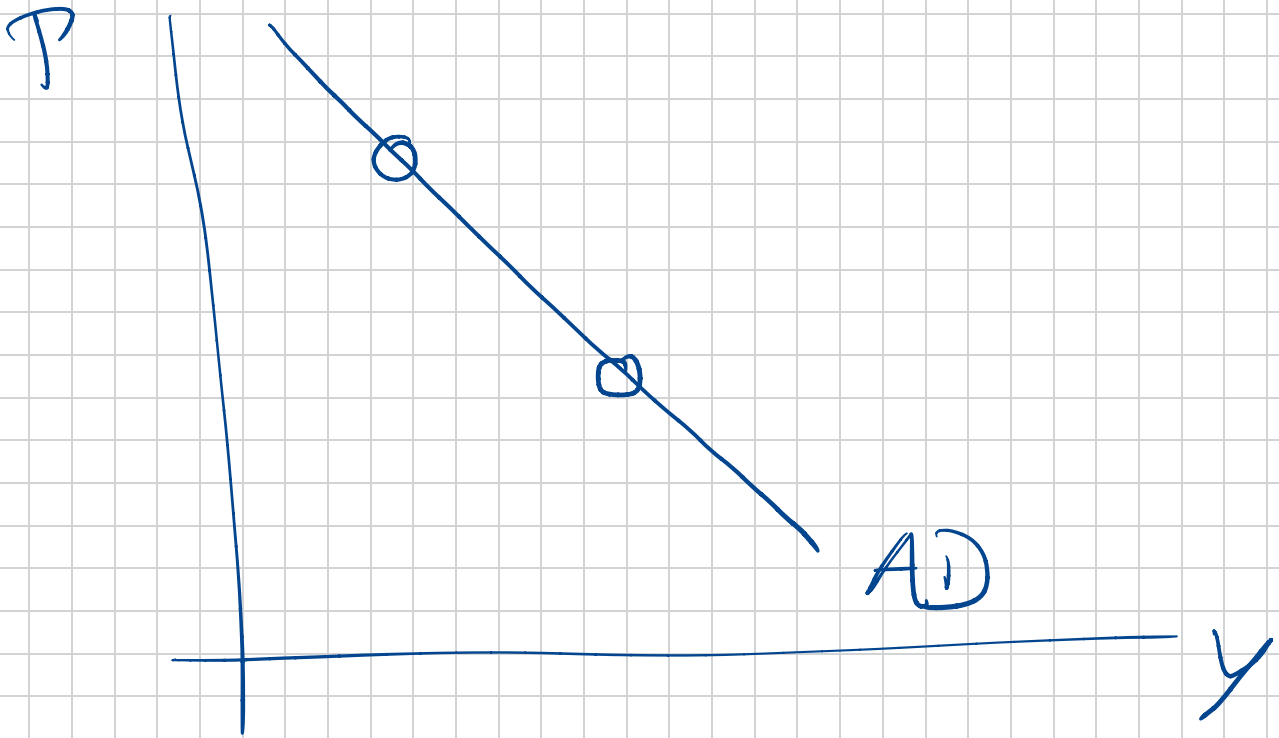
