

45

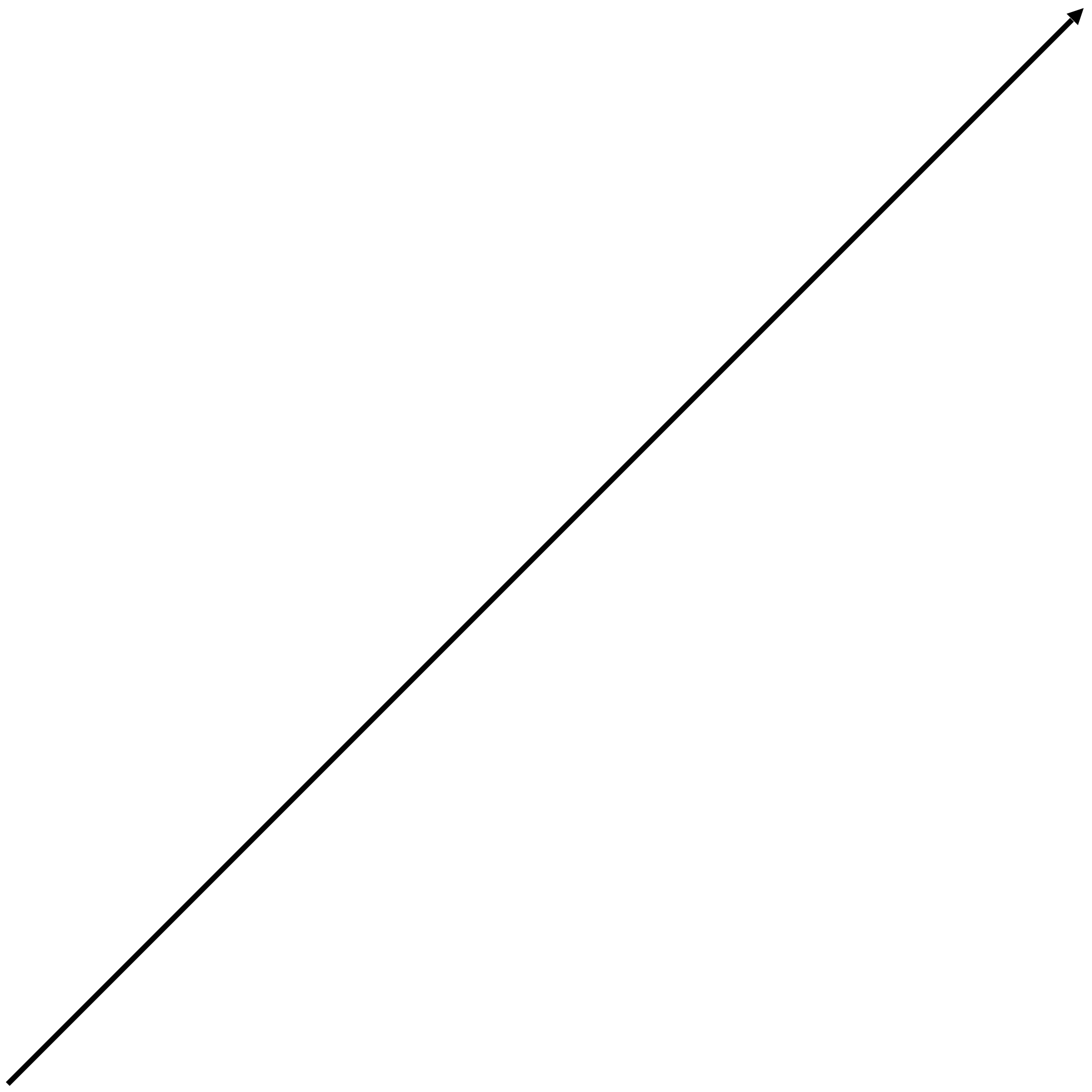
AE₁



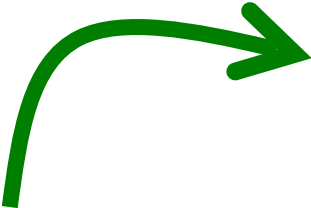
Y

O









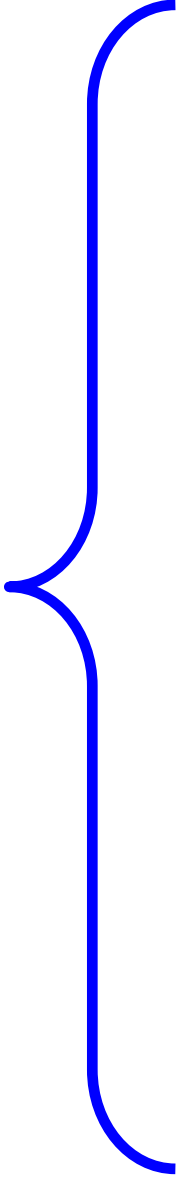
A

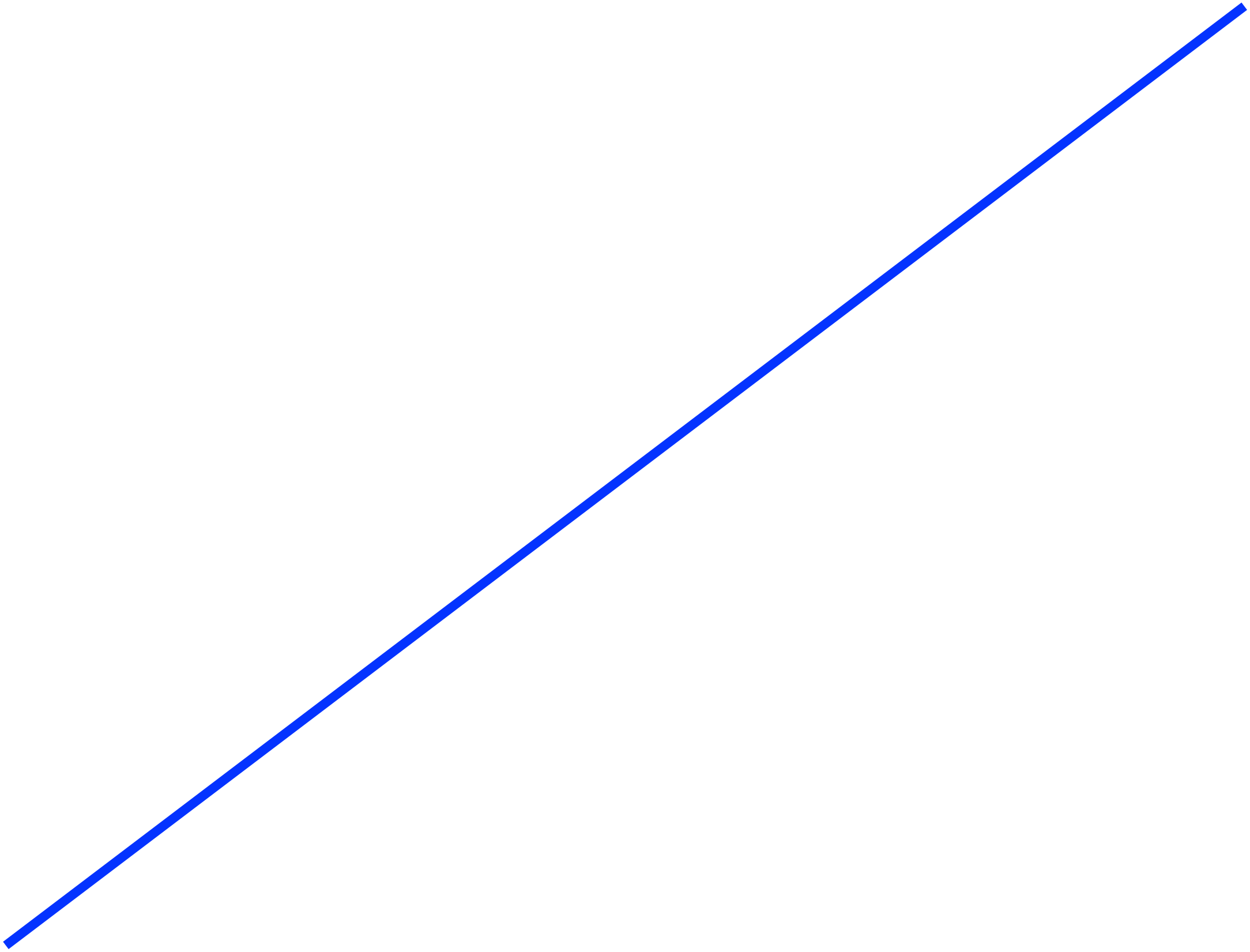
E

O

AE_1

$$\Delta A E = 280$$













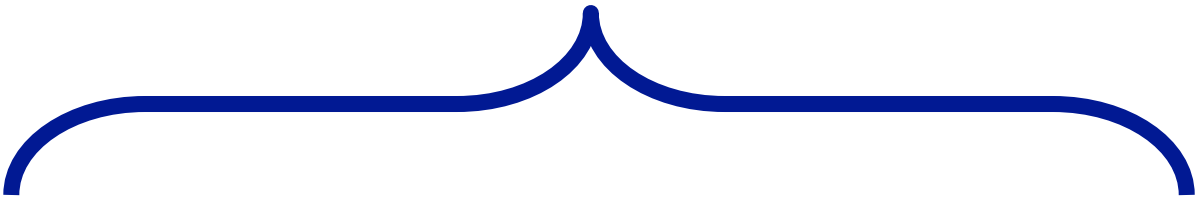
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$

Y₁

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

$\Delta AD = 280$

PO

.

—

—

—

—

—

—

—

—

—

—

—

GDPo



Aggregate Supply
when prices = P_o

Price Level
(CPI)

