

45

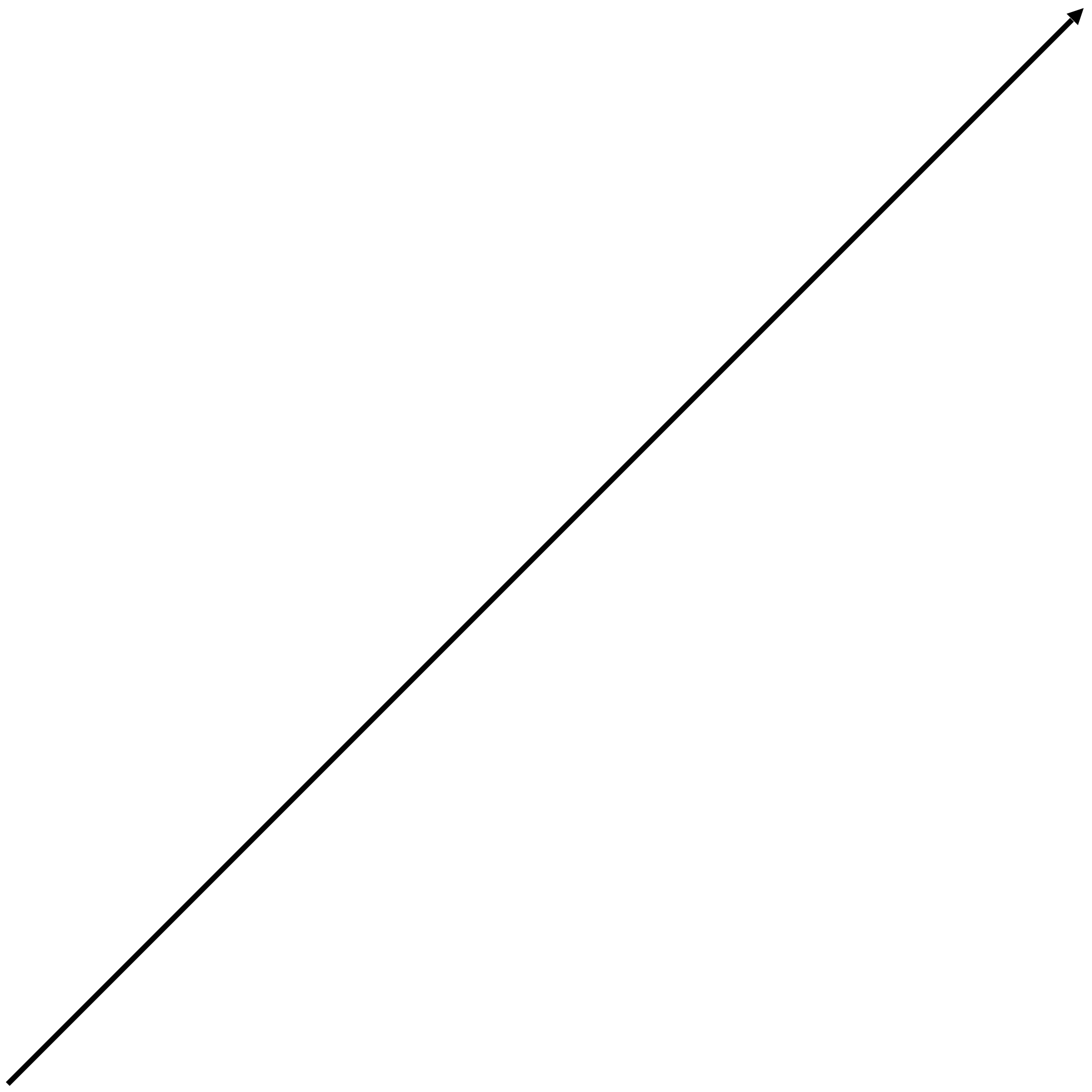
AE<sub>1</sub>



Y

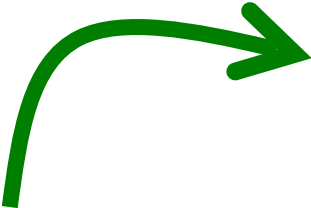
O









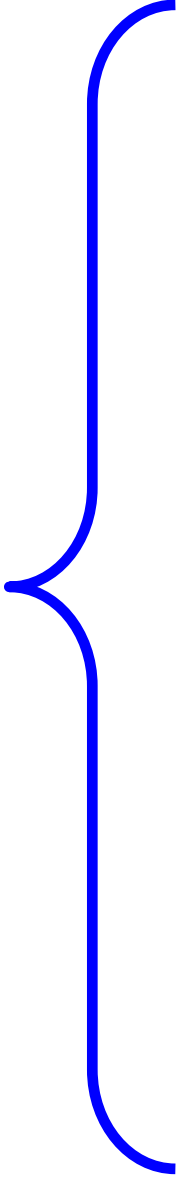


**AEo**

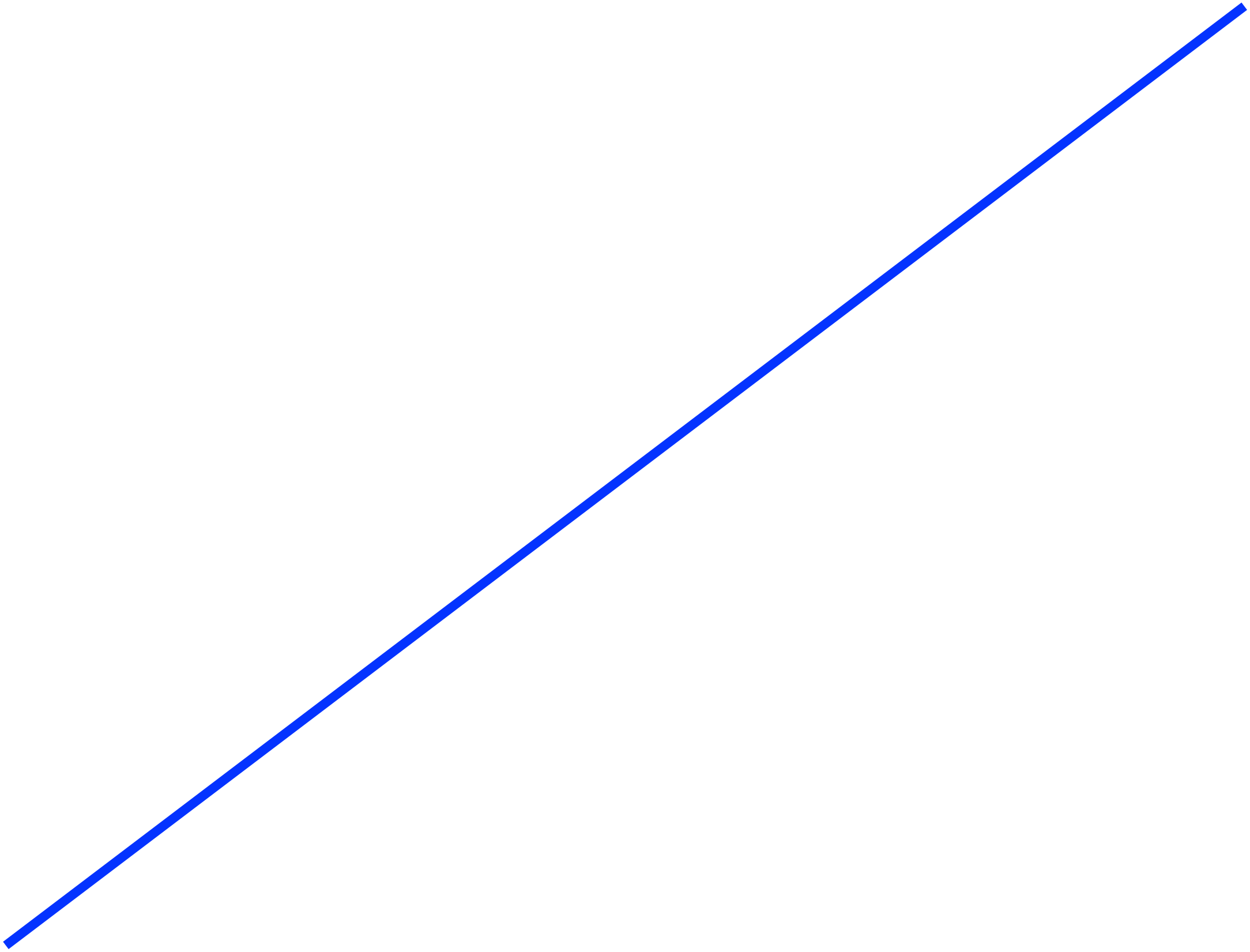
$AE_1$

