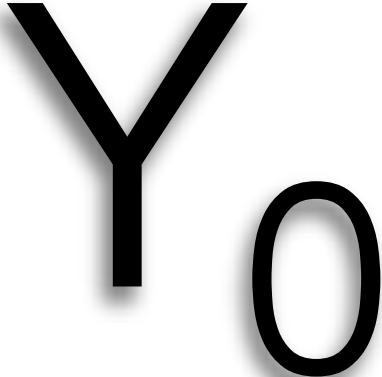
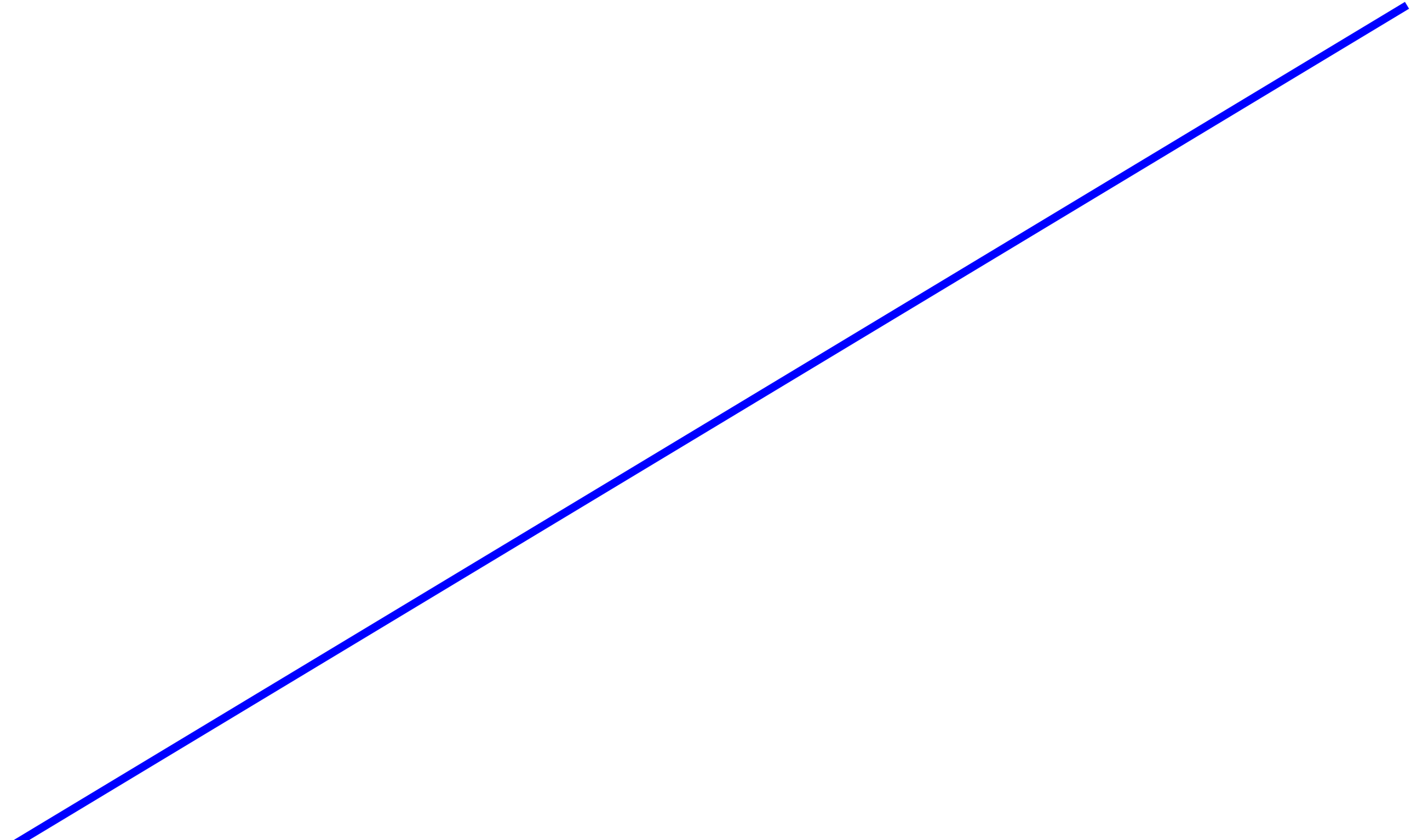

AE.


AE1

Firms Increase Output: hire more workers: incomes increase


Yo

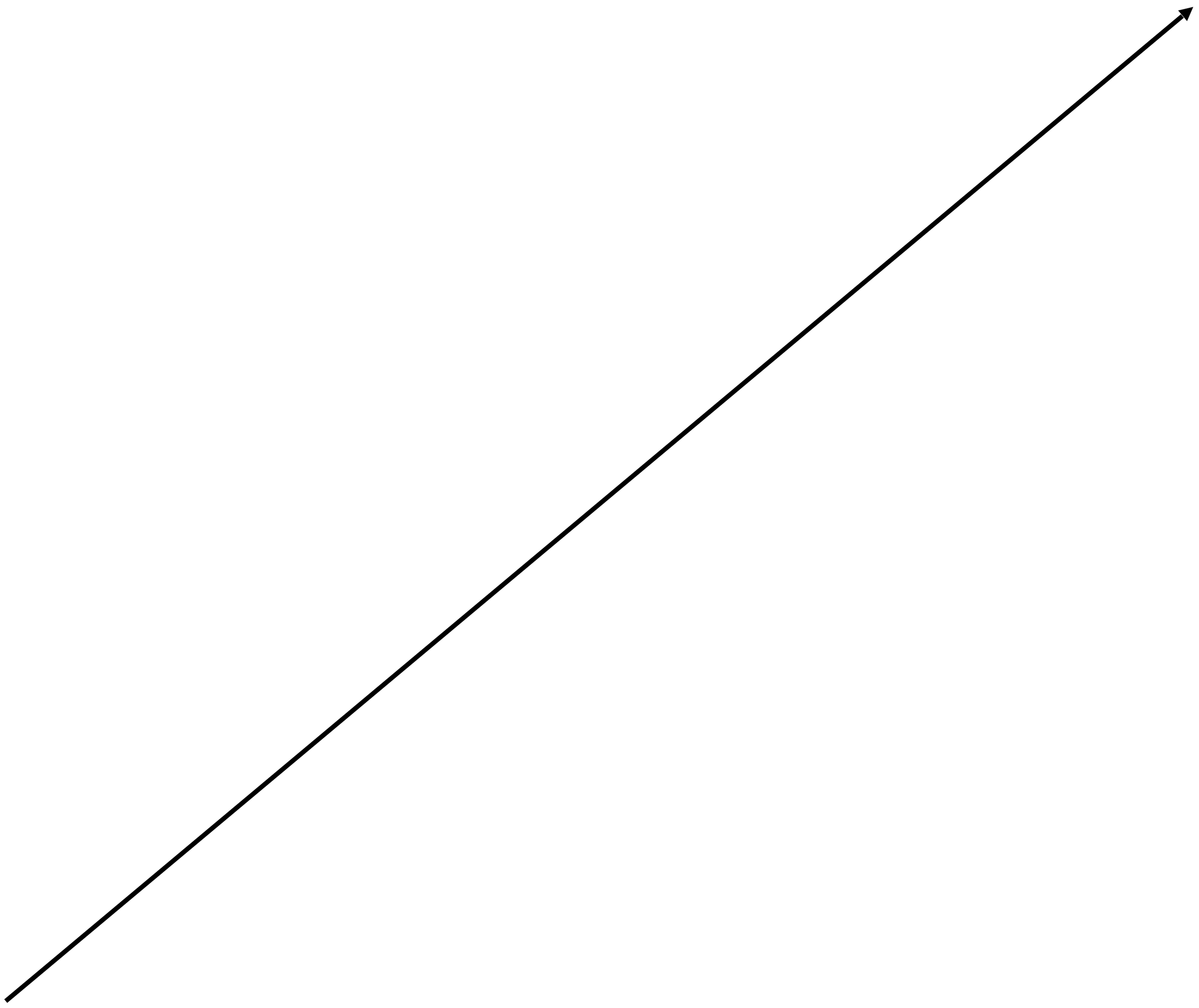


[redacted] [redacted] [redacted] [redacted]

