

AE

O

AE1



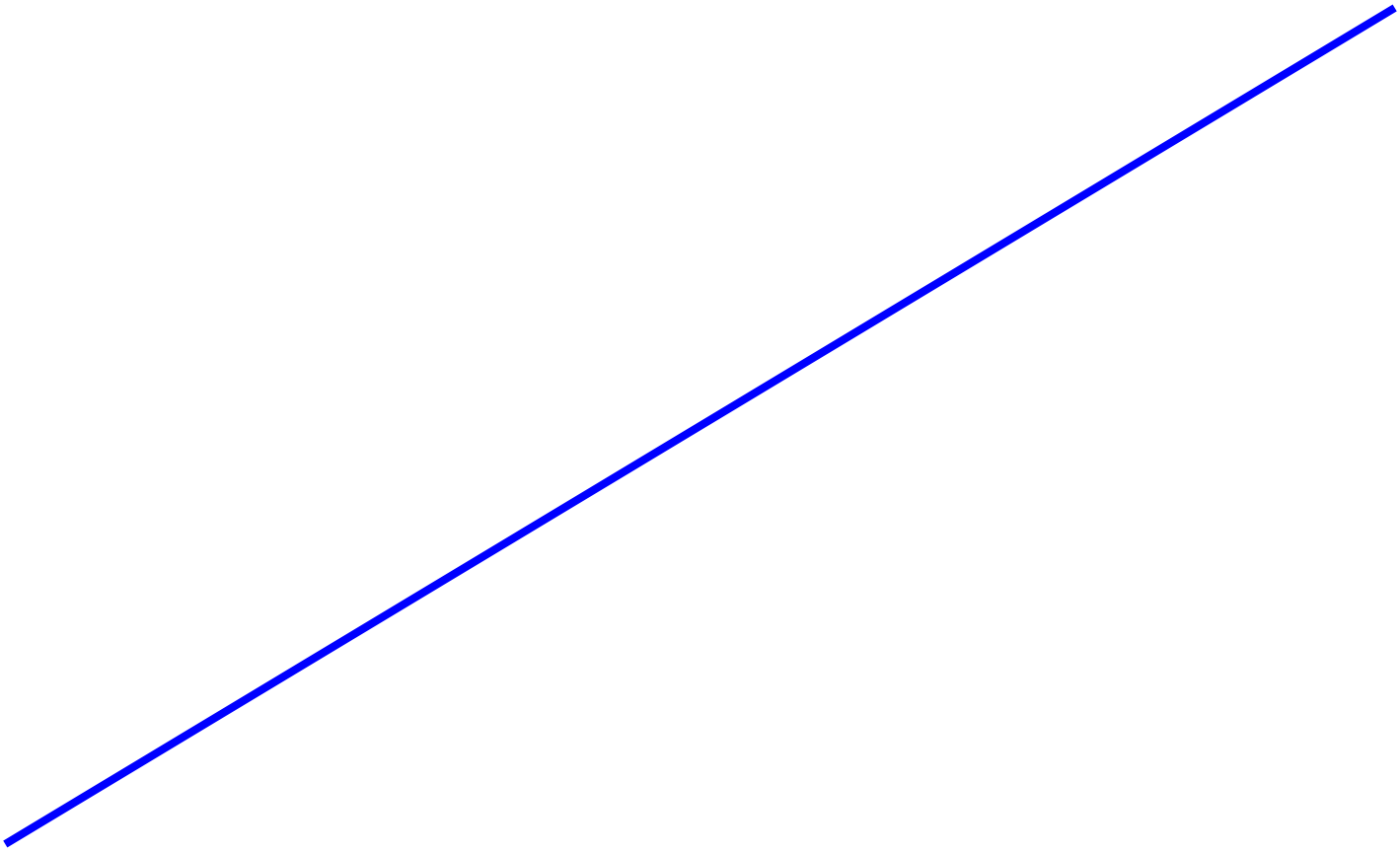
Firms Increase Output: hire more
workers: incomes increase



