

45

AE₁



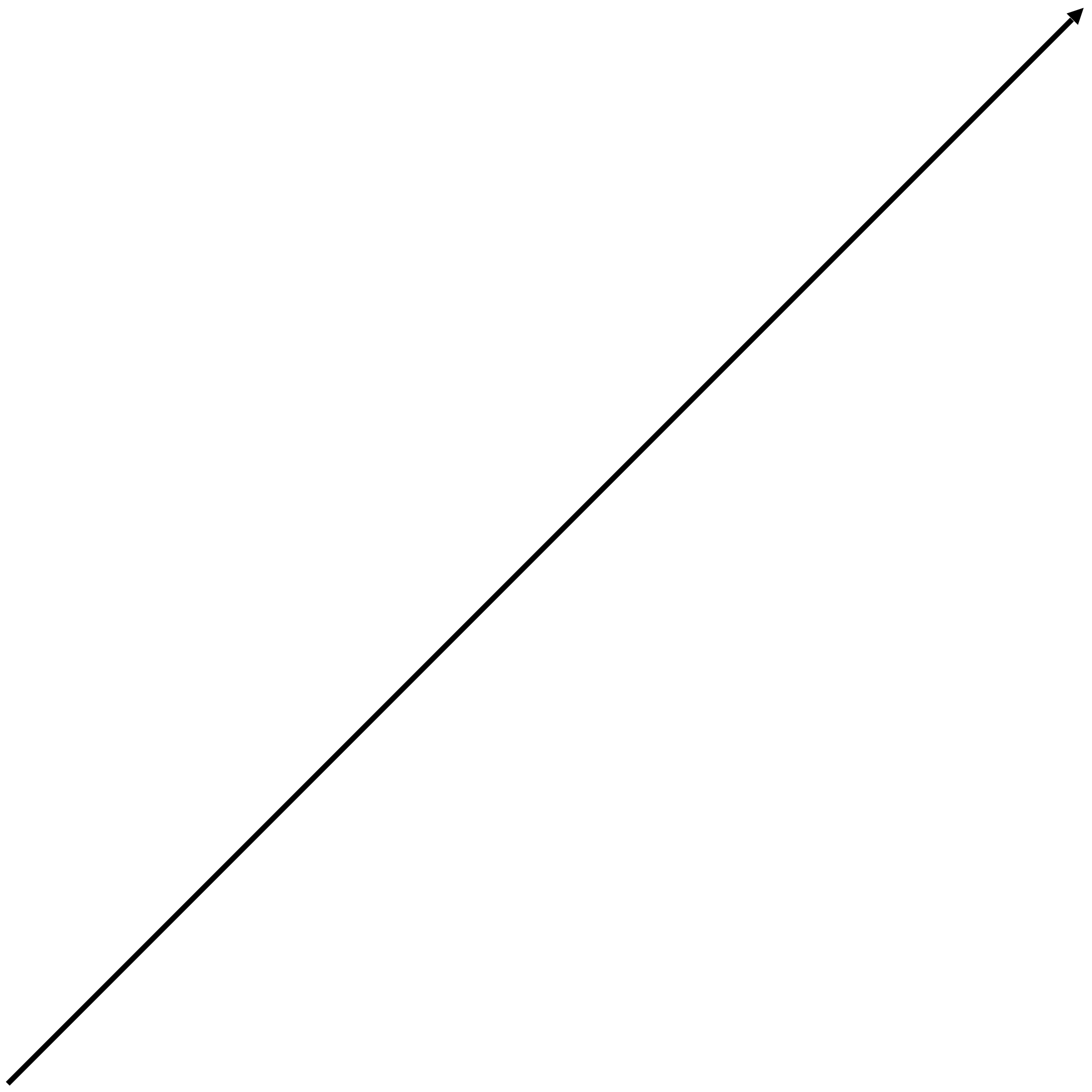
Y

O

Y

1



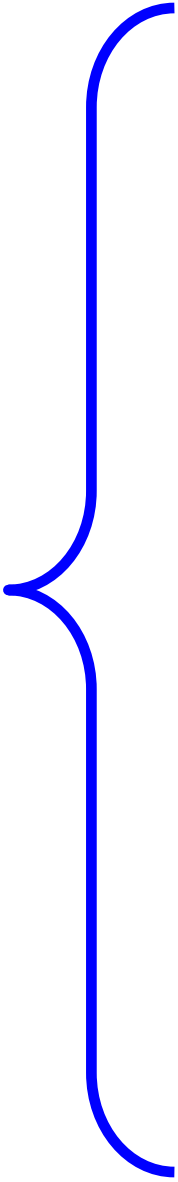


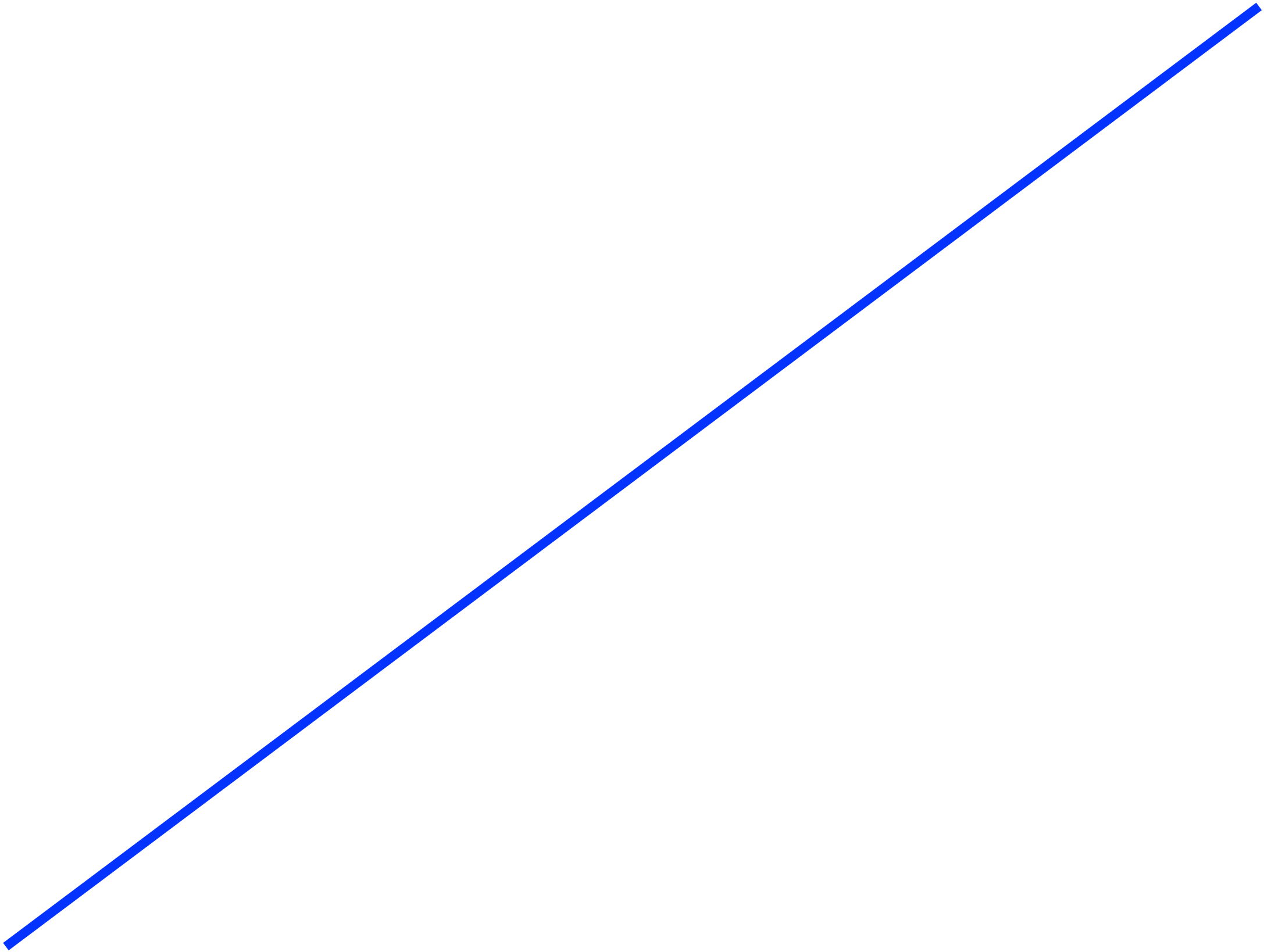


AE O