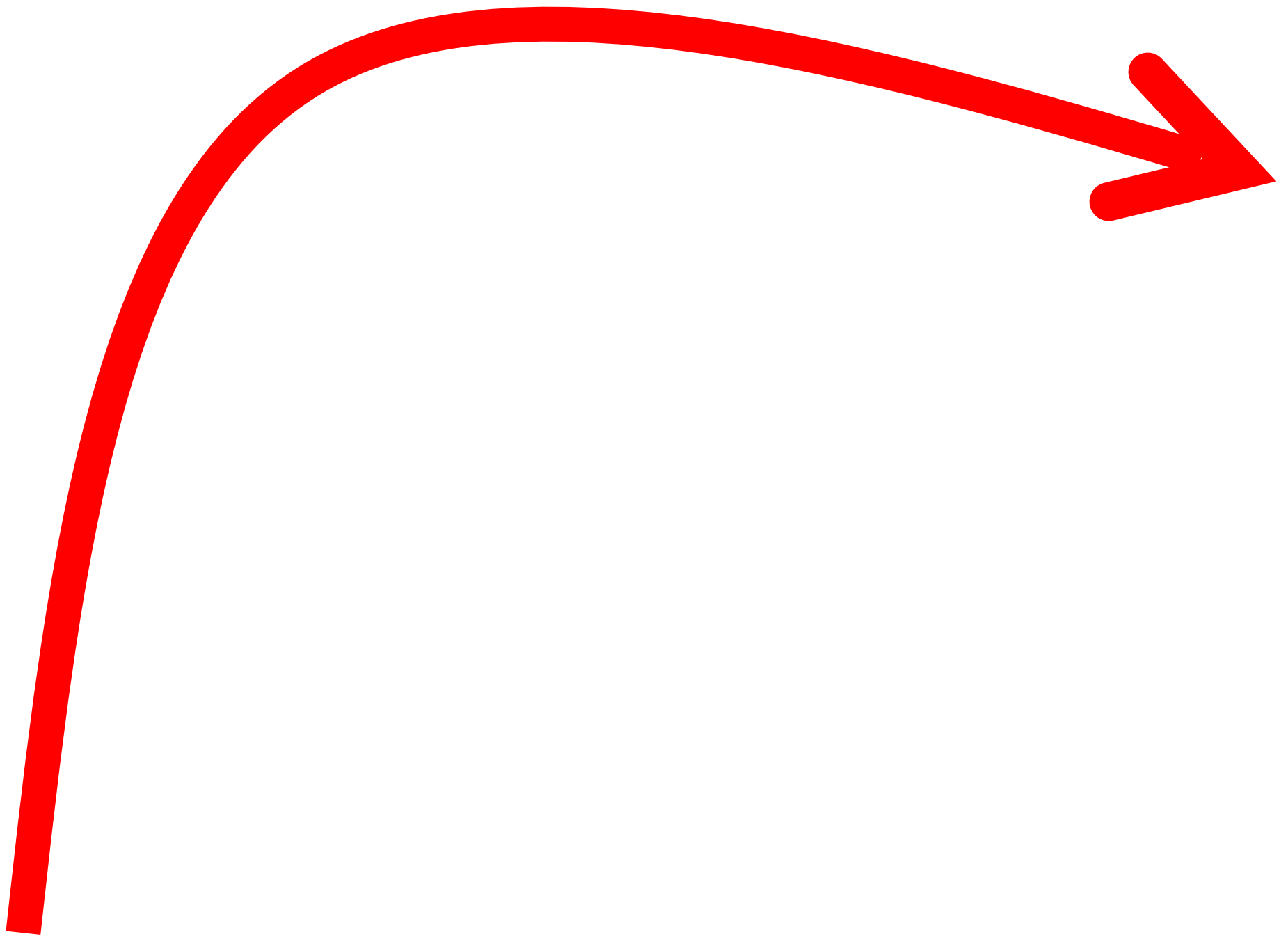
ΔY=90

Higher Incomes, Higher Consumption

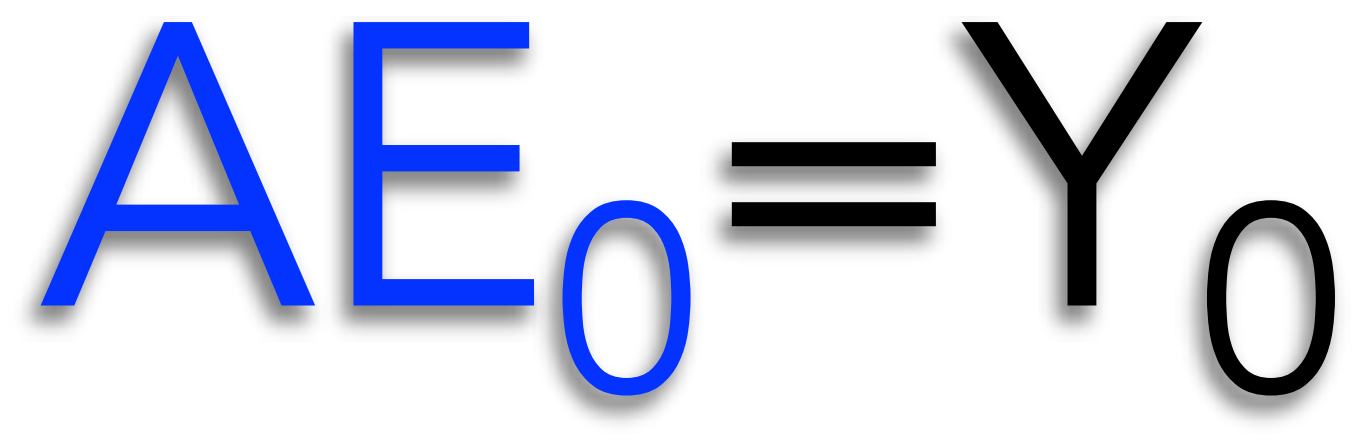
$\Delta Y=100$

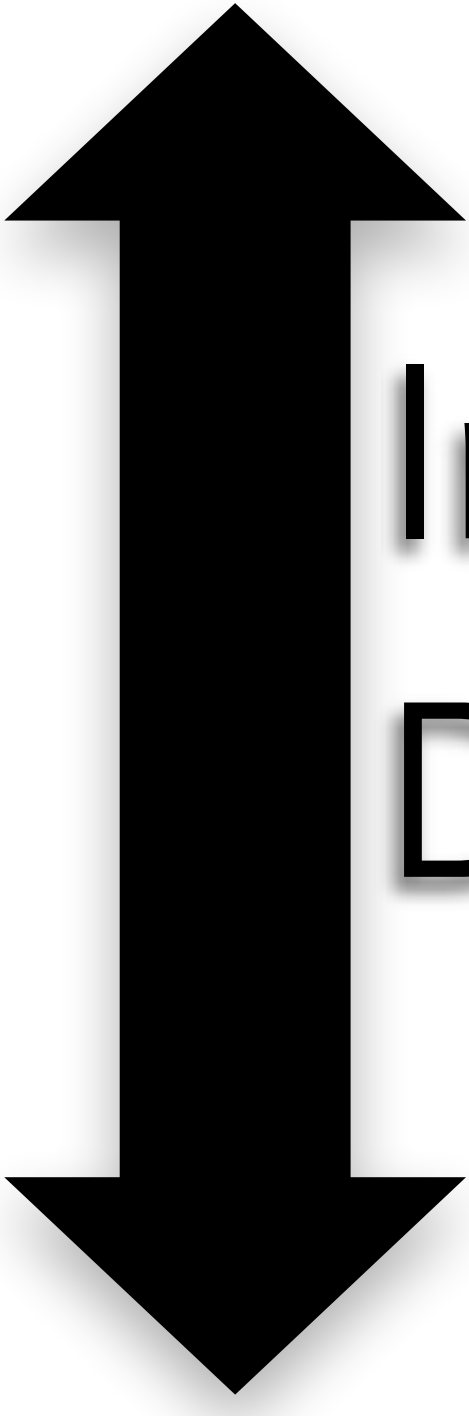



ΔG=100



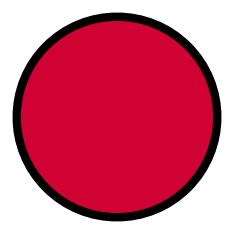

AE increase


$AE_0 \equiv Y_0$