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$$\Delta A E = 280$$

















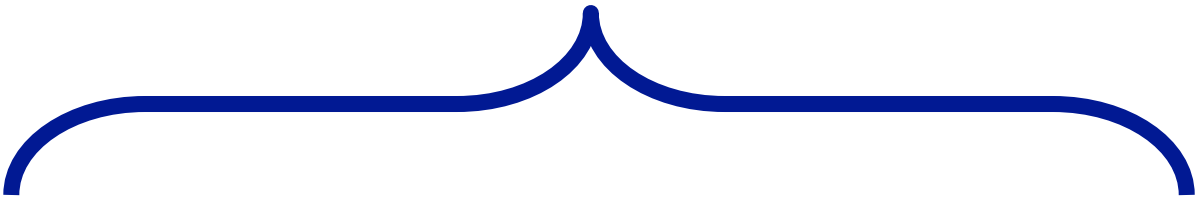
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$



Y<sub>1</sub>

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$$\left( \frac{1}{1-\text{MPC}} \right)$$











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# GDP<sub>o</sub>

$P_1 - - - - - P - - - - - P - - - - -$

AS



Aggregate Supply  
when prices =  $P_o$

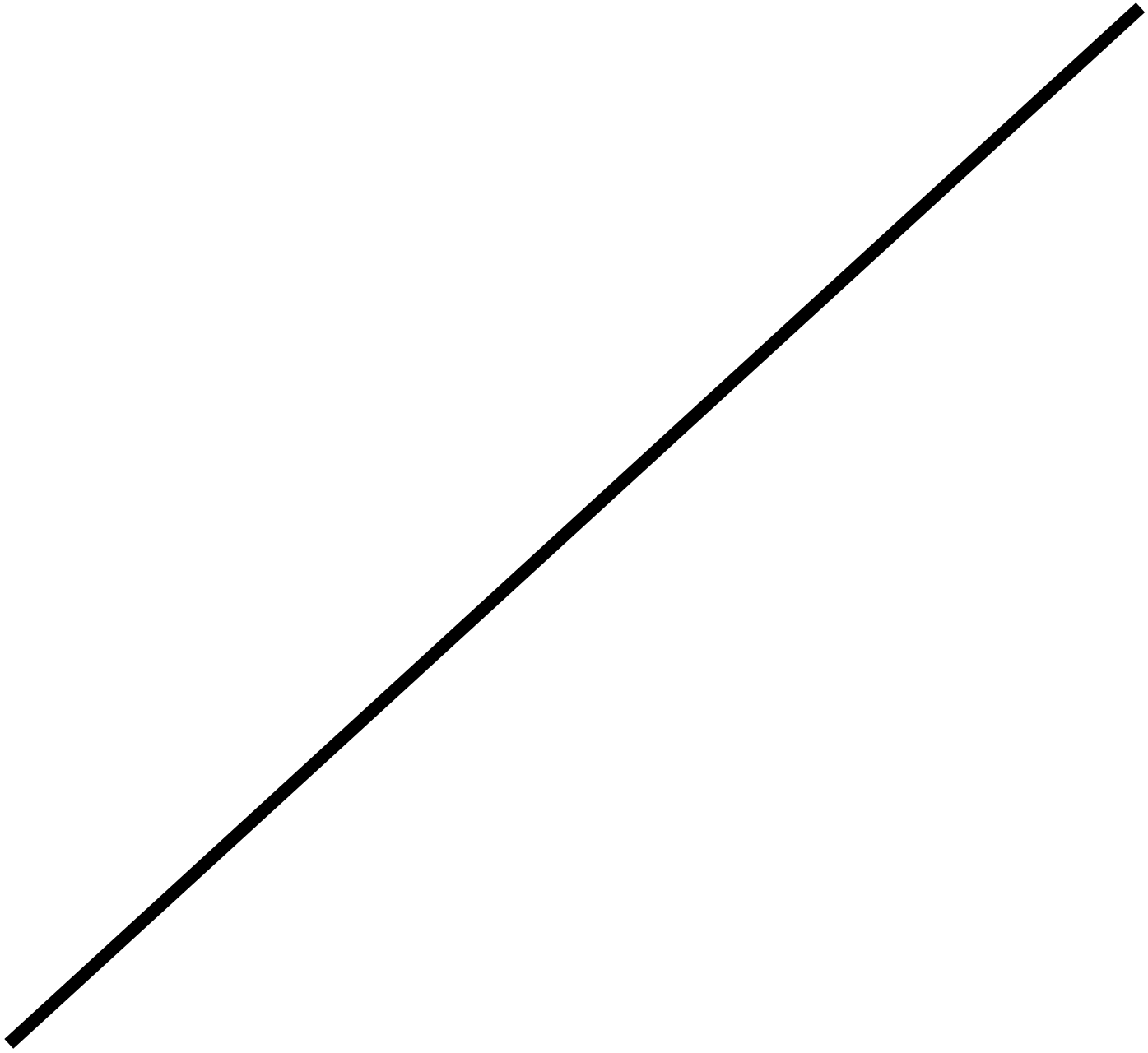
Price Level  
(CPI)