AE_1

$$\Delta A E = 210$$









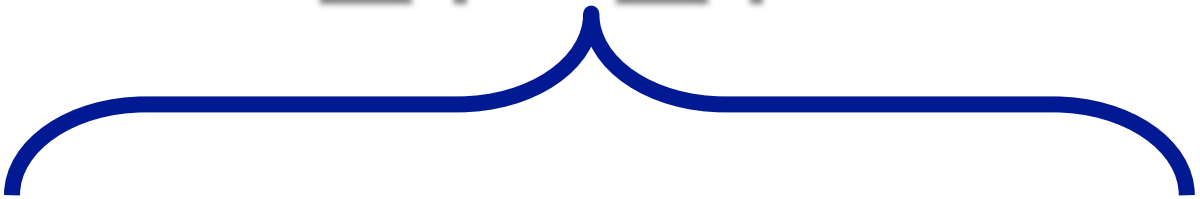




$$\Delta Y = 210$$

AEo

$$\Delta Y = \Delta T$$



A decrease in Taxes

$$\Delta T = -70$$



a



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

$\Delta AD = 210$

PO

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GDP_o

$P_1 - - - - -$

AS



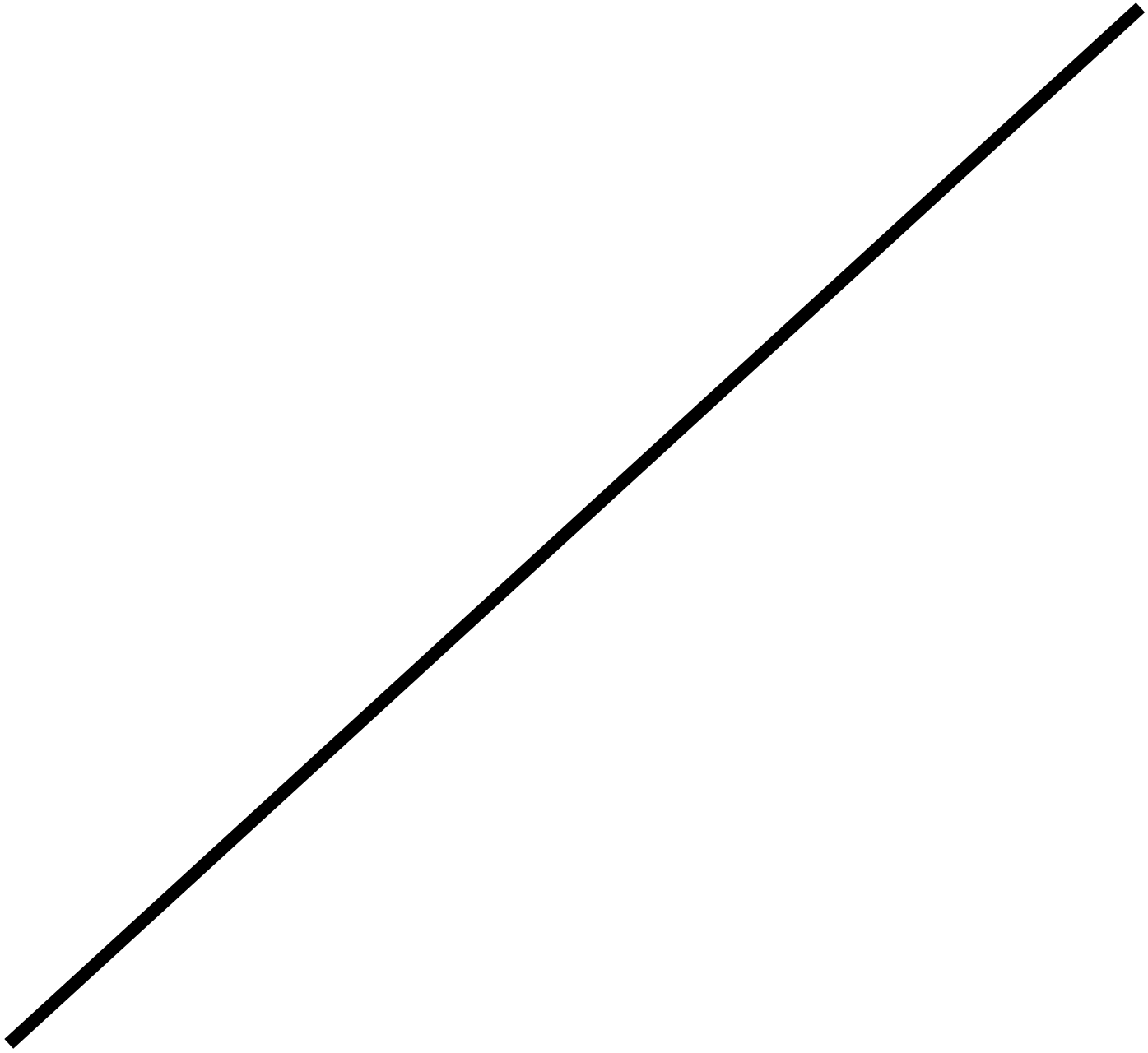
Aggregate Supply
when prices = P_o

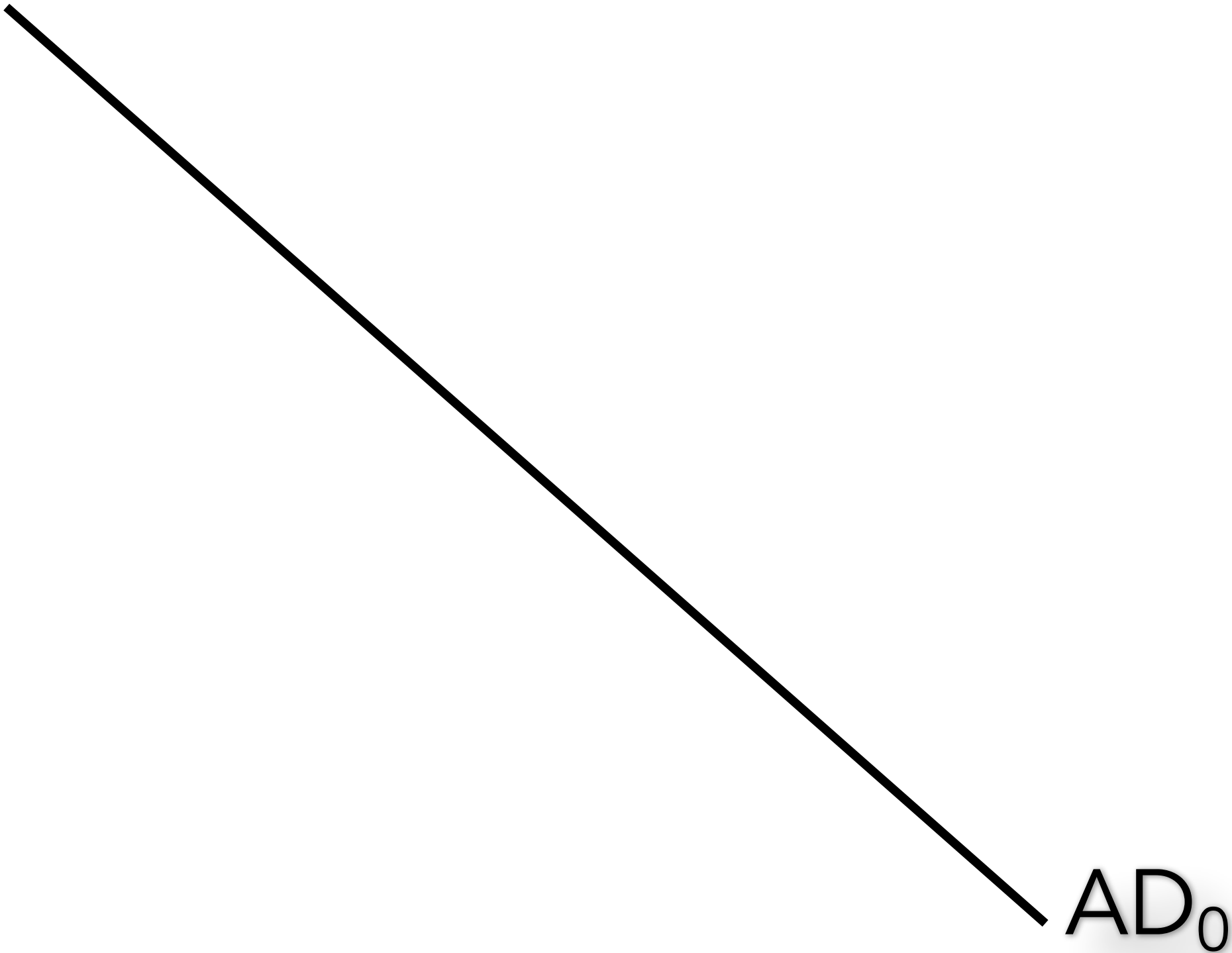
Price Level
(CPI)