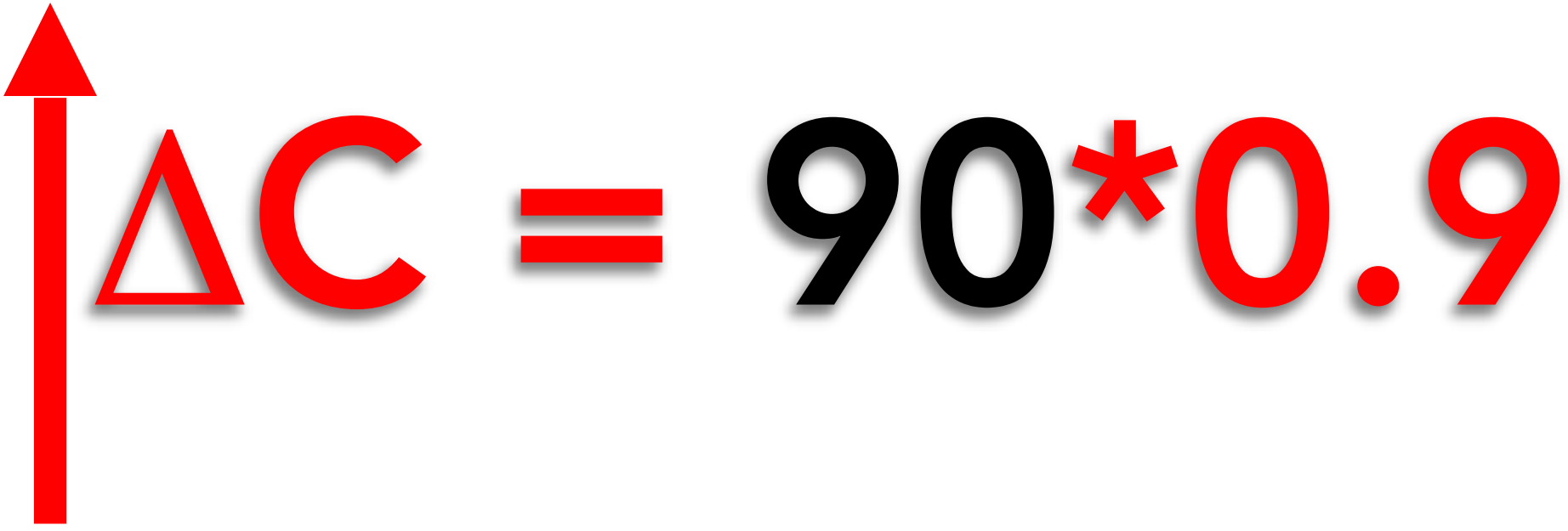


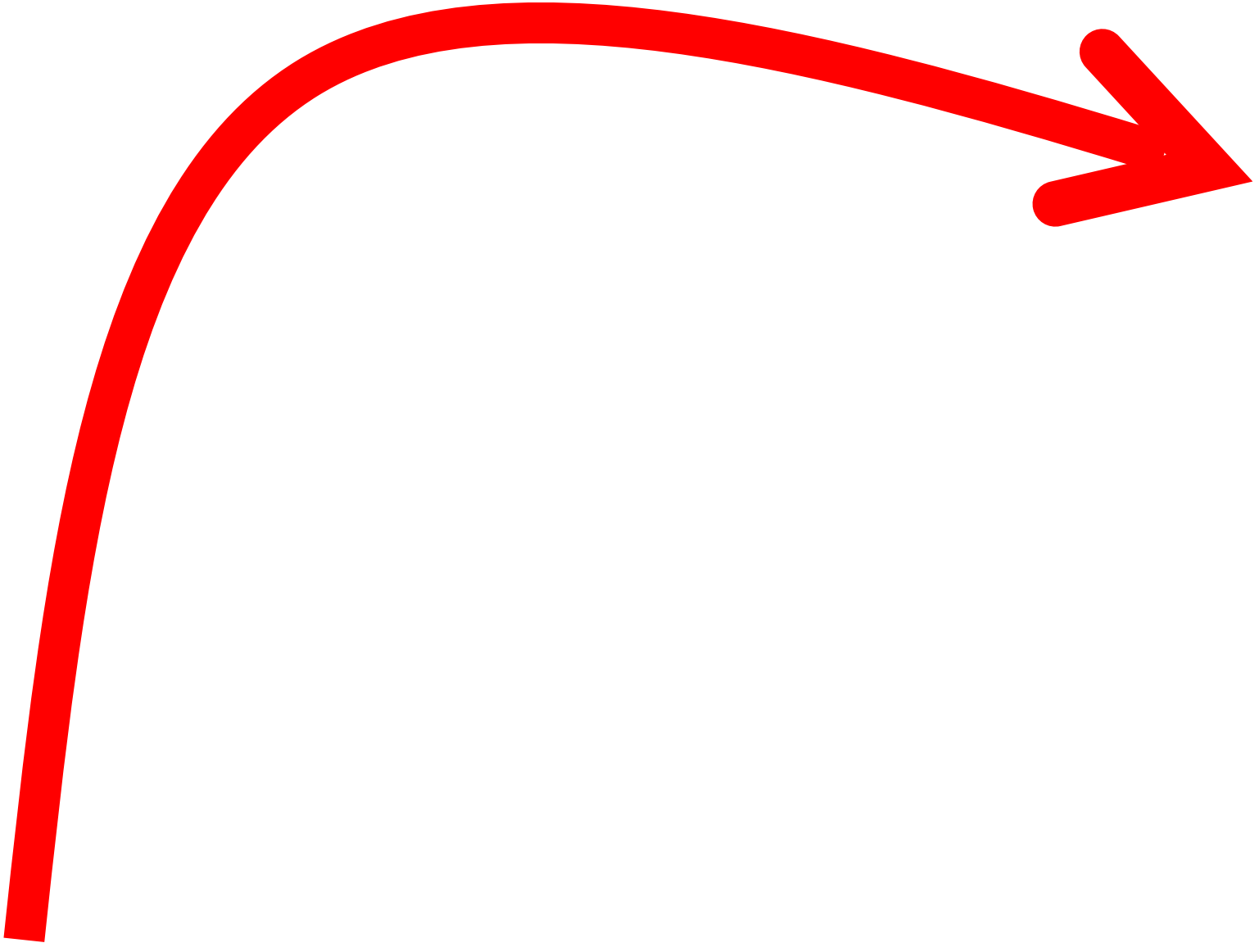
Inventories

Drop



Firms Increase Output: hire more workers incomes increase

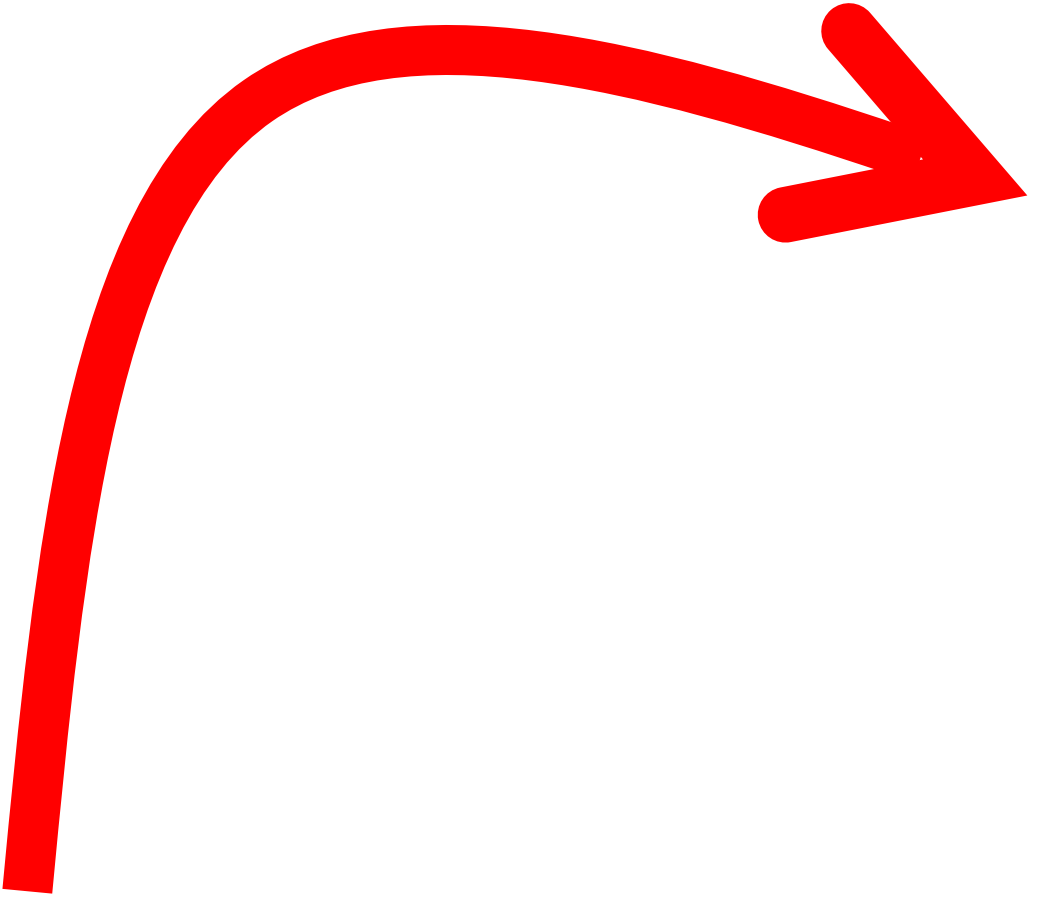

ΔC = 90*0.9



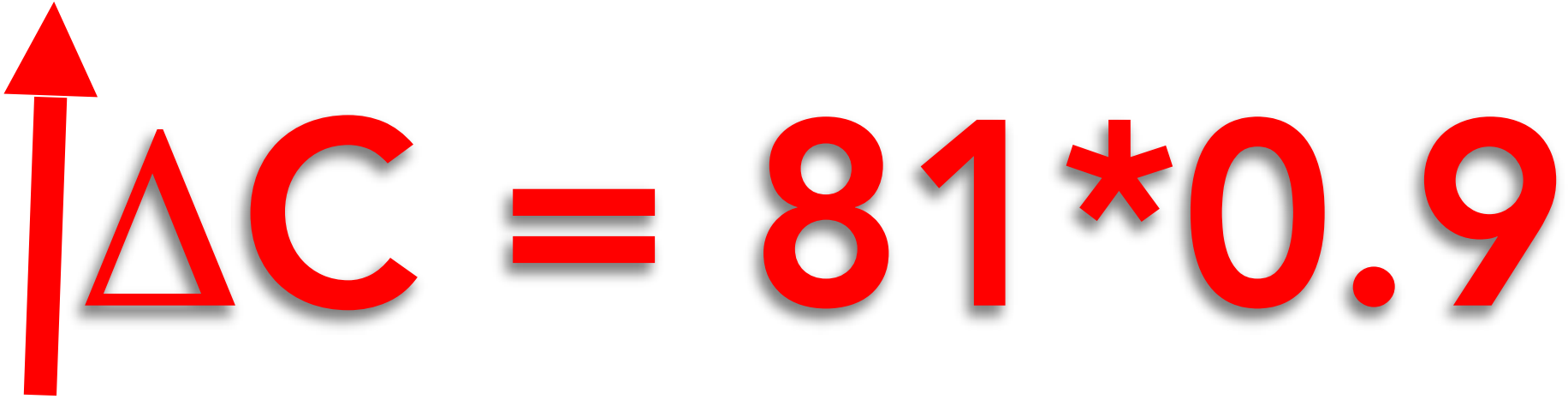
Firms Increase Output: hire more workers