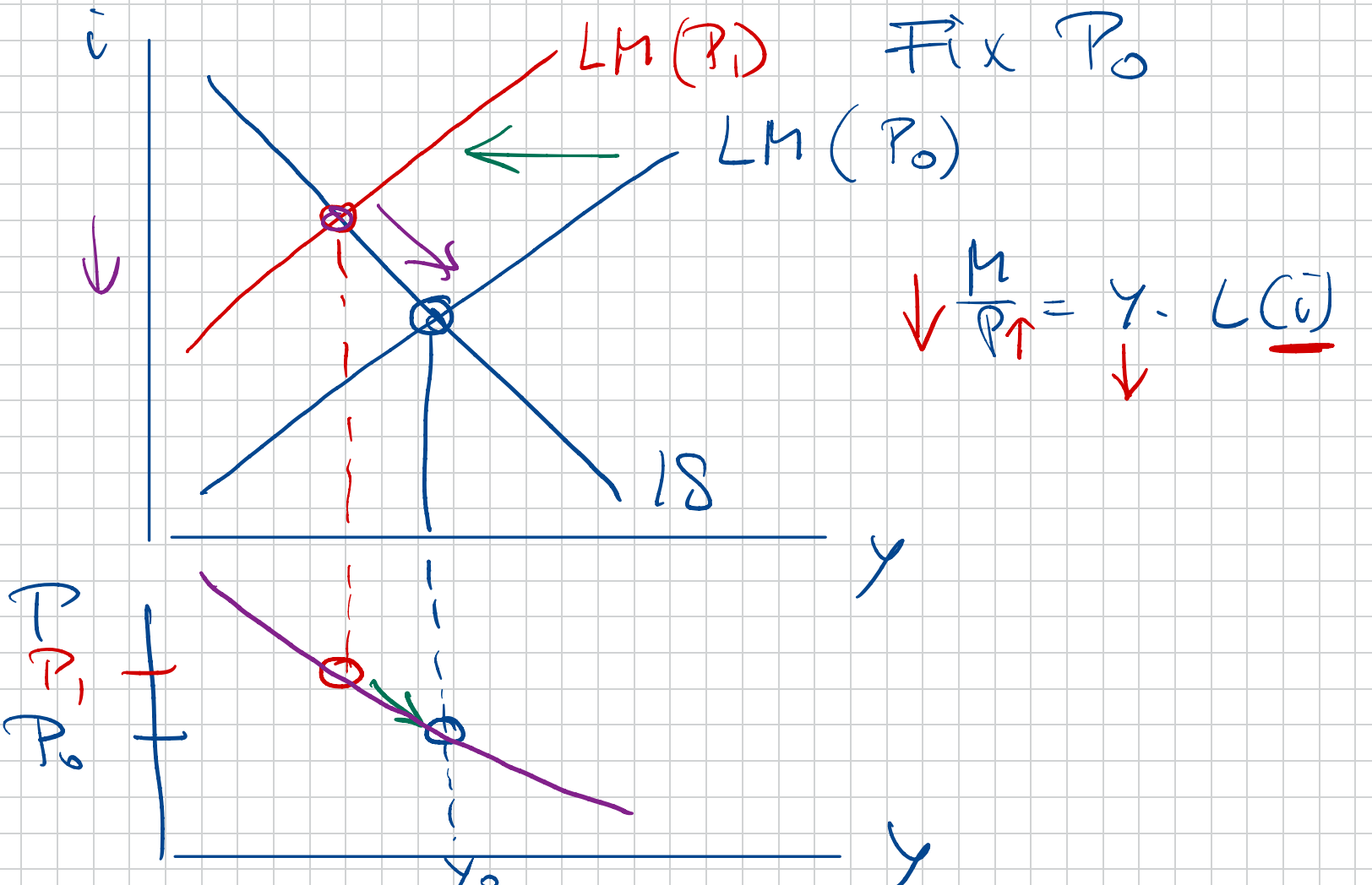