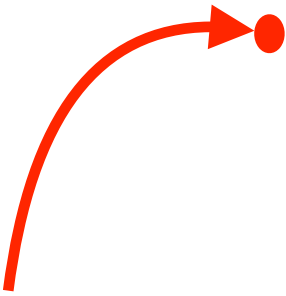


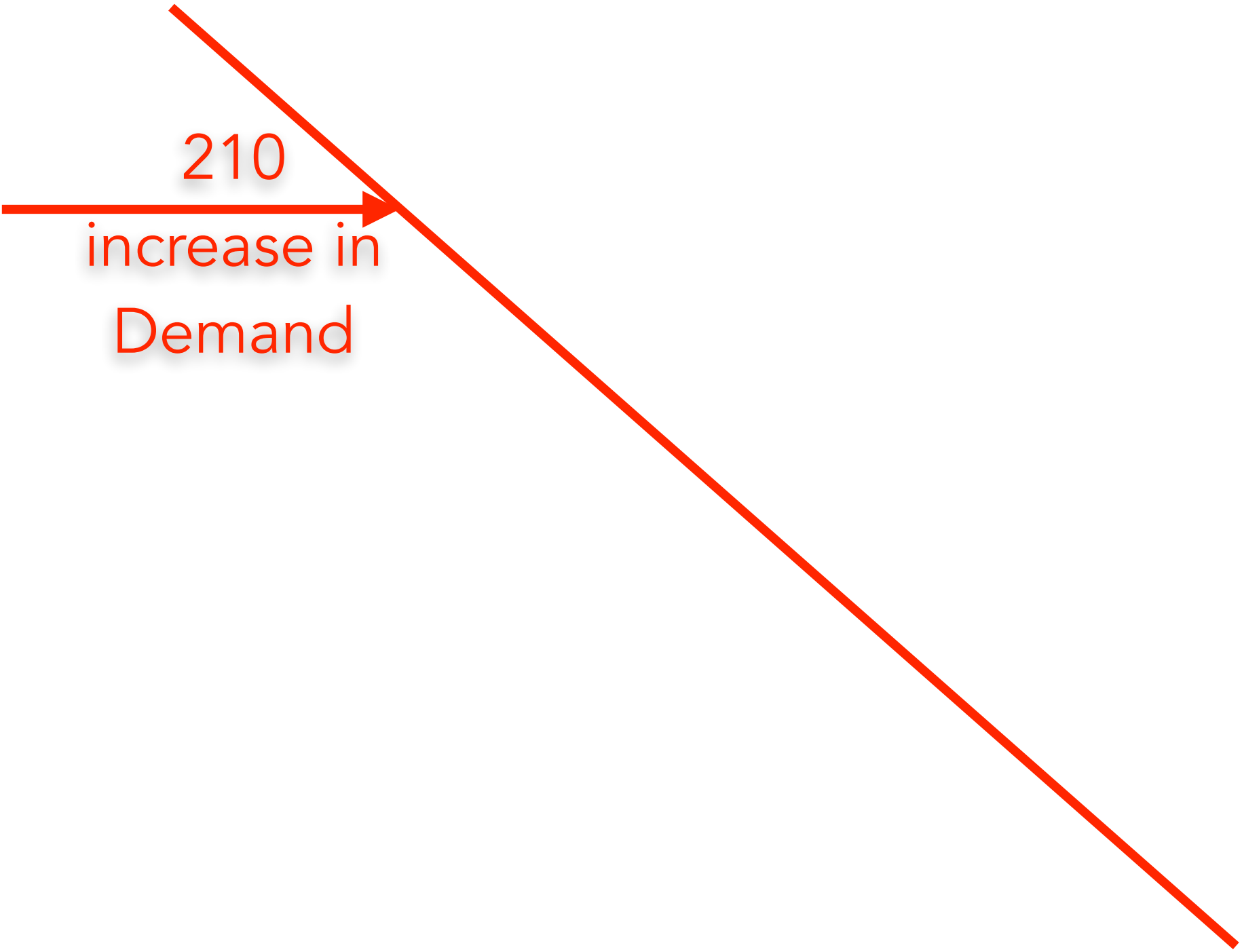
Firms increase
production and prices











AD₁

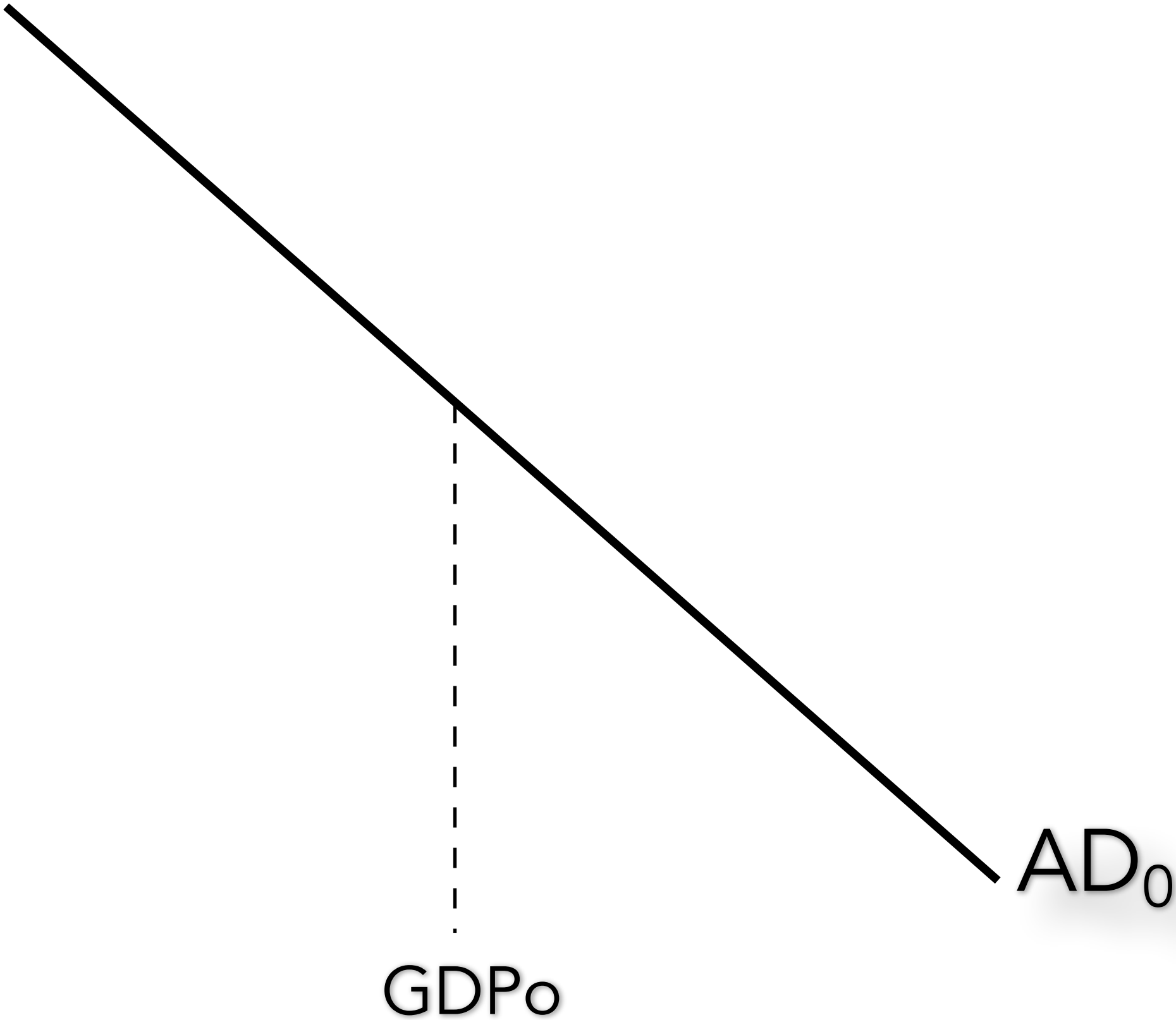




Aggregate Demand
when prices = P_o



GDP₁



210

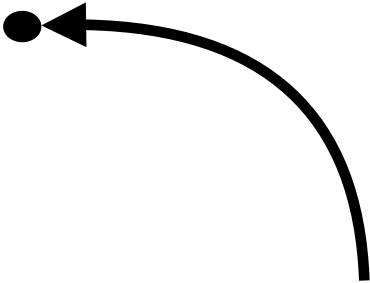