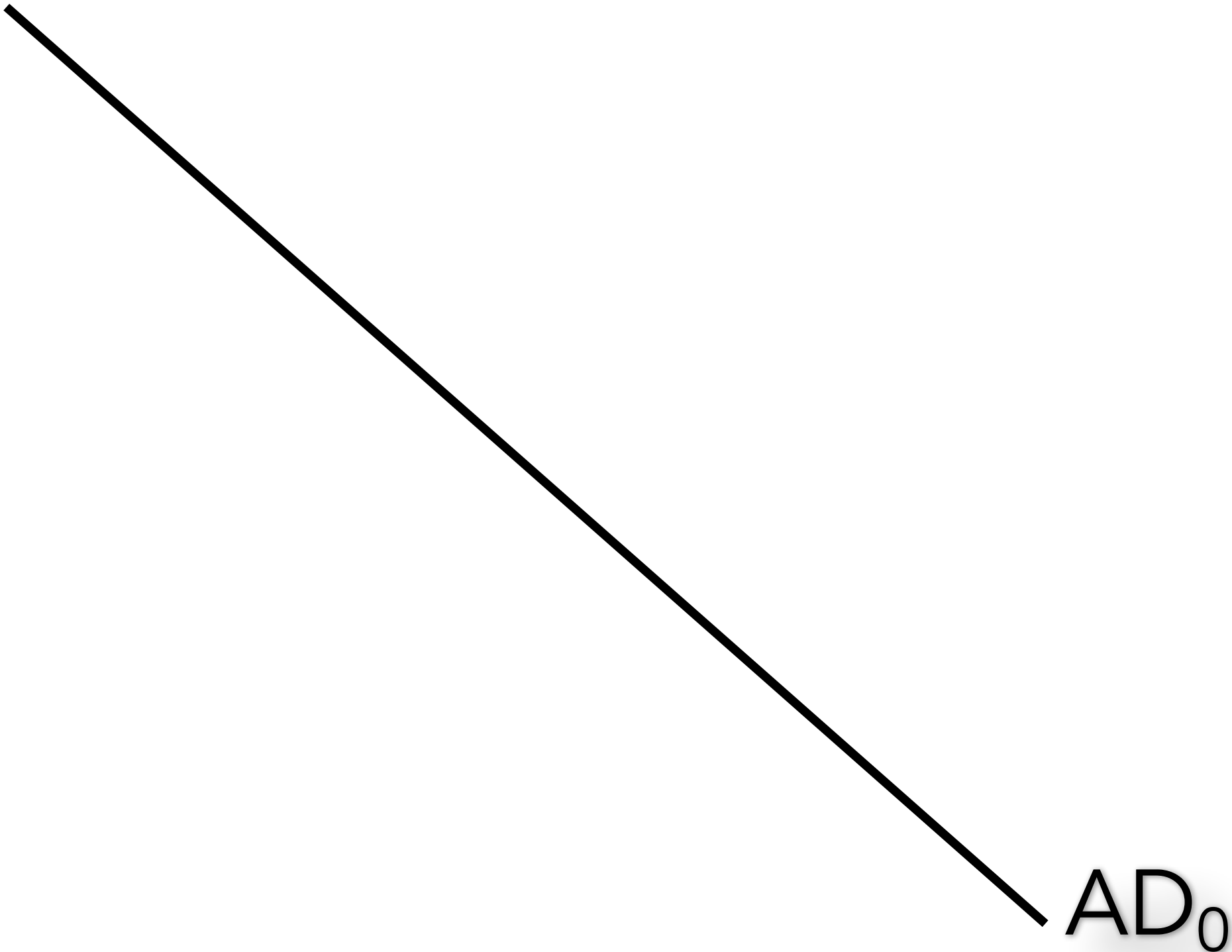




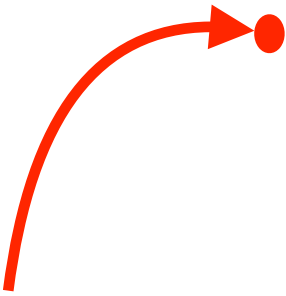


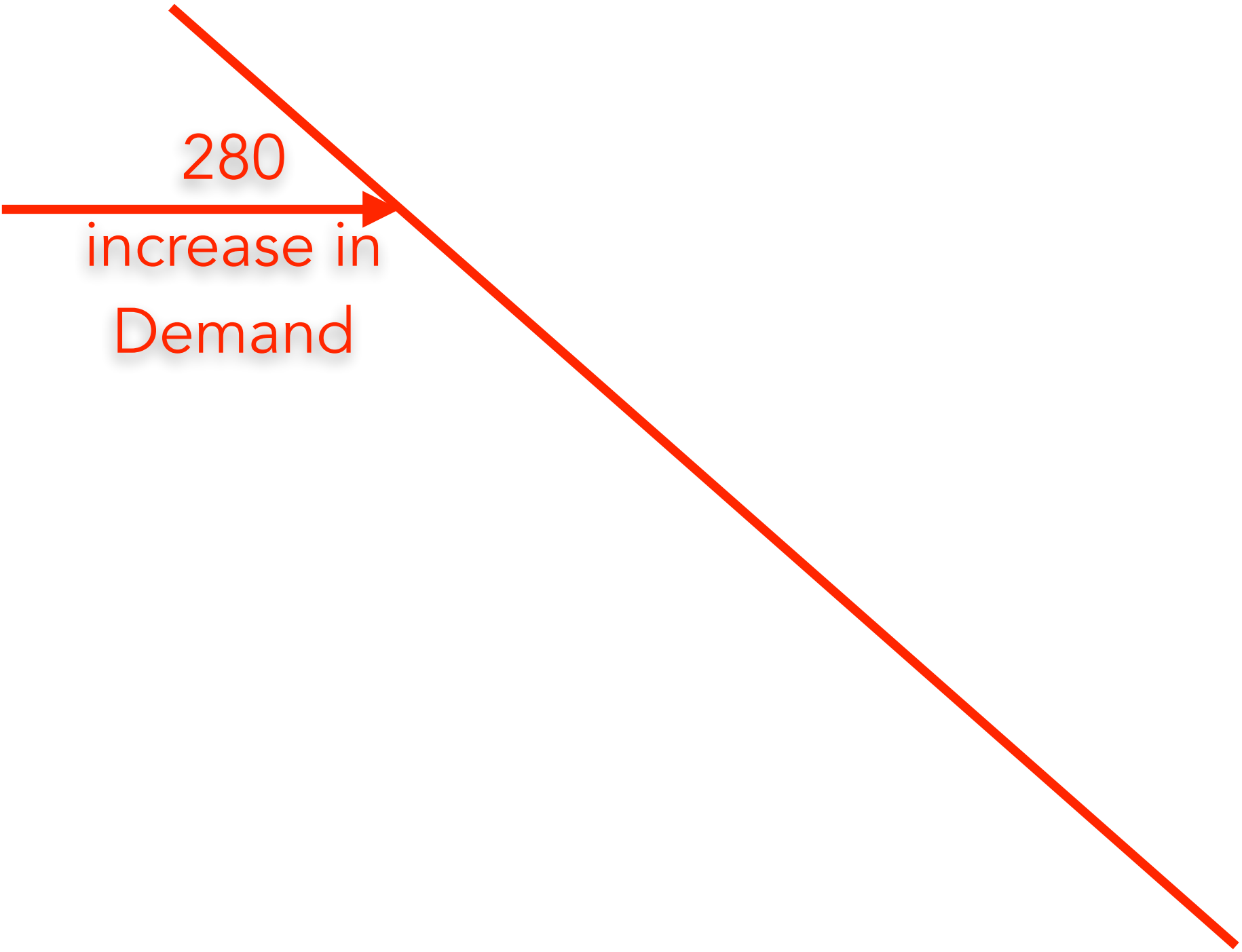
Firms increase  