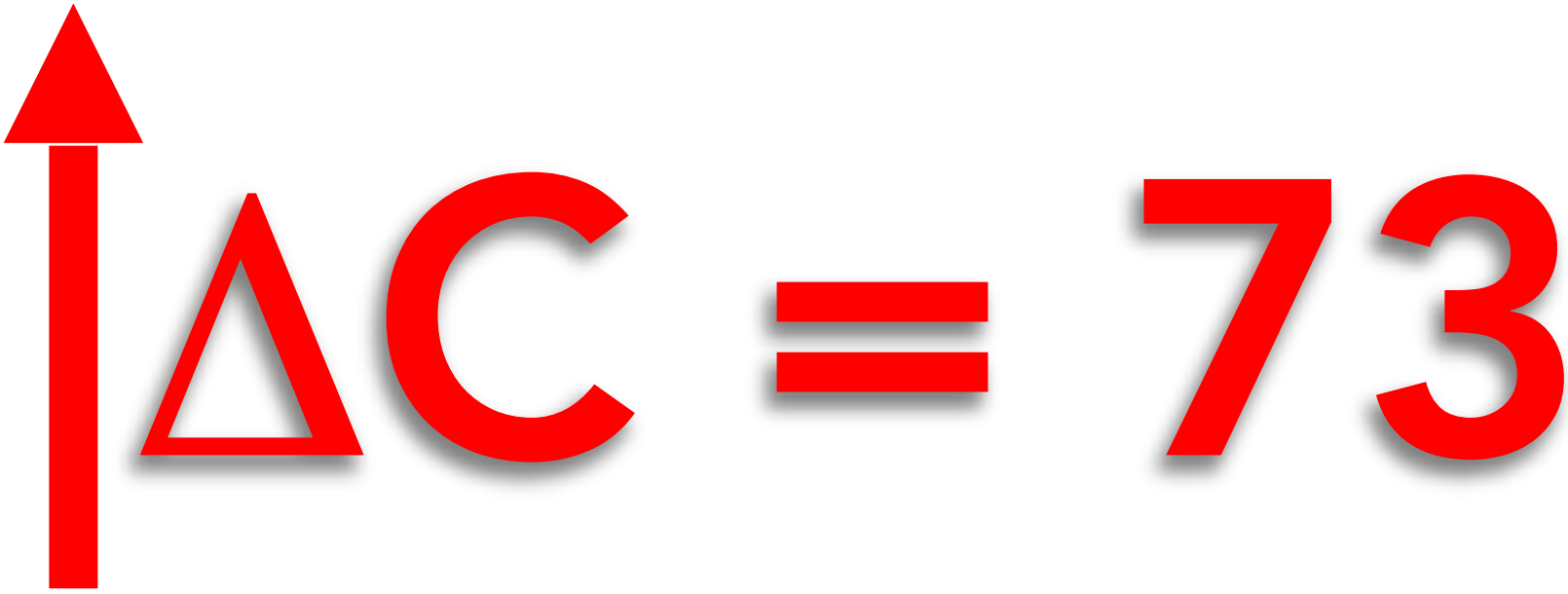

Y 3

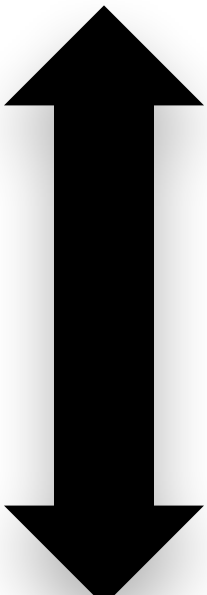
ΔY=81

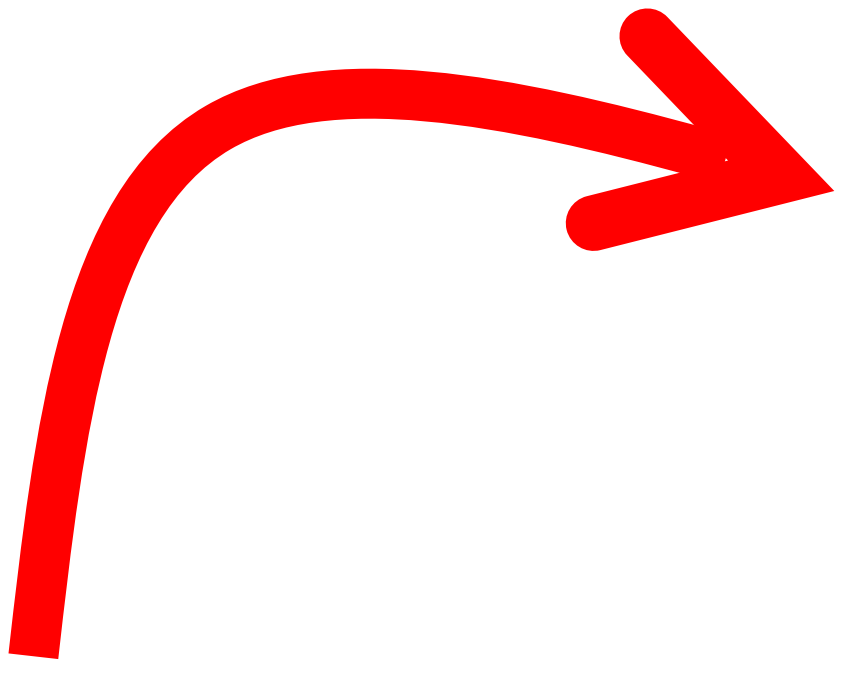


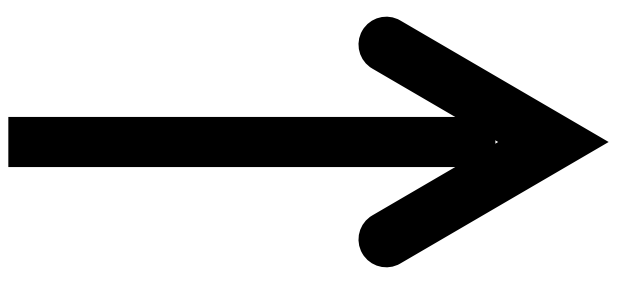
ΔY= 73


ΔC = 81*0.9


ΔC = 73

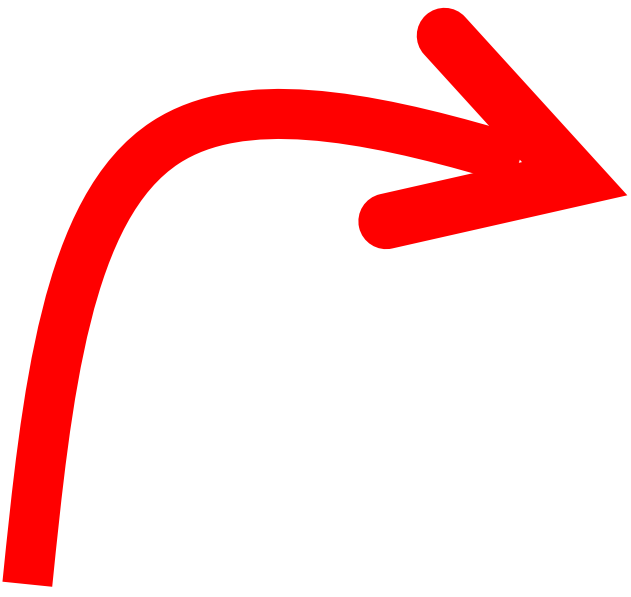


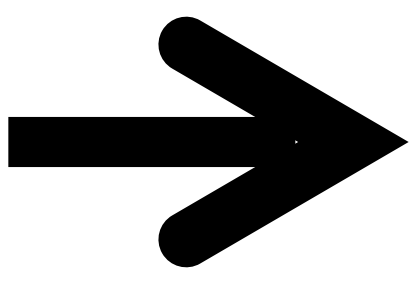


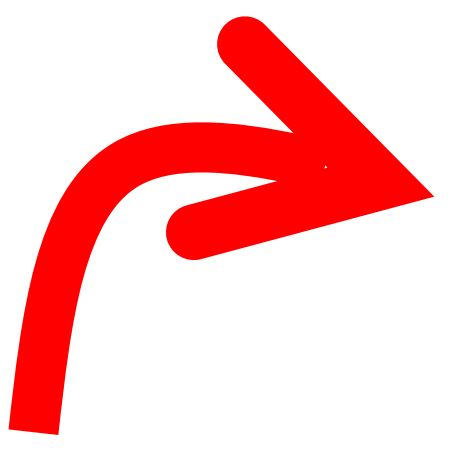



Y4


Y 5



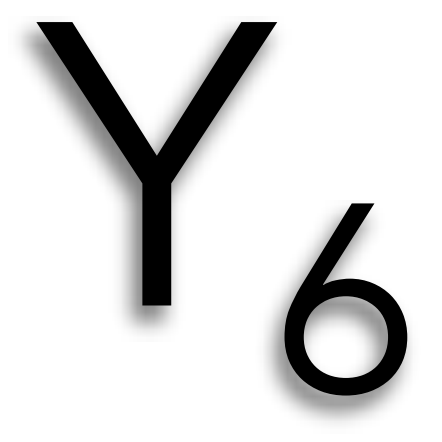


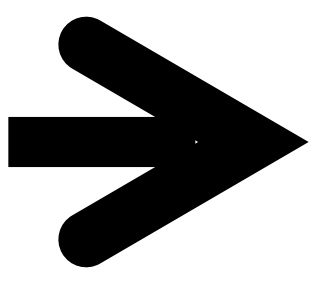


Y*

New

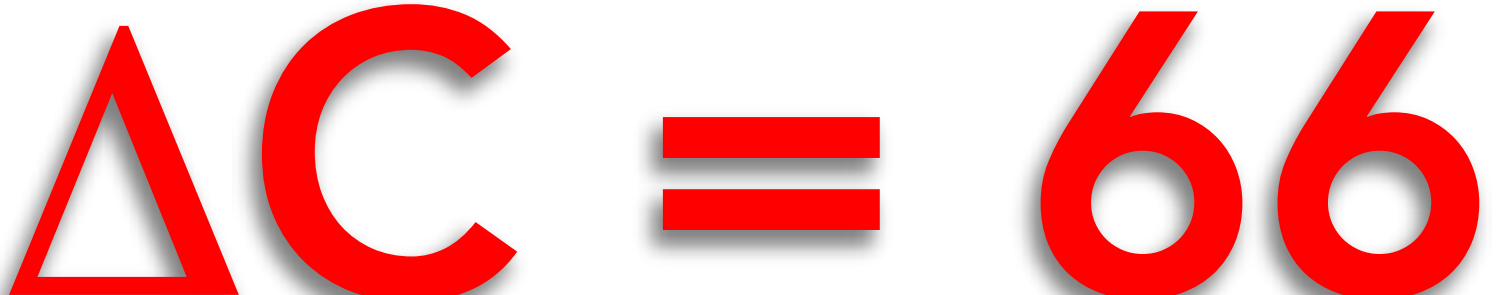
Equilibrium

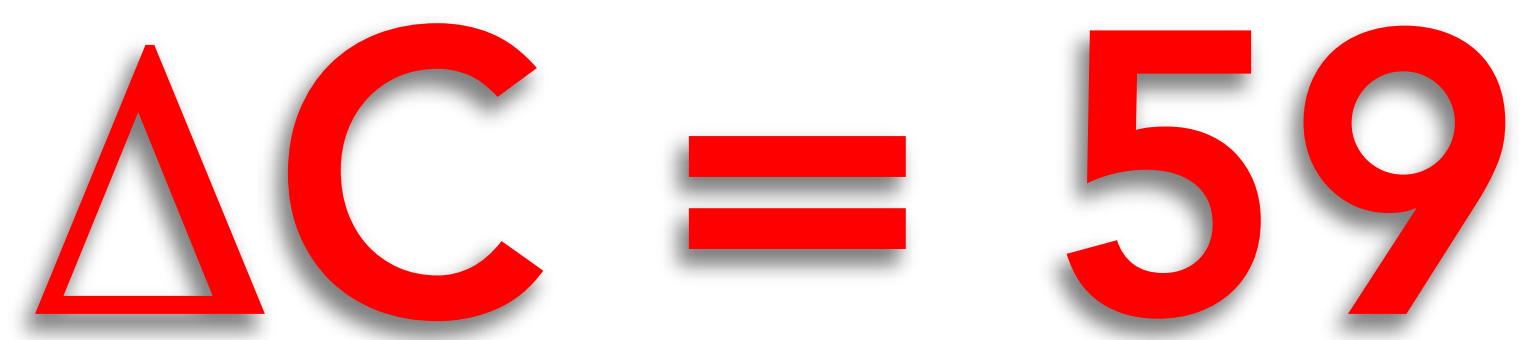

Y6



