Question #63477- Economics - Macroeconomics

Given a hypothetical consumption function of the form $Y = C + I0 + G0$,$C = \alpha + \beta$ Yd Where: Yd = Y − T, Y = Income, T = Taxes Government spending and investment are exogenously determined at G and I respectively. Assuming this model represent a three sectors economy, determine Investment multiplier, Government spending multiplier and Tax multiplier. If there is an increase in marginal propensity to consumer, how will this affect the national income?

Answer:

$$m_i = \frac{\Delta Y}{\Delta I} = \frac{1}{1 - MPC}$$

$$m_g = \frac{\Delta Y}{\Delta G} = \frac{1}{1 - MPC}$$

$$m_t = \frac{\Delta Y}{\Delta T} = \frac{-MPC}{1 - MPC}$$

If marginal propensity to consume increase national income will increase on $\Delta\beta(Y - T)$.