Keynesian Cross

- Equilibrium condition in simple Keynesian Cross model
  - Output must equal planned expenditures:

$$Y = \alpha + \gamma(Y - T) + I + G + NX$$

- A little bit of algebra then gives:

$$Y = \frac{1}{1-\gamma}[\alpha - \gamma T + I + G + NX]$$

- Government purchases multiplier $= \frac{1}{1-\gamma}$
- Tax cut muliplier $= \frac{\gamma}{1-\gamma}$