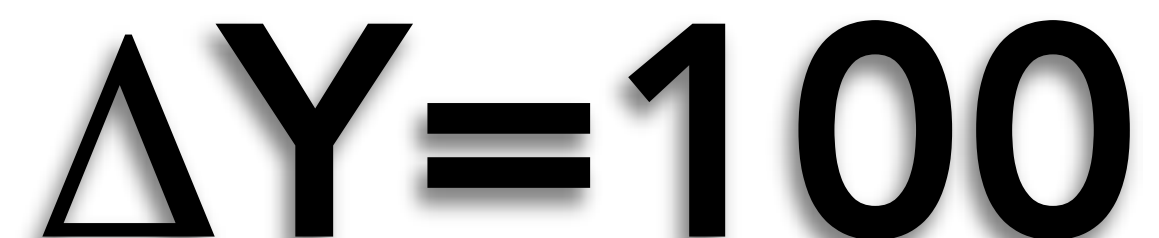

Y7

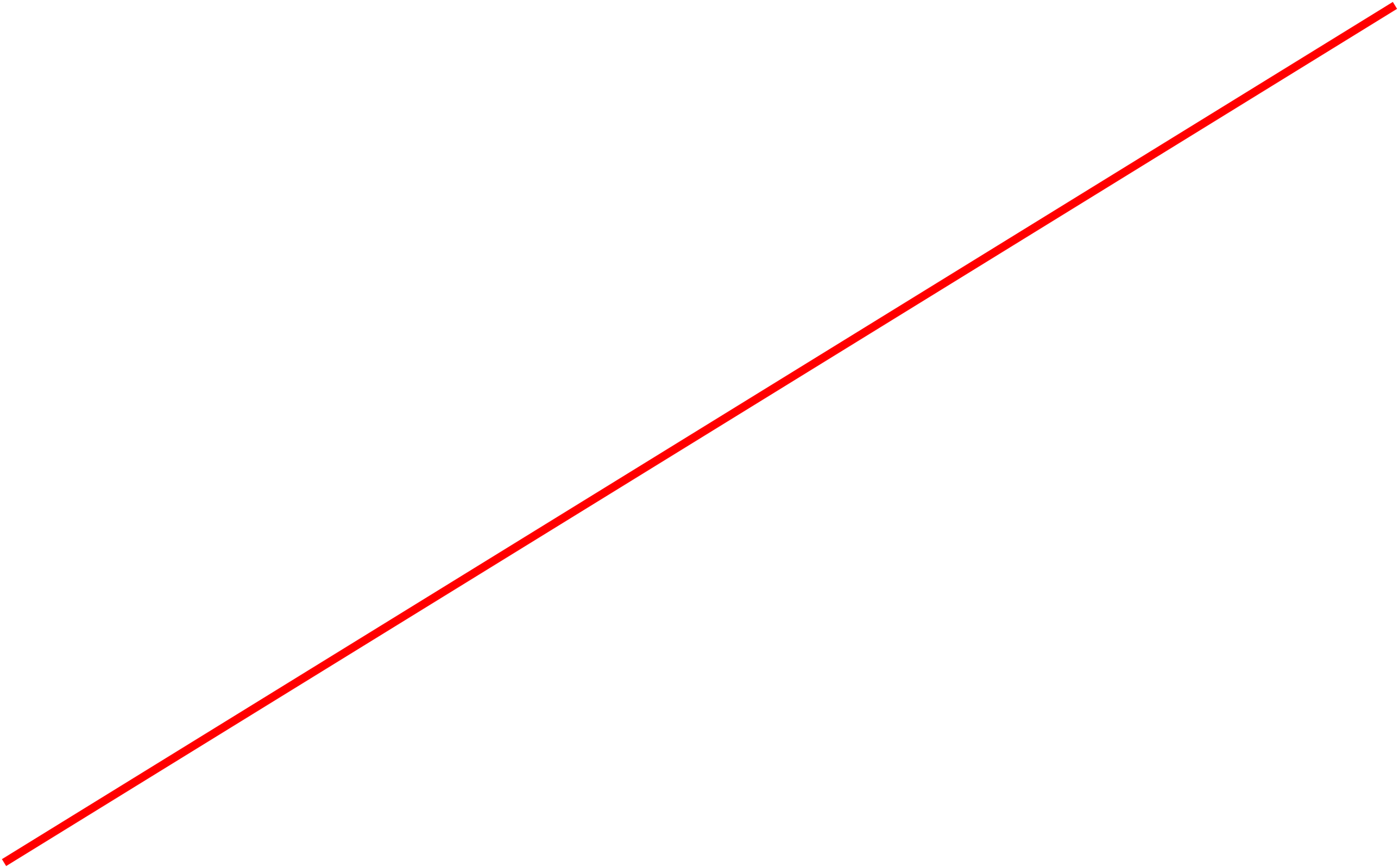

Y 8


ΔC = 66

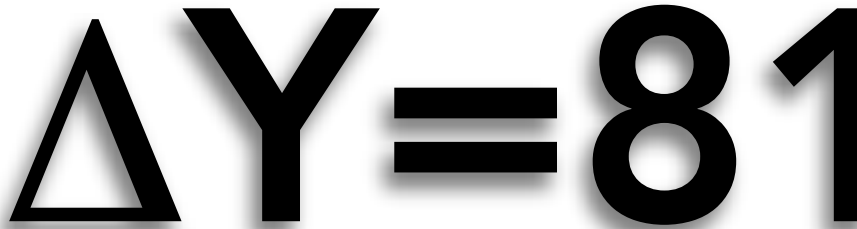

ΔC = 59

$$\Delta C = 53$$

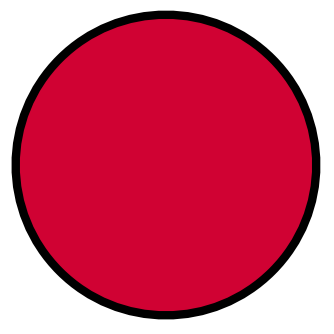

ΔY=100

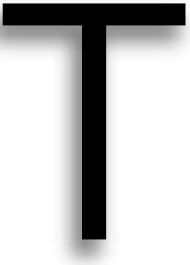


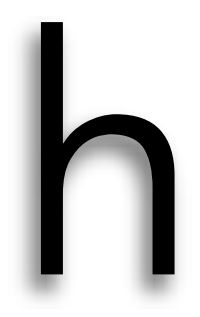
ΔY=90

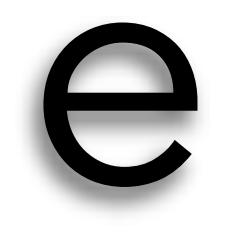

ΔY=81

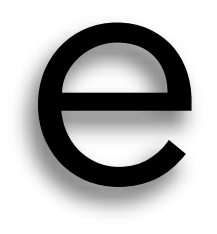
$\Delta Y = 73$

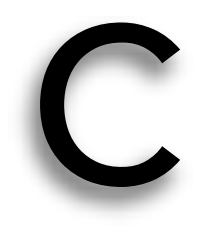








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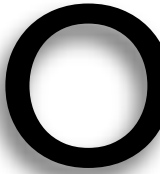