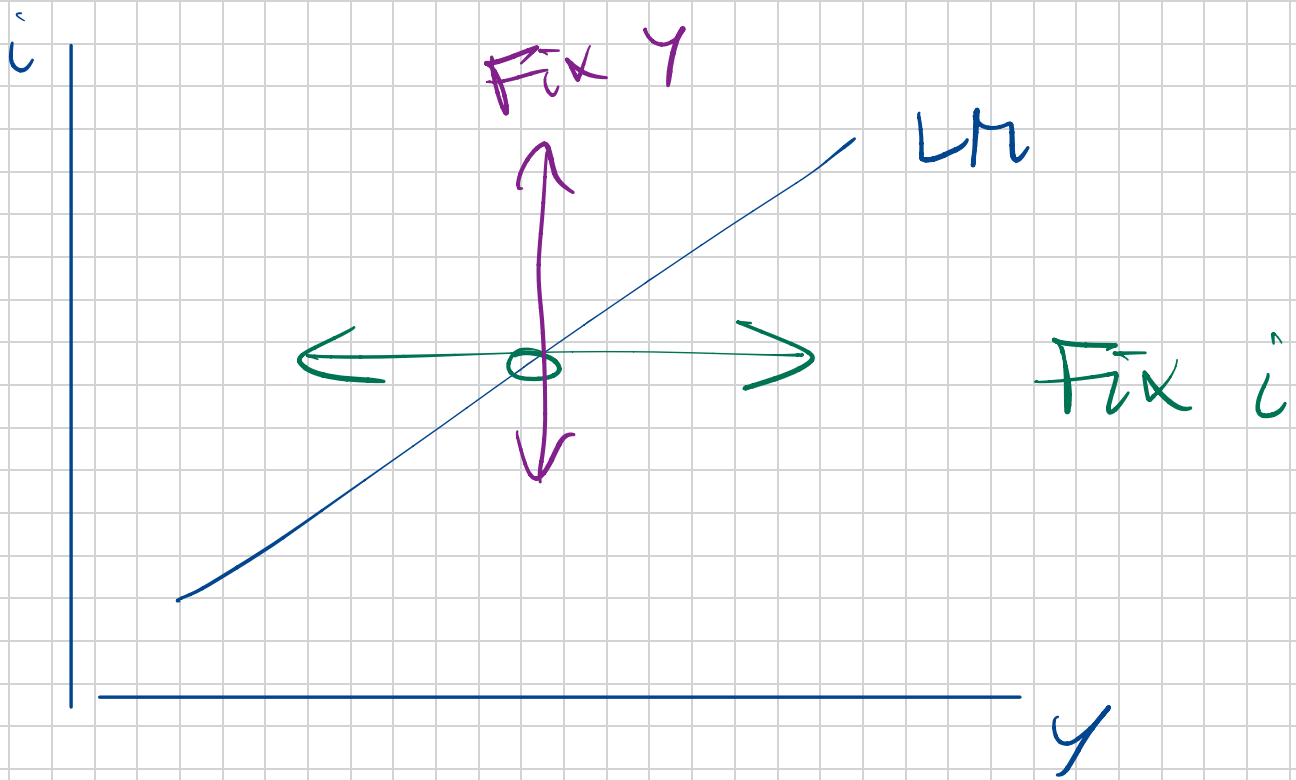

