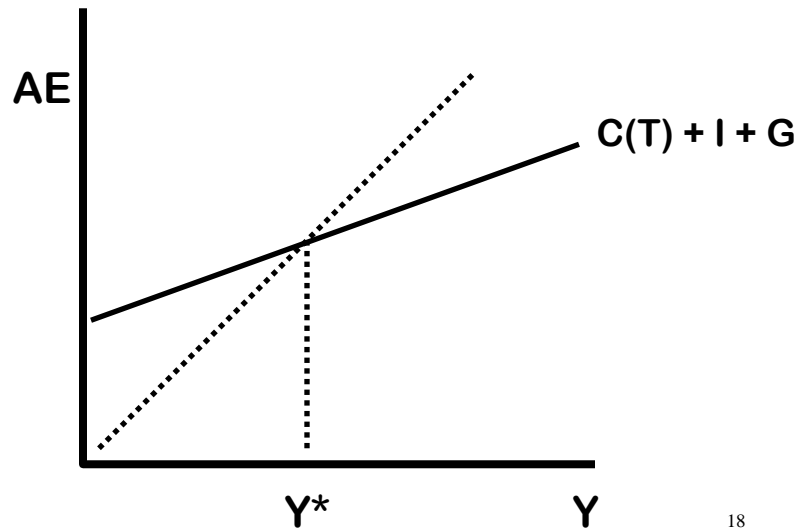
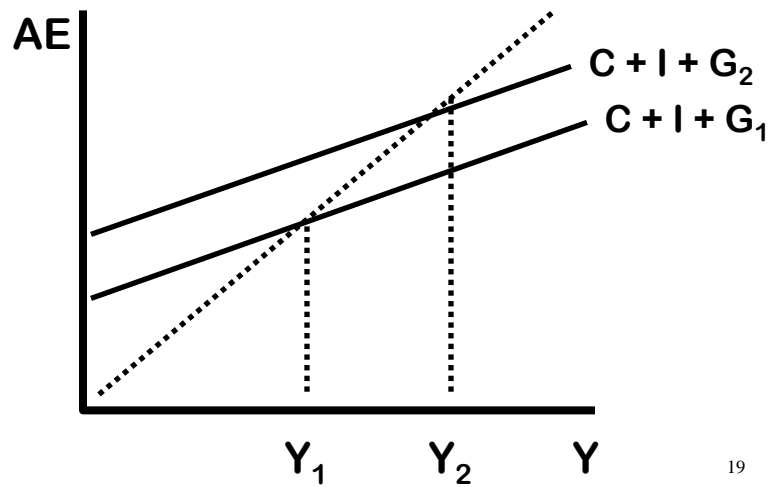


Aggregate output with government:



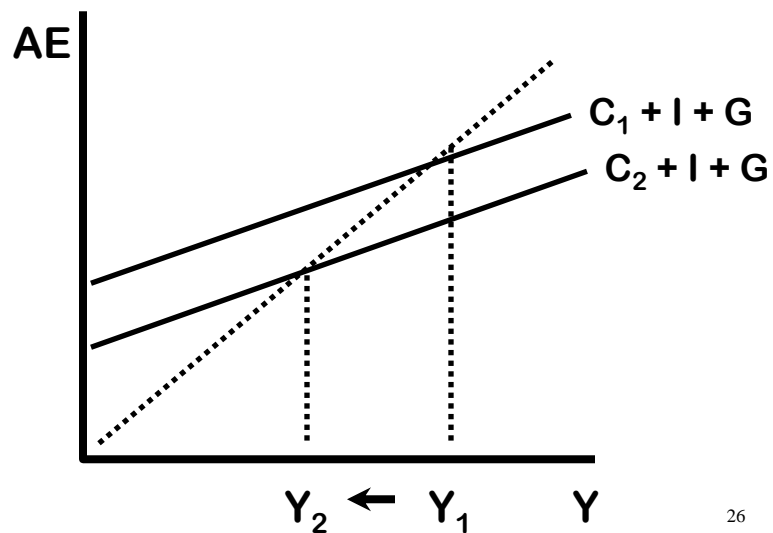
18

Effect of increase in government spending: G rises \longrightarrow Y rises.



19

**Effect of increase in taxation:
T rises \rightarrow Y drops.**



Note:

Raising taxes reduces output by more than the amount of tax increase.

Taxation multiplier is less than government spending multiplier.