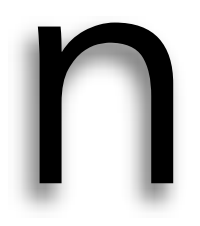
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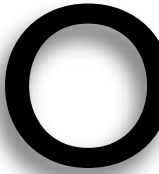

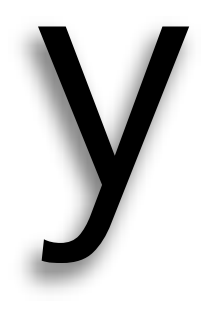

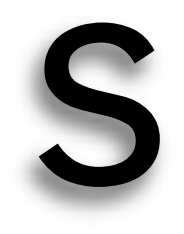
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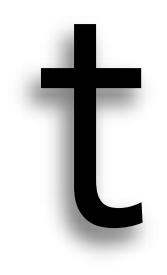

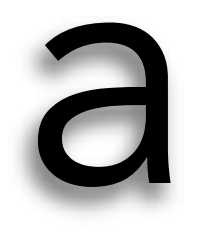
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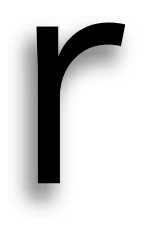
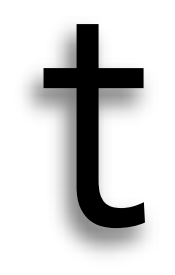
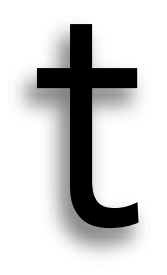
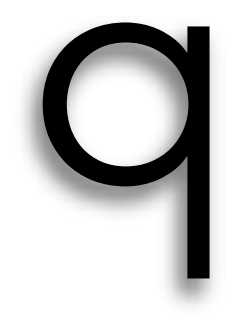