P
AD
y



$$\downarrow \frac{M}{P\uparrow} = Y \cdot L(\underline{i})$$


i
Fix Y
LM
Fix i
y

High MPC $\Rightarrow$ Flat IS ?

$$Y(1 - b_1 - c_1) = \bar{z} - b_2 i$$

$c_1 \uparrow$

Slope of IS

$$i = \frac{\bar{z} - (1 - b_1 - c_1) Y}{b_2}$$

$\Rightarrow$ Slope

$c_1 \uparrow \Rightarrow$ flatter slope

i ↓

Direct effect : $I \uparrow$

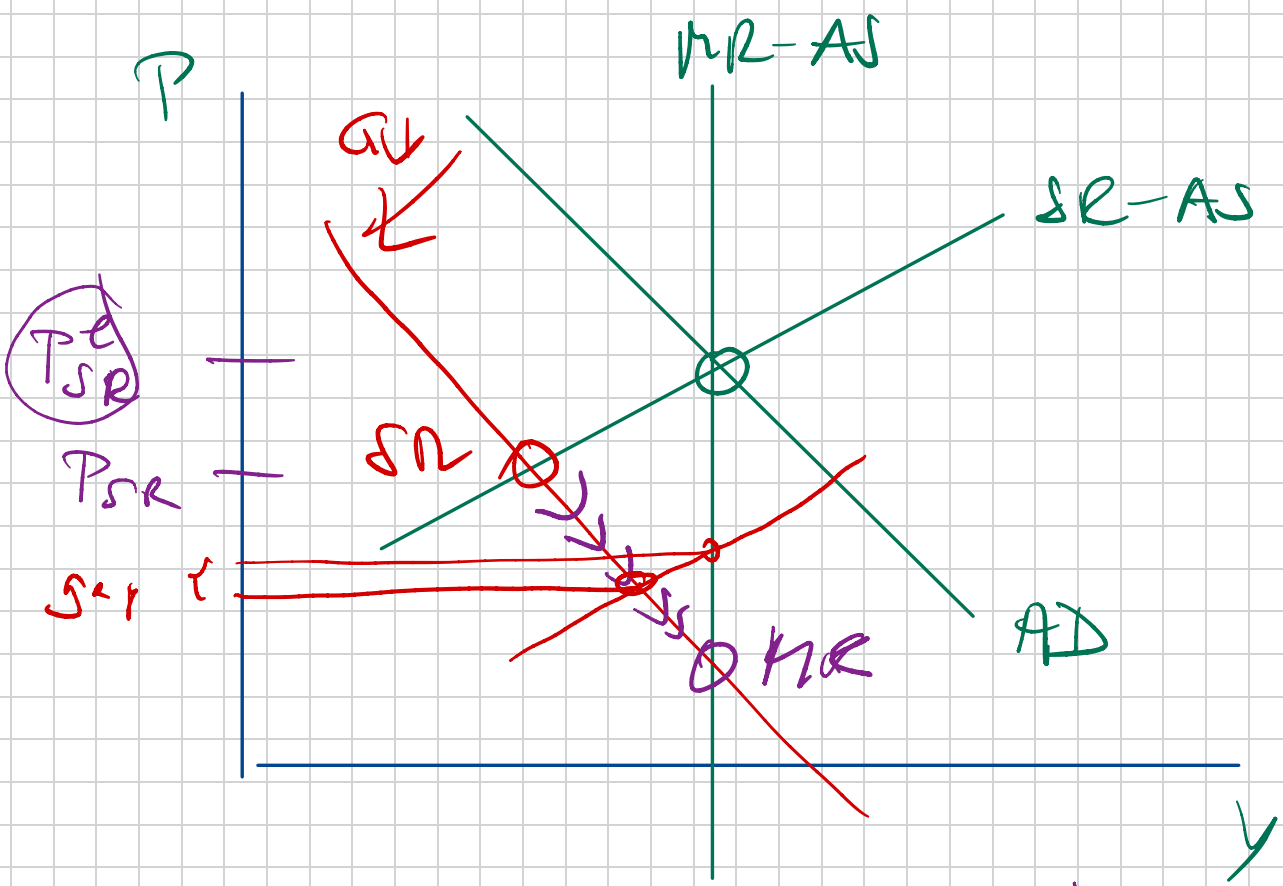
by $b_2 \cdot \Delta i$

Amplification : $Y \uparrow \Rightarrow C \uparrow$
$I \uparrow$

$C \uparrow$ governed by c_1

$$I = \bar{I} + b_1 Y - b_2 i$$

$$Y = C(Y-T) + I(Y, i) + G$$