Y

O







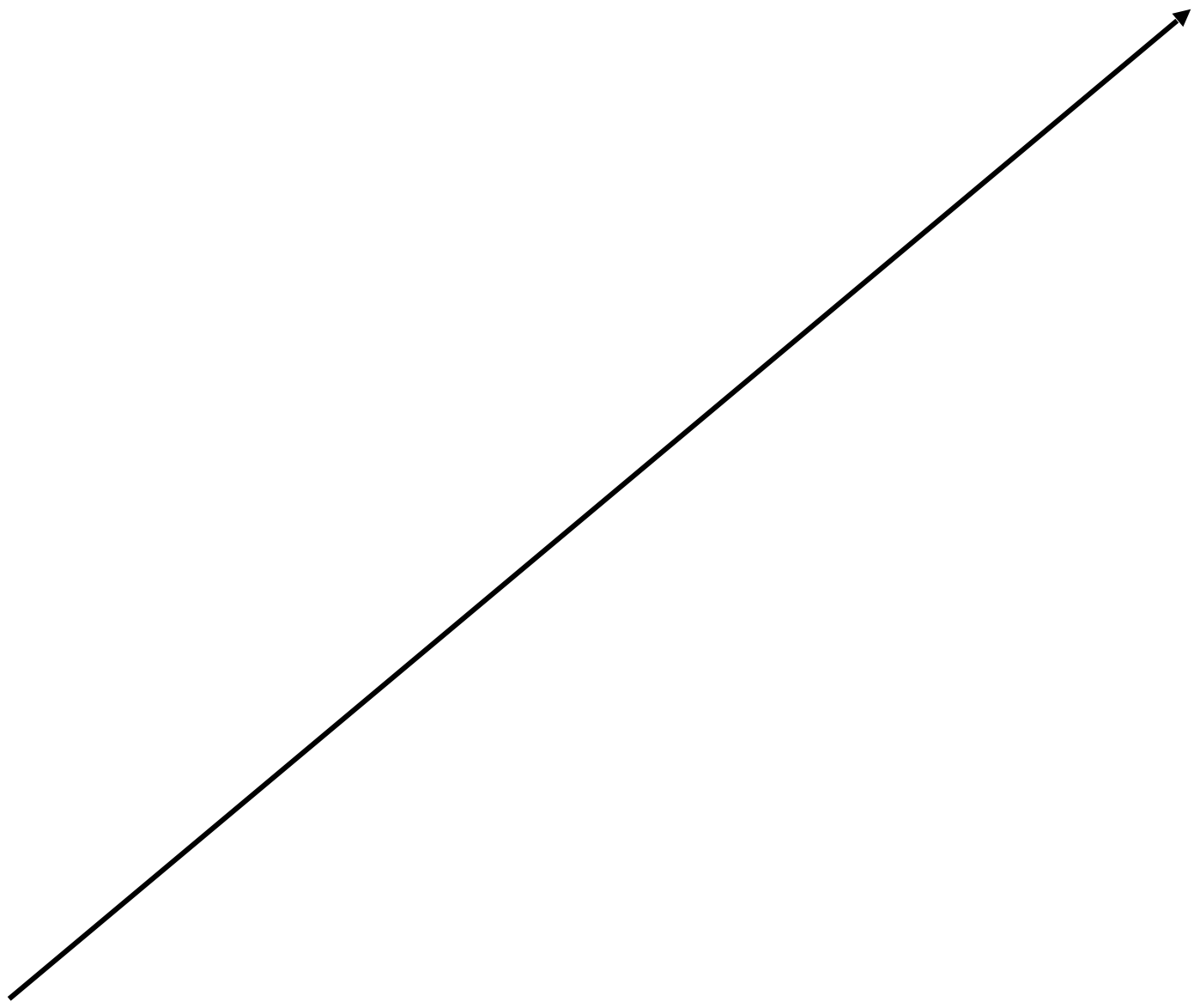




Higher Incomes, Higher
Consumption



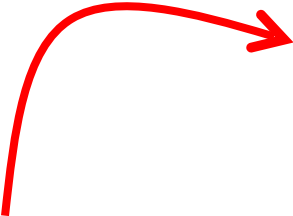
$$\Delta Y = 100$$





$$\Delta G = 100$$





AE increase

AE = YO



Inventories


Drop

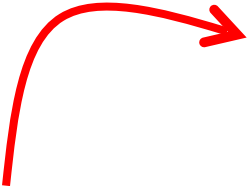




Firms Increase Output: hire more
workers incomes increase




$$\Delta C = 90 * 0.9$$





Firms Increase Output: hire more workers

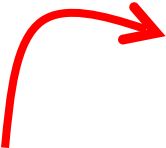
Y

3