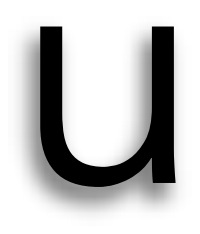


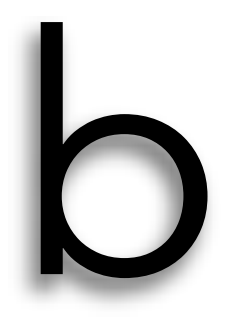

S

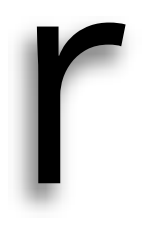

a

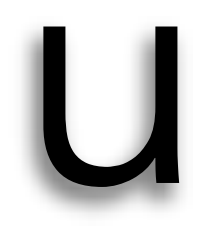










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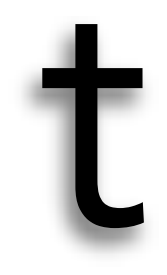

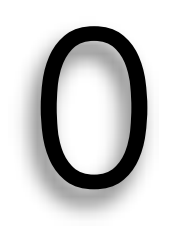

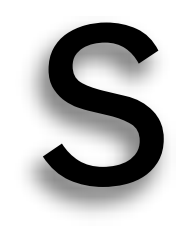
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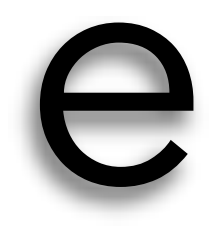

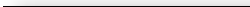

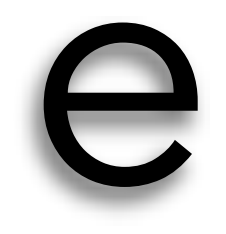

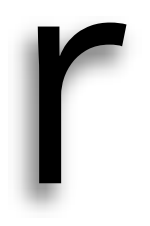

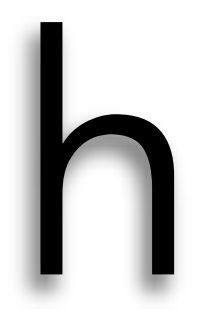


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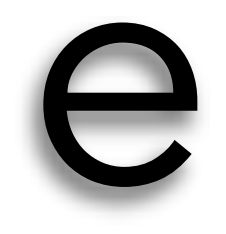

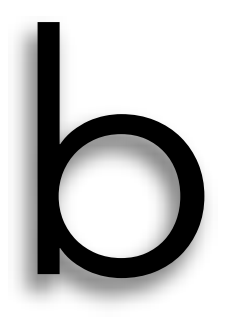

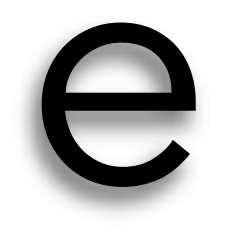


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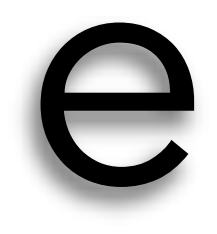

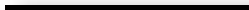

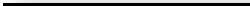

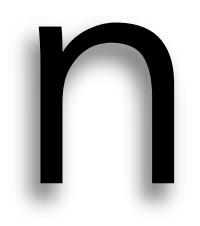
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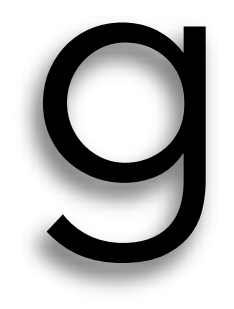

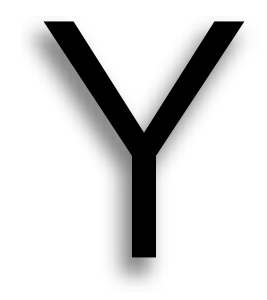

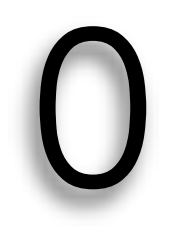

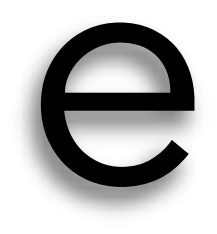

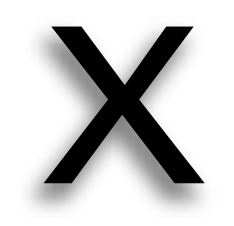

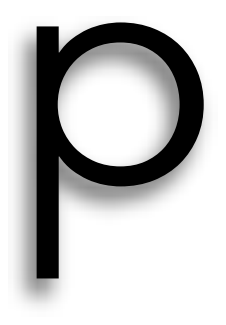

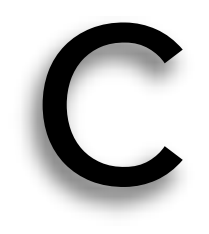

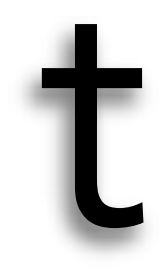

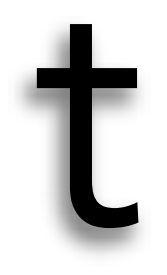

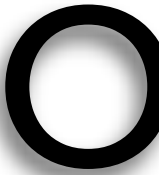


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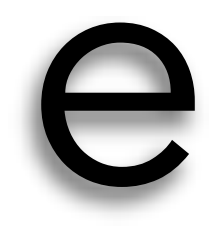

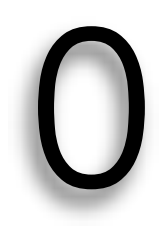

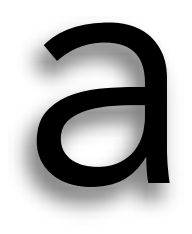
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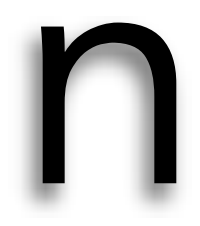
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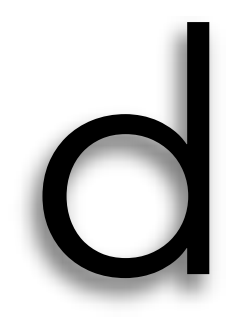

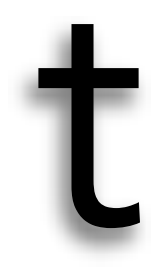

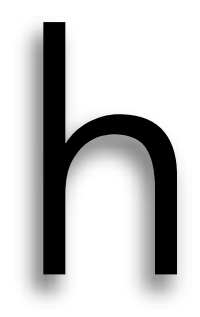

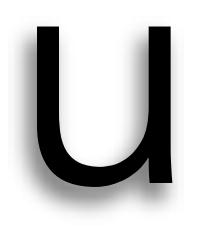


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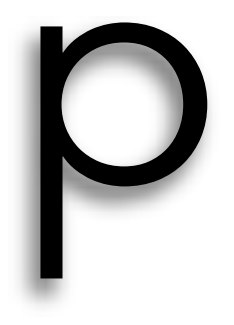
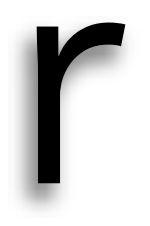
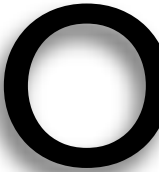
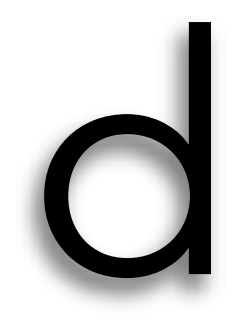
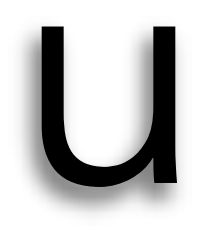
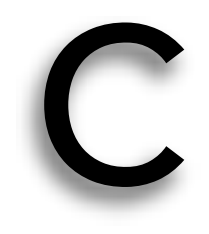