$P^e \downarrow$

$\frac{W}{P^e} \uparrow$

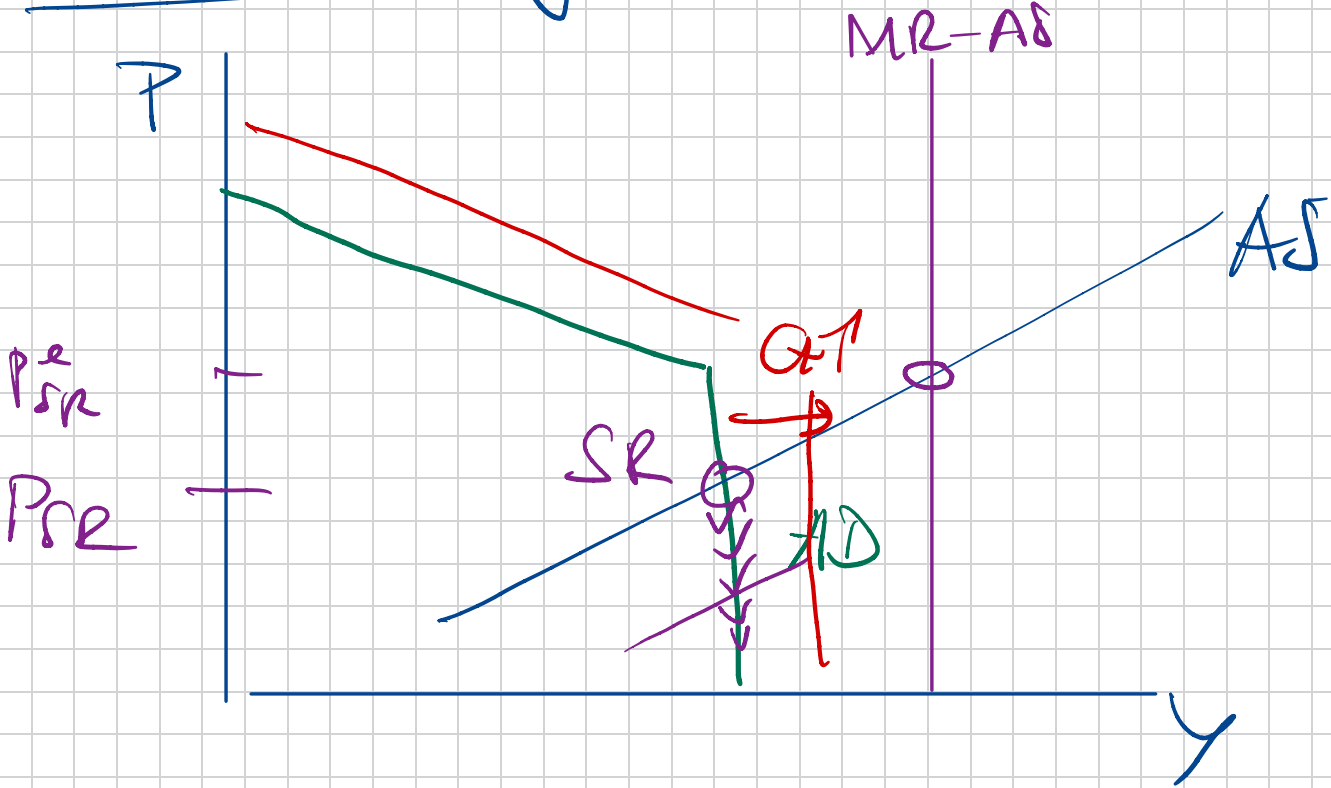
$P \downarrow, Y \downarrow$

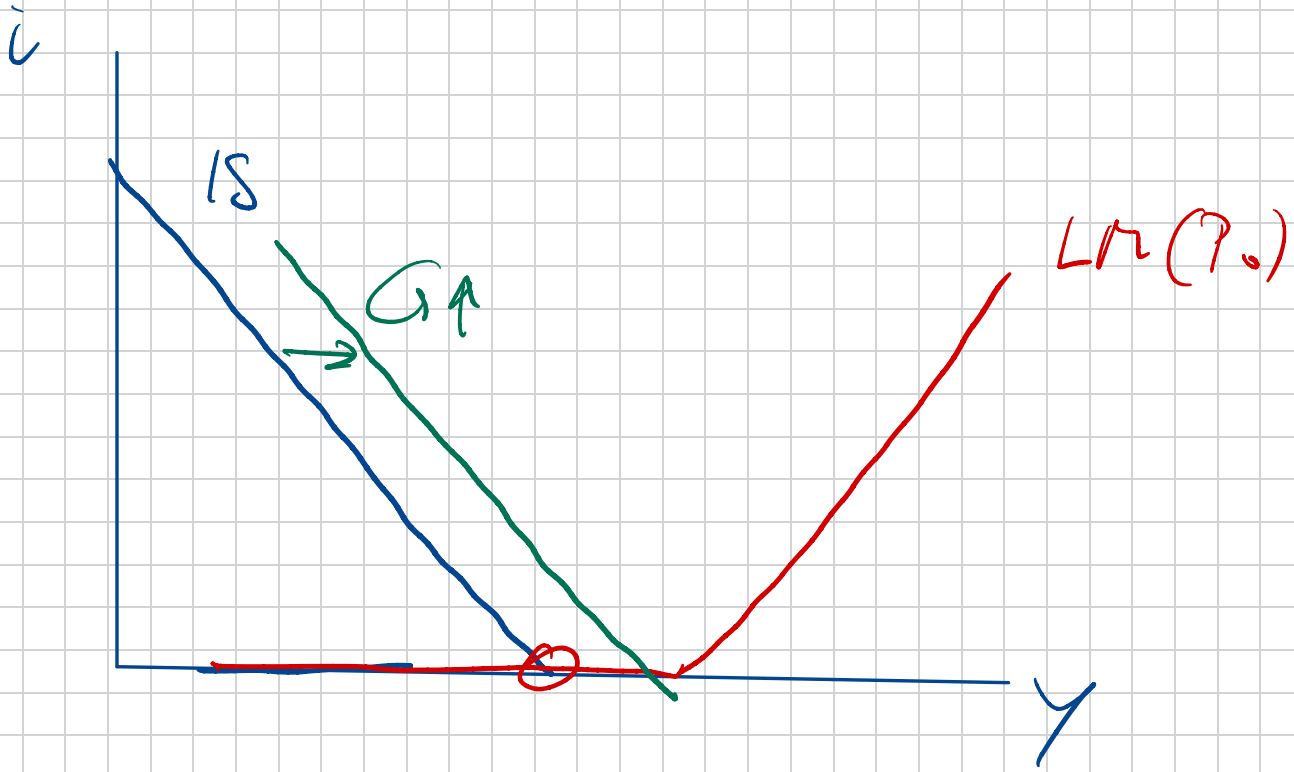
Move along AD---

SR: $P^e_{SR} > P_{SR} \Rightarrow P^e \downarrow$

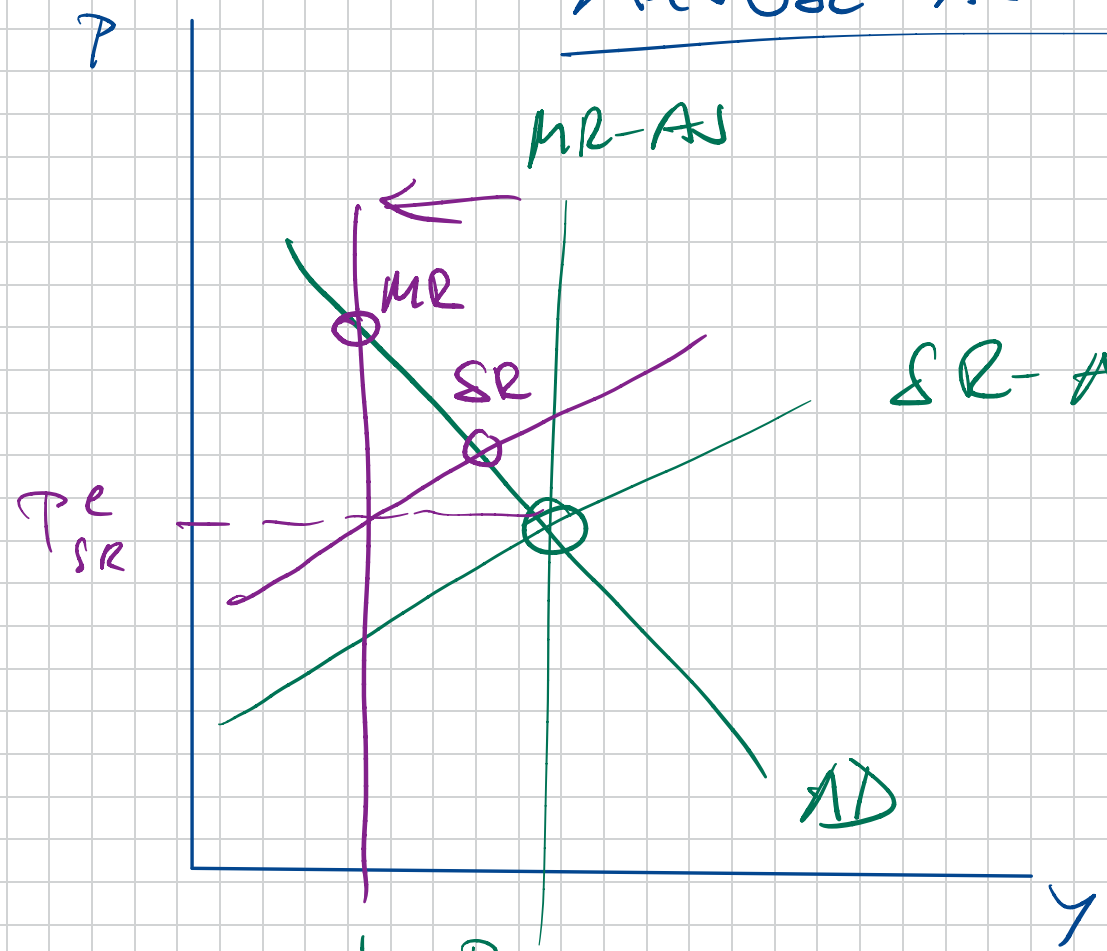
Liquidity trap