$$\Delta C = 81 * 0.9$$



ΔC

$=$

73









Y

4



Y

5











Y^*

New

Equilibrium















AC



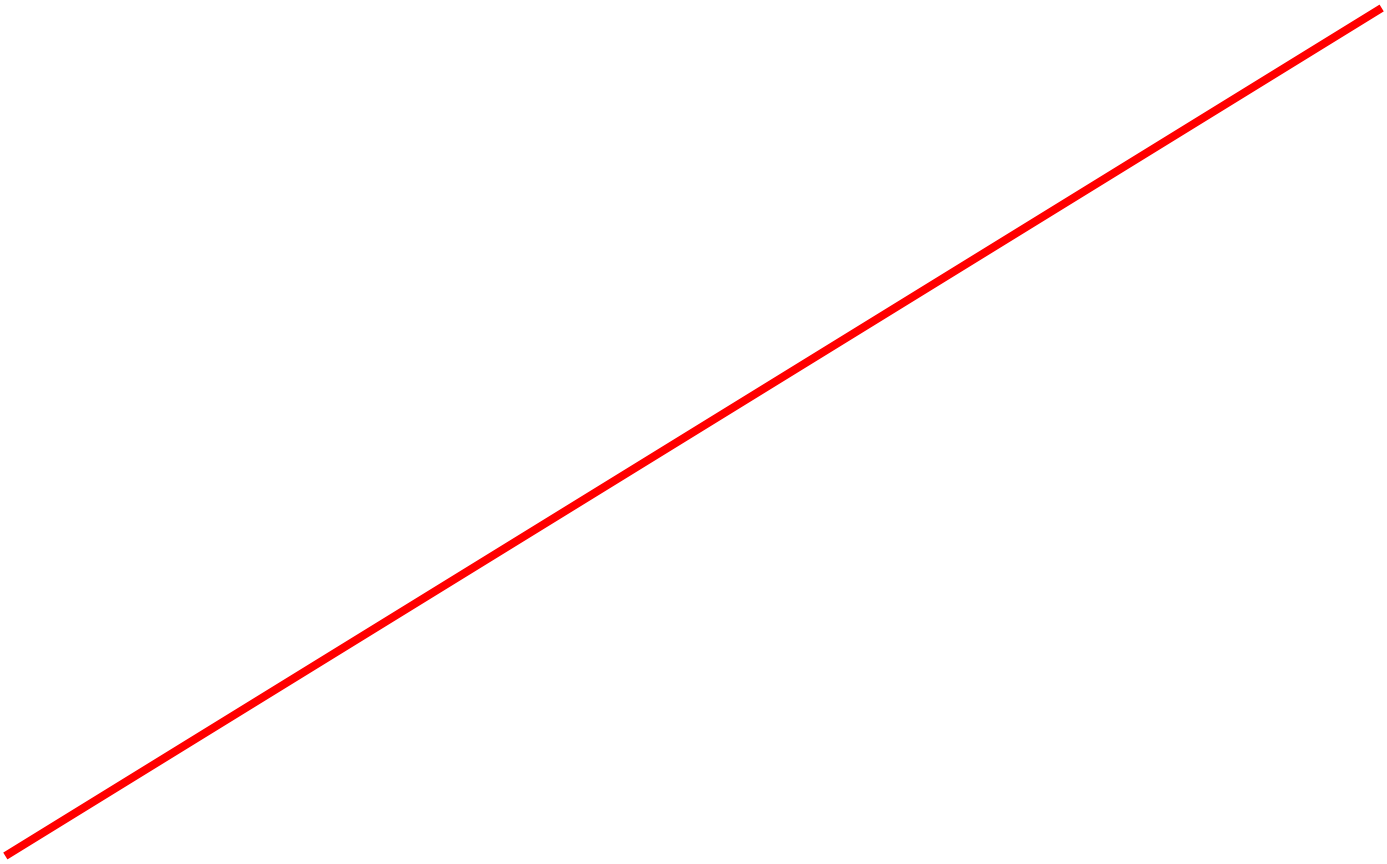
59

AC

=

53
















The economy starts at equilibrium at Y_0

Government pays contractors to repair bridges

Construction suppliers sell more



$$\Delta C = \Delta Y * MPC$$


$$\Delta C = 1000 * 0.9$$




$$\Delta C = 90$$



Inventories

Drop


$$\Delta C = 81$$



Inventories

Drop



Y

2