increase in

Demand



Increase in
GDP less
than 210



As **prices rise**


AD decrease



$MPC = 0.75$

$$\Delta AD = 210$$





GDP does NOT
increase by the full
multiplier amount

Inflation Decreases the Multiplier



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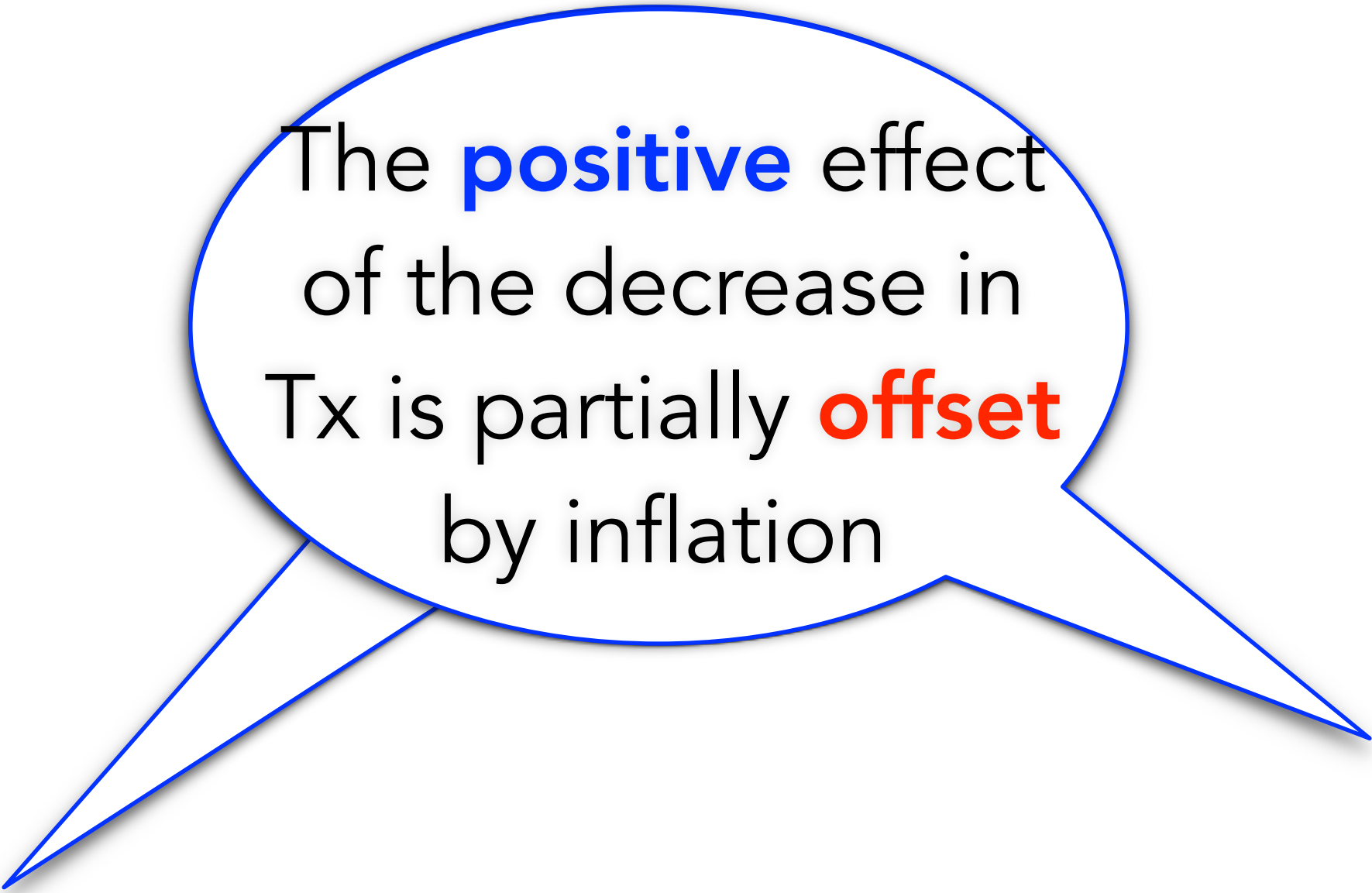
p



i

e

r



The **positive** effect
of the decrease in
Tx is partially **offset**
by inflation

Inflation **Decreases** the Multiplier

Inflation **Decreases** the Multiplier

$MPC = 0.75$

A decrease in Taxes

$$\Delta T = -70$$