production and prices











$$\Delta AD = 280$$





AD<sub>1</sub>

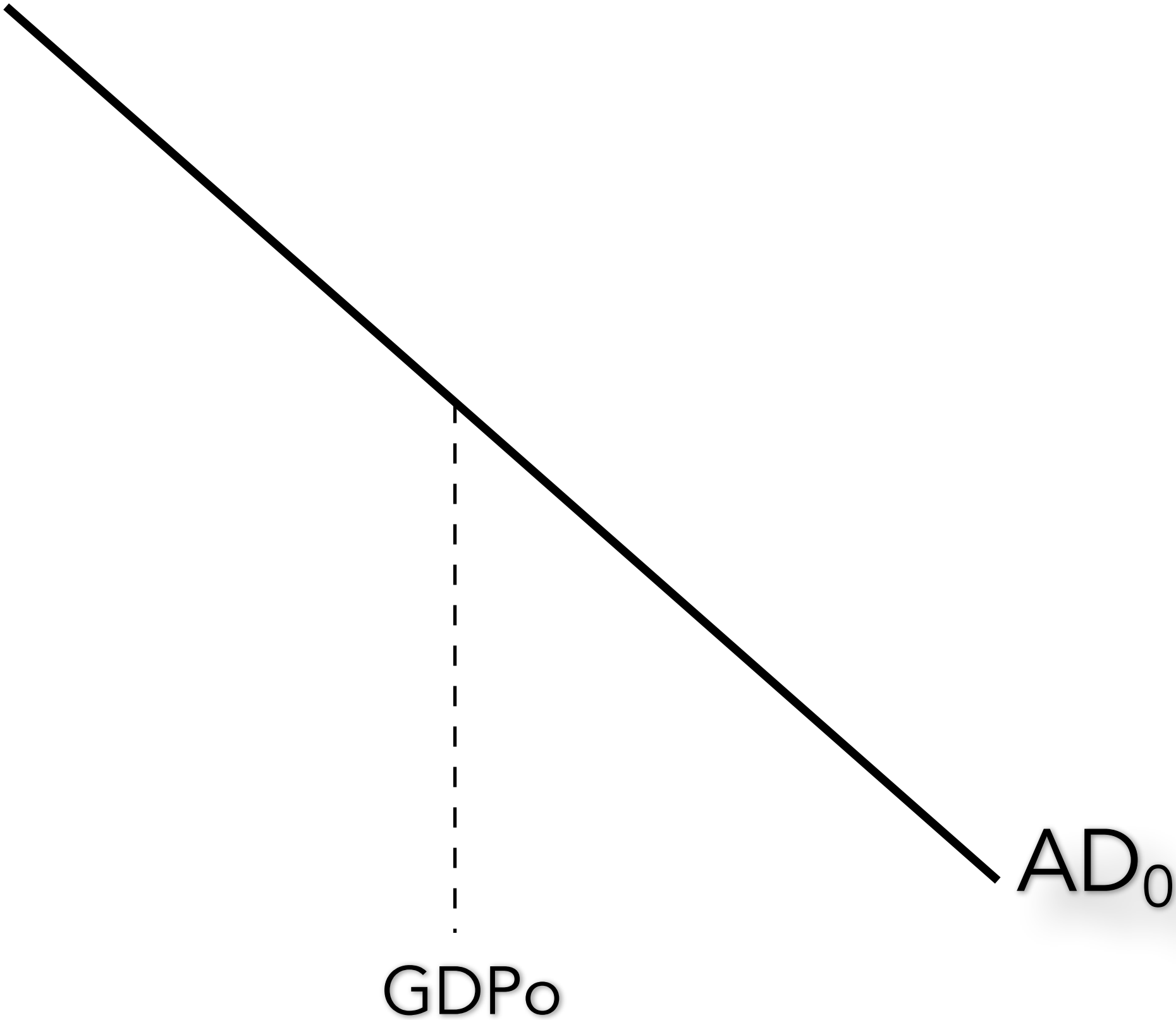




Aggregate Demand  
when prices =  $P_o$