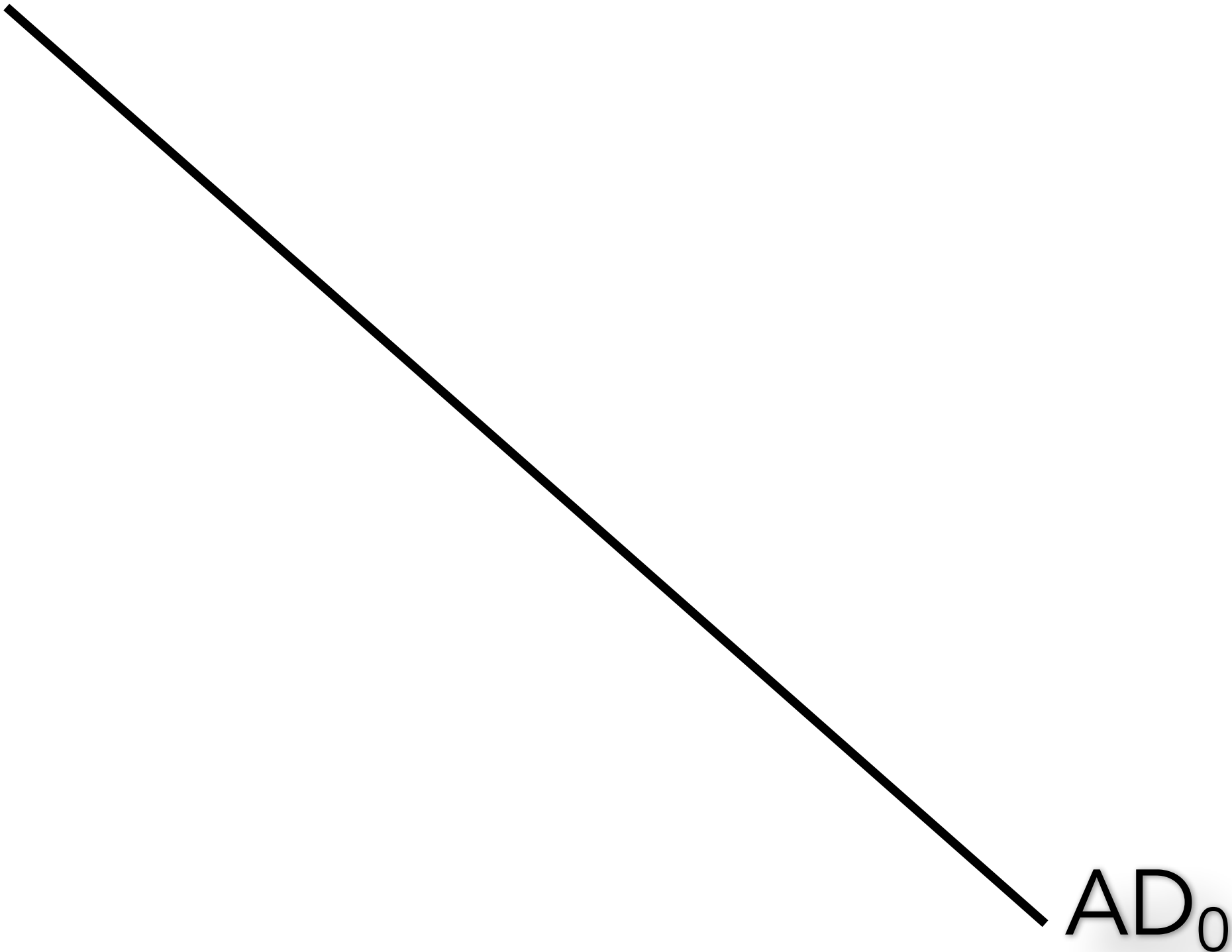




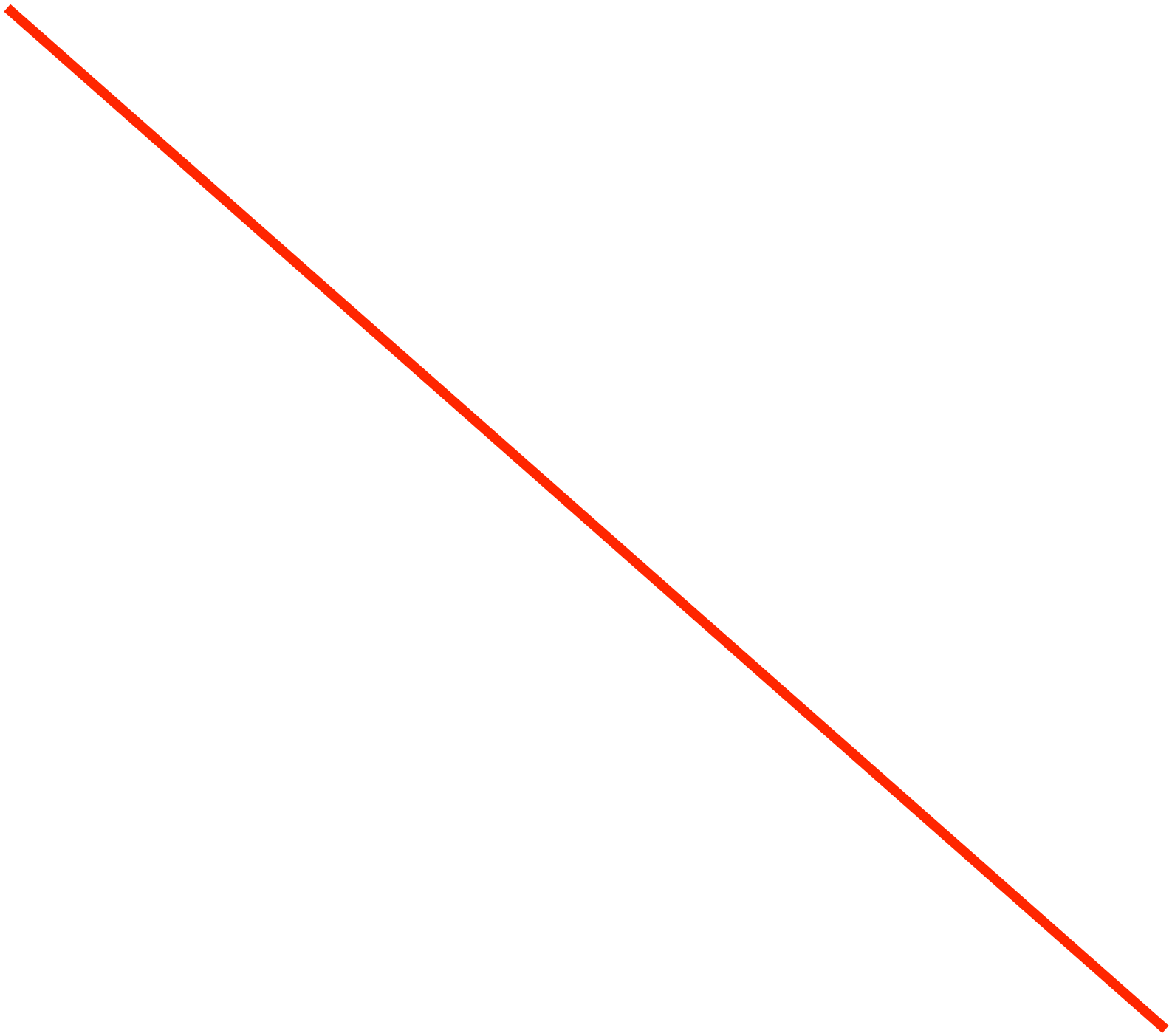
Firms increase prices
NOT production

AS: Potential GDP









