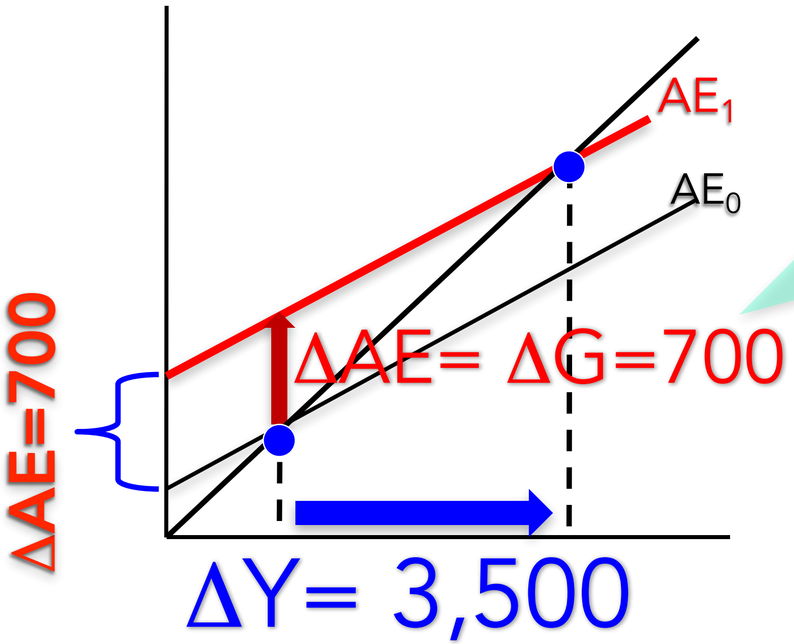
$$\Delta Y = 3{,}500$$

The size of the shift in AE is the same as the change in G

ΔAE=700



Example: $\Delta G = 700$ MPC = 0.8



The size of the shift in AE is the same as the change in G

Change in Equilibrium Y :

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

$$\Delta Y = 700 \left(5 \right)$$

$$\Delta Y = 3{,}500$$

A 700 increase in government spending generates a 3,500 increase in GDP