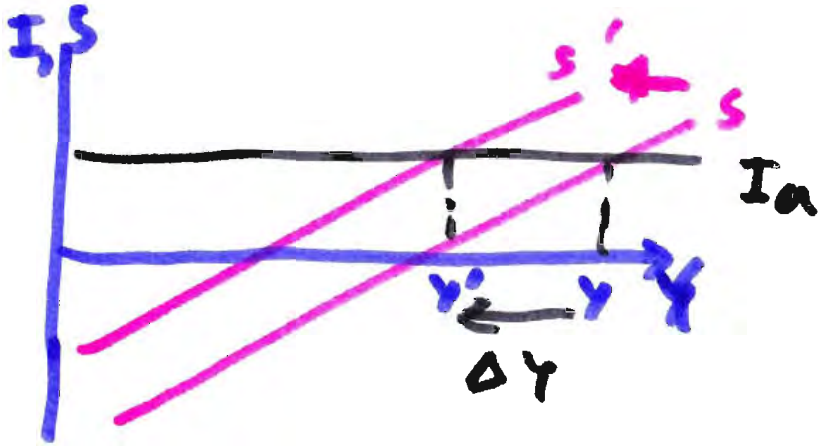
Paradox of Thrift

CASE 1 : $I = I_a$



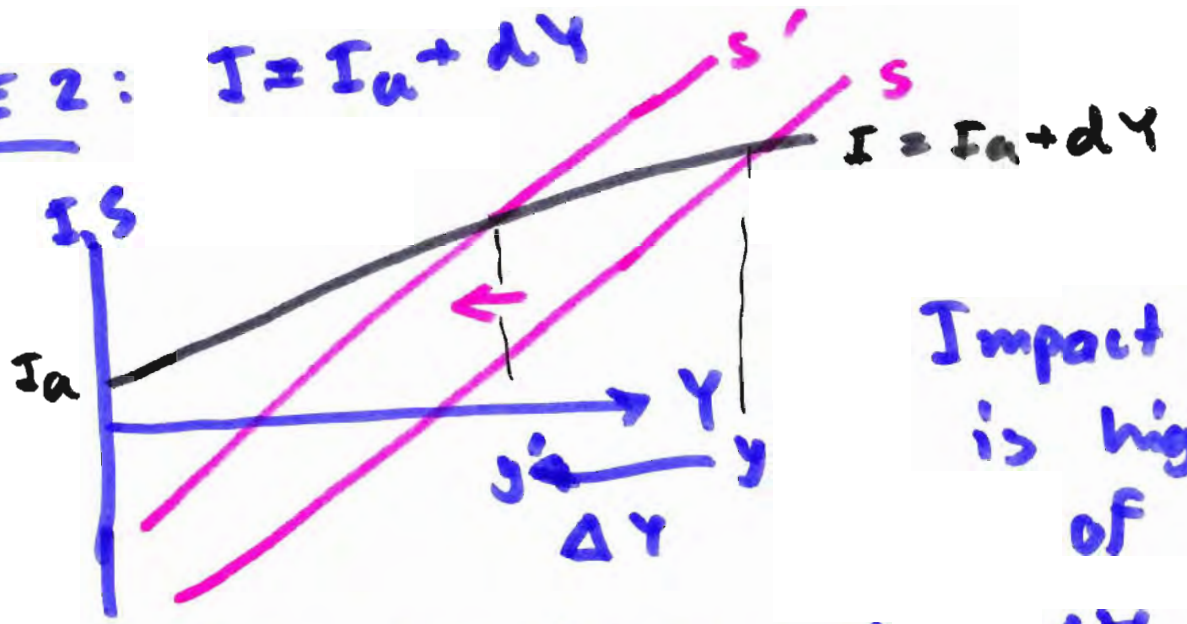
More saving: $S \rightarrow S' \Rightarrow Y \rightarrow Y'$

S↑ → C↓ → DAE↓ → inventory ↑ → production↓ → Factors of production↓ → Income ↓

OR:

S↑ → C↓ → DAE↓ → Y↓ → C↓ → DAE↓ → Y↓ → C↓ ...

CASE 2: $I = I_a + dY$



More saving: $s \rightarrow s' \Rightarrow Y \rightarrow y'$

Impact on ΔY of case 2 is higher than that of case 1.

$$\frac{\Delta Y}{\Delta I}\ (\text{case 2}) > \frac{\Delta Y}{\Delta I}\ (\text{case 1})$$

$S\uparrow \rightarrow C\downarrow \rightarrow Y\downarrow \rightarrow C\downarrow \rightarrow DAE\downarrow \rightarrow Y\downarrow \rightarrow C\downarrow \rightarrow DAE\downarrow \rightarrow \ldots$

Fallacy of Composition: what might be true for individuals is probably not true for society as a whole.