$$\Delta AD = 280$$



AD₁

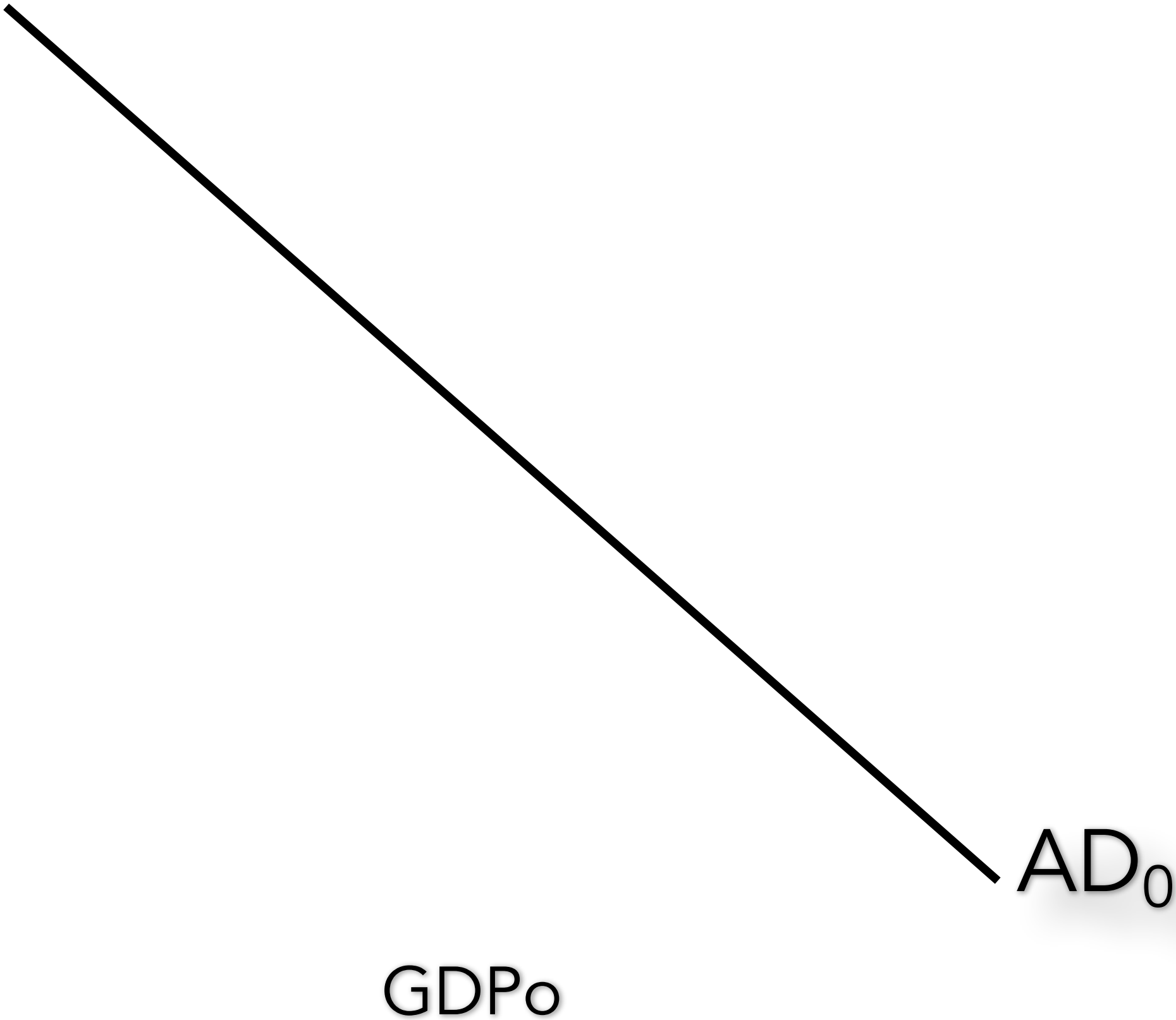




Aggregate Demand
when prices = P_o

=

GDP₁



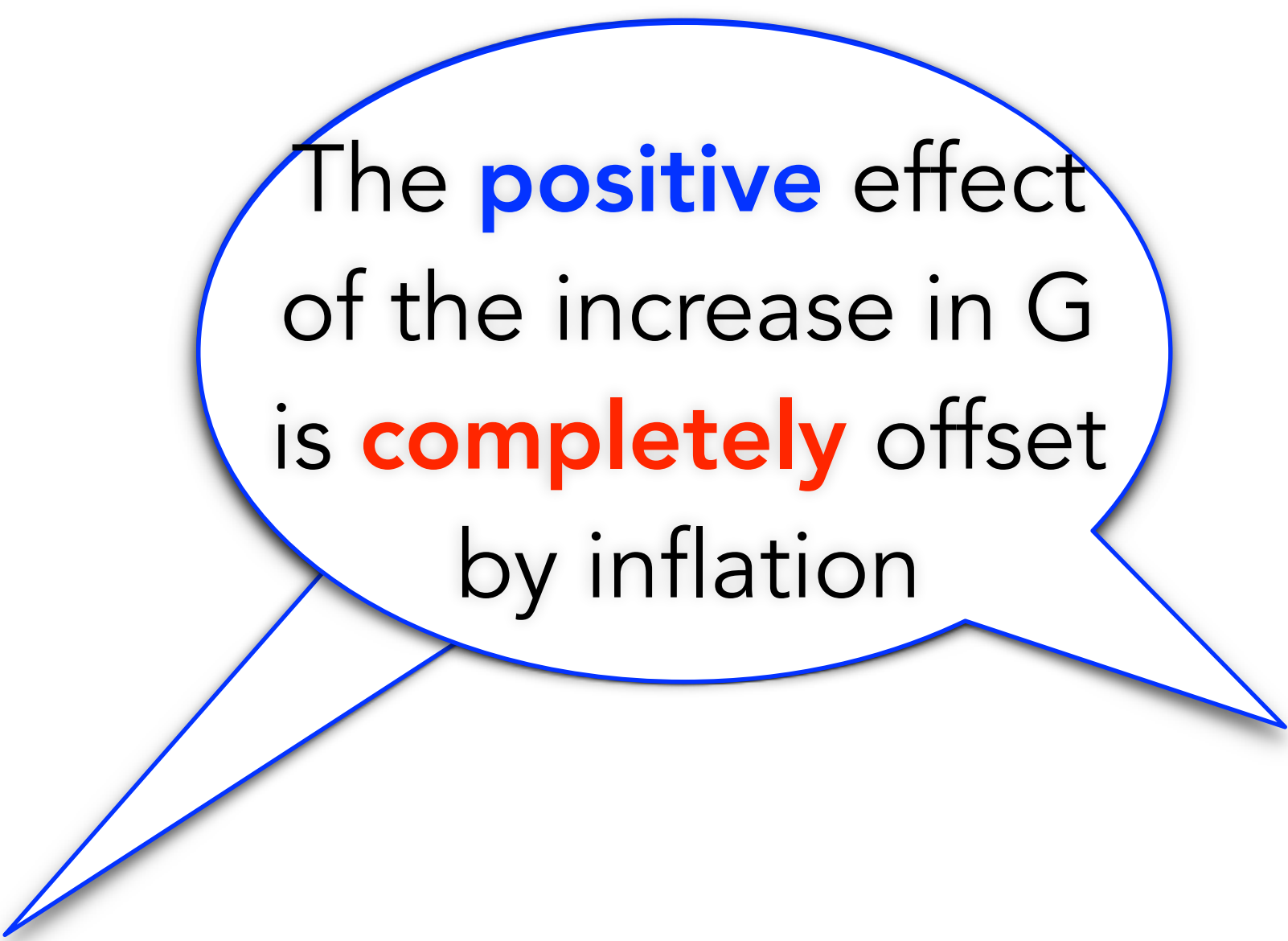


280

increase in
Demand

**Increase in
GDP = 0**

Fully Emptyment: Vertical AS



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

P_1

.

—

—

—

—

—

—

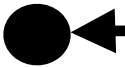
—

—

—

—

—



As prices rise
AD decrease
by 280

Full Employment: **Vertical** AS