$P^e \downarrow$




i
IS
G↑
LM(P₀)
Y

Adverse AS shock



$$Y^d = F\left(\frac{1}{1+m}\,\frac{P}{P^e}, z\right)$$

$m \uparrow$

MR

$Y \downarrow$

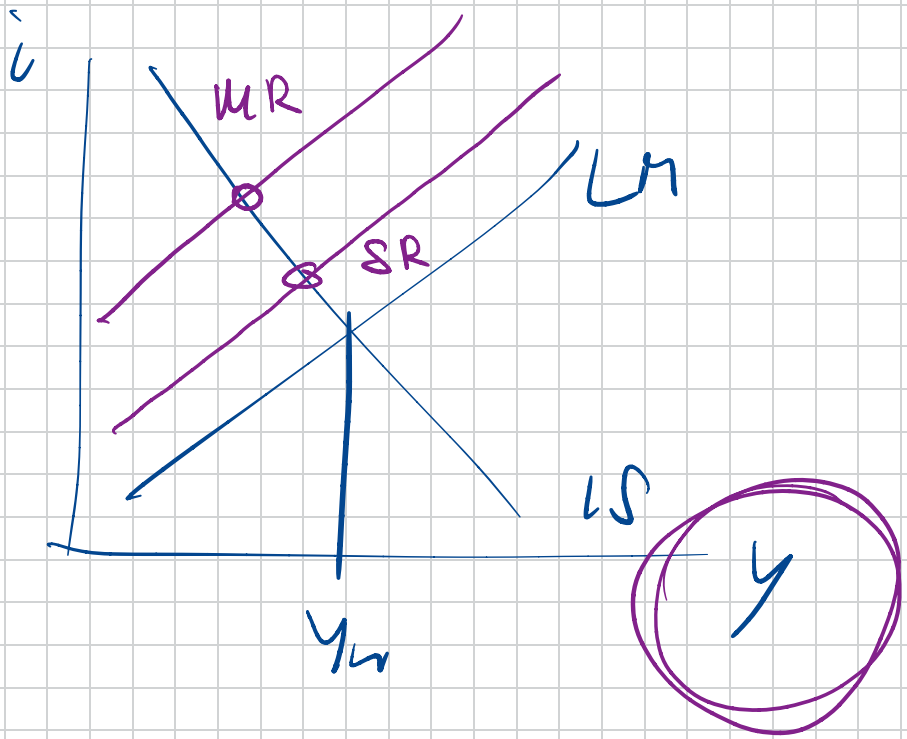
$P \uparrow$

$C \downarrow$

$I \downarrow$

$i \uparrow$

$\frac{M}{P} \downarrow$



$$Y - C = I + G$$