GDP<sub>1</sub>





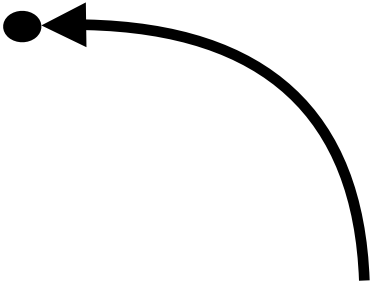
280

increase in  
Demand





Increase in  
GDP less  
than 280



As prices rise  
AD decrease

Inflation Decreases the Multiplier



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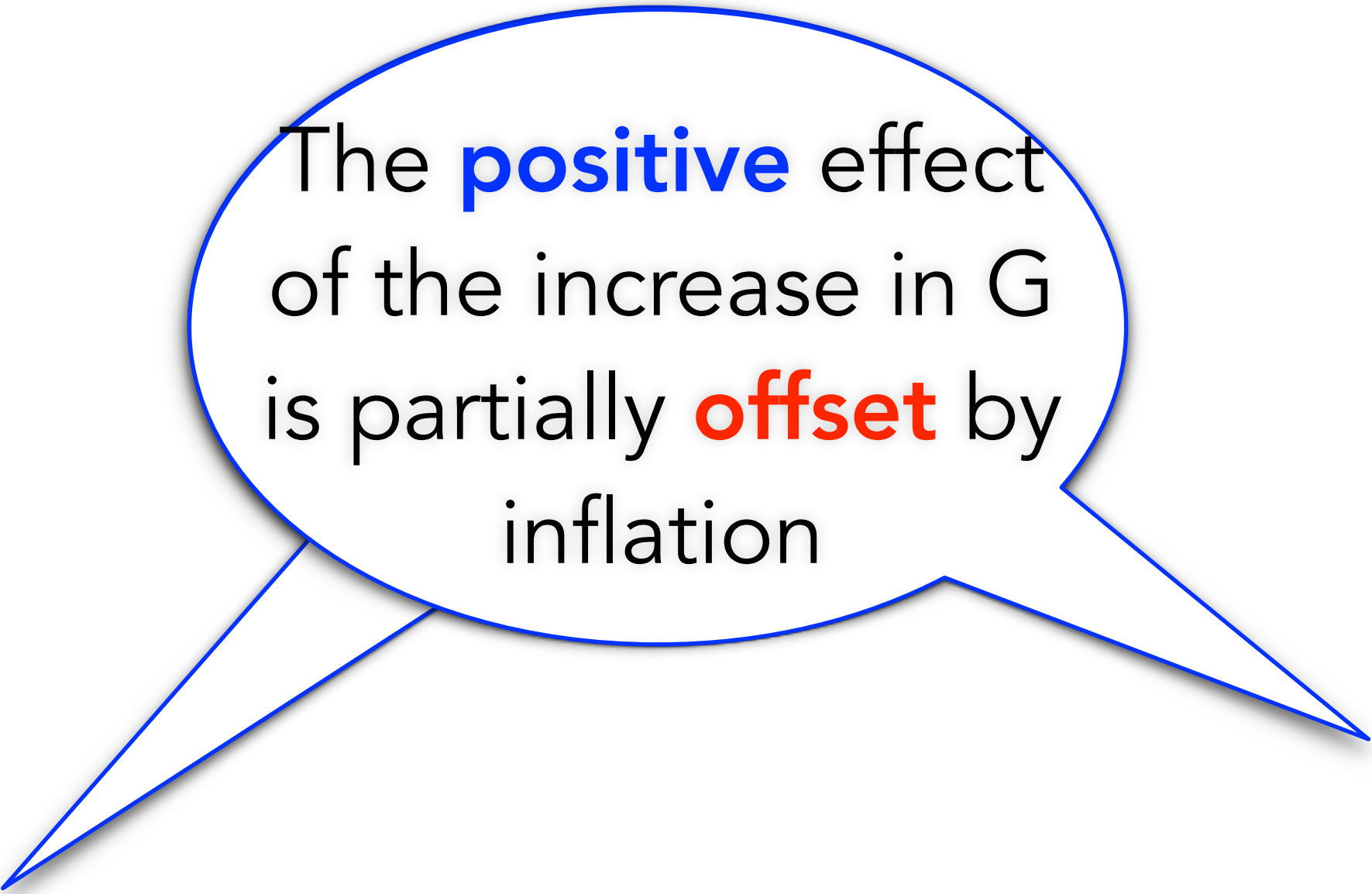


e

**r**



GDP does NOT  
increase by the full  
multiplier amount



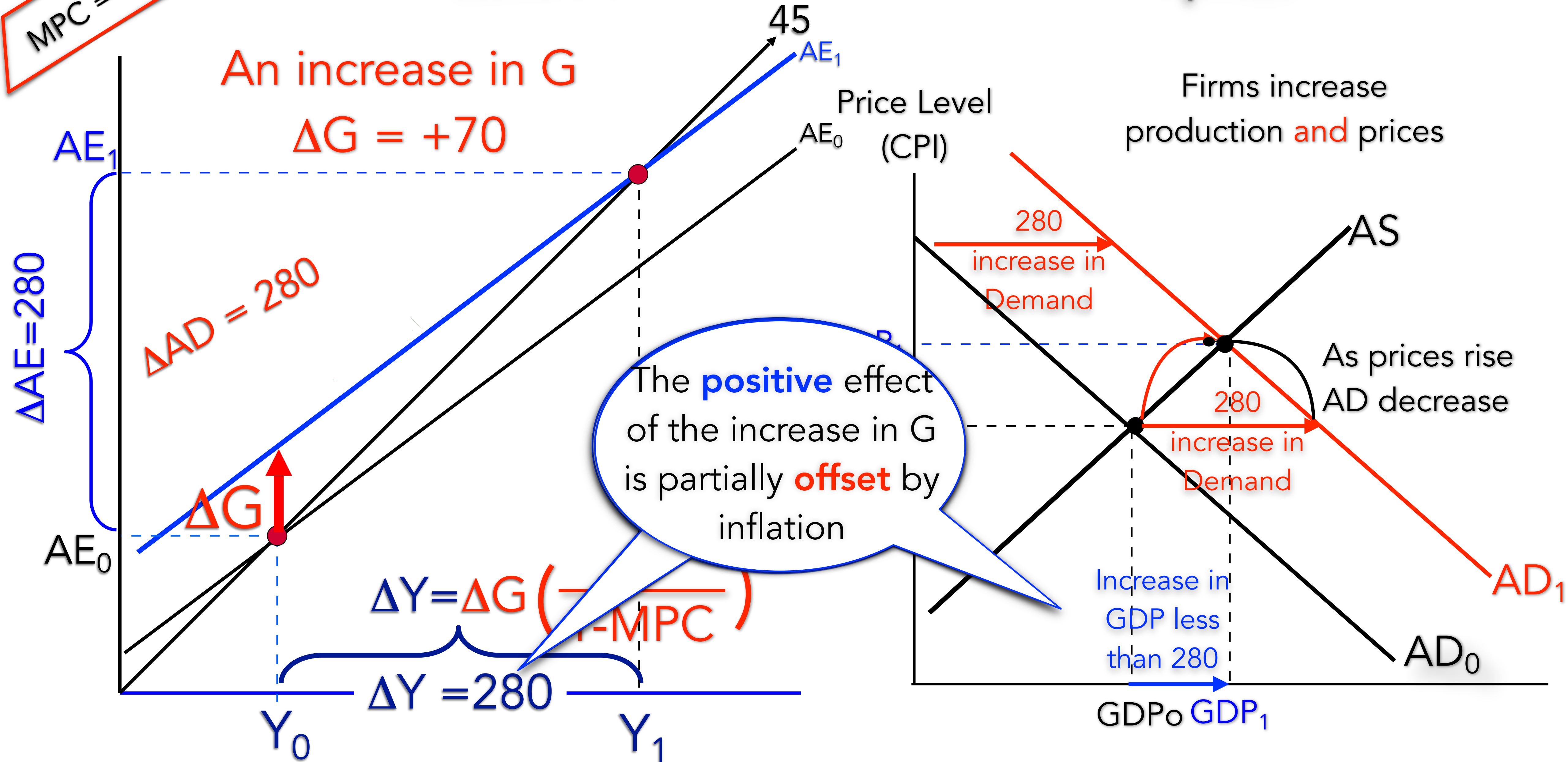
The **positive** effect  
of the increase in  $G$   
is partially **offset** by  
inflation

$\Delta AD = 280$

Inflation **Decreases** the Multiplier

# Inflation **Decreases** the Multiplier

$MPC = 0.75$





An increase in Government Spending results  
in higher GDP and higher Prices