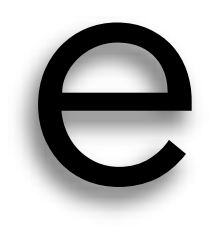


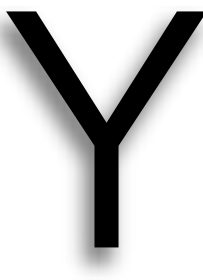


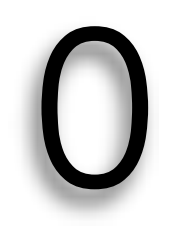






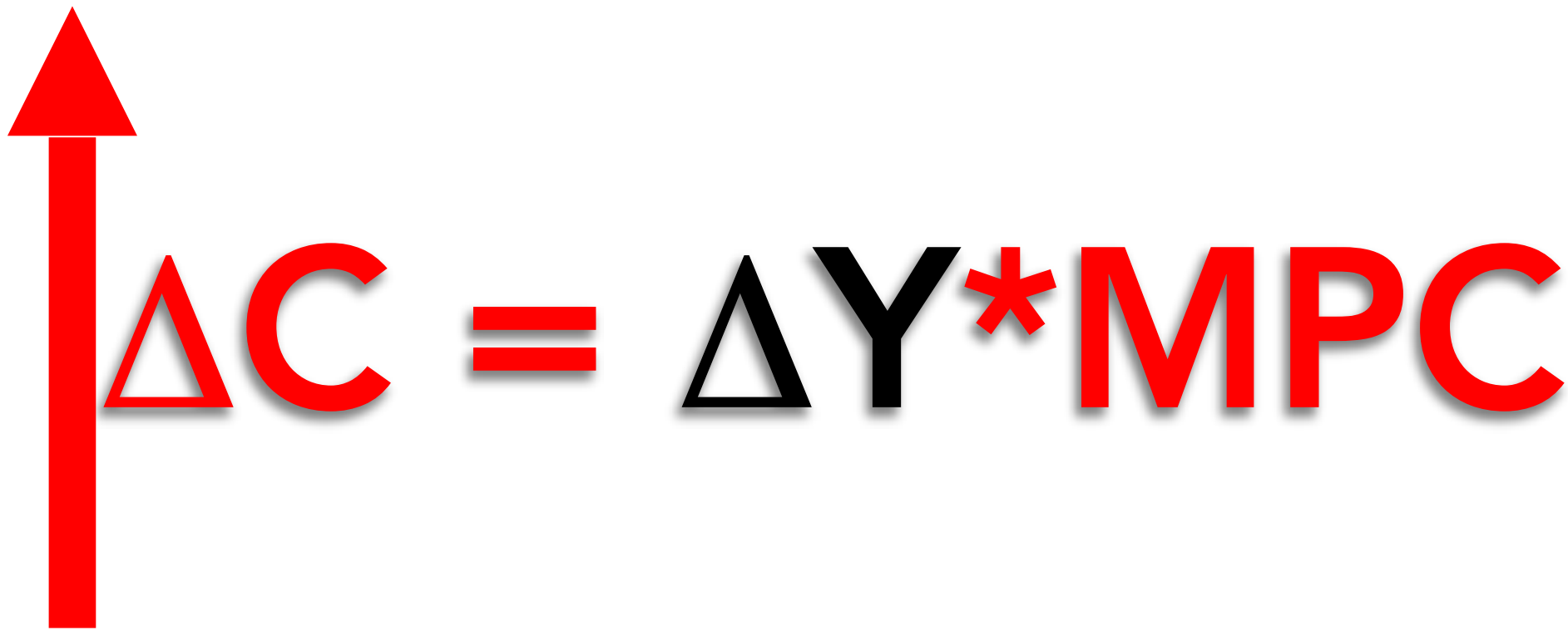




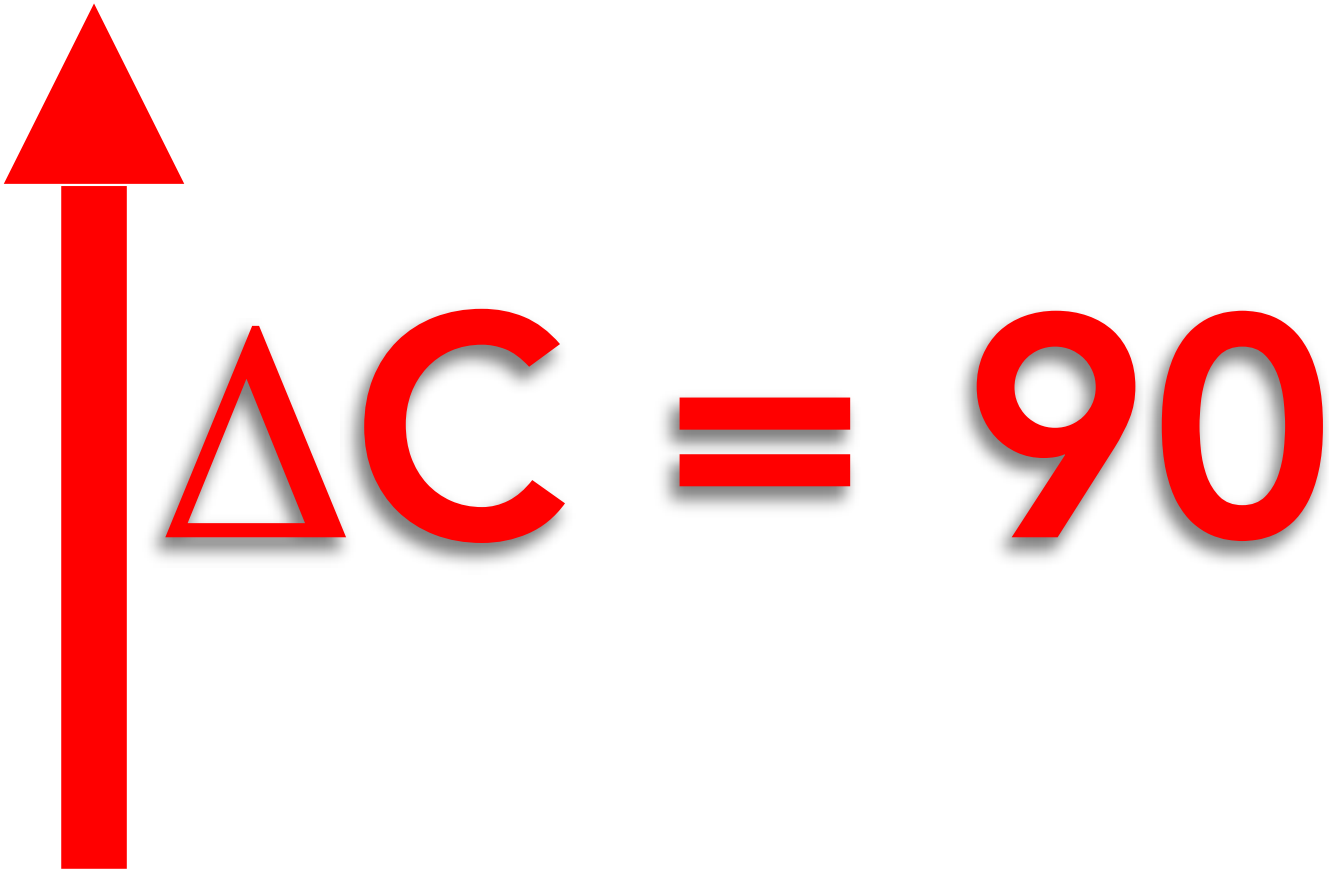


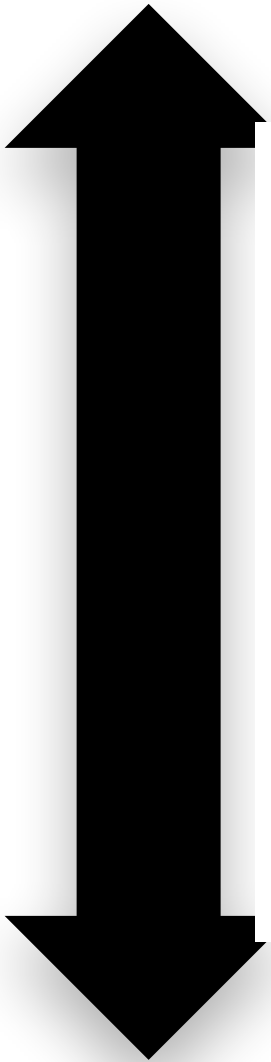
Government pays contractors to repair bridges

Construction suppliers sell more than expected: sell part of their inventories


ΔC = ΔY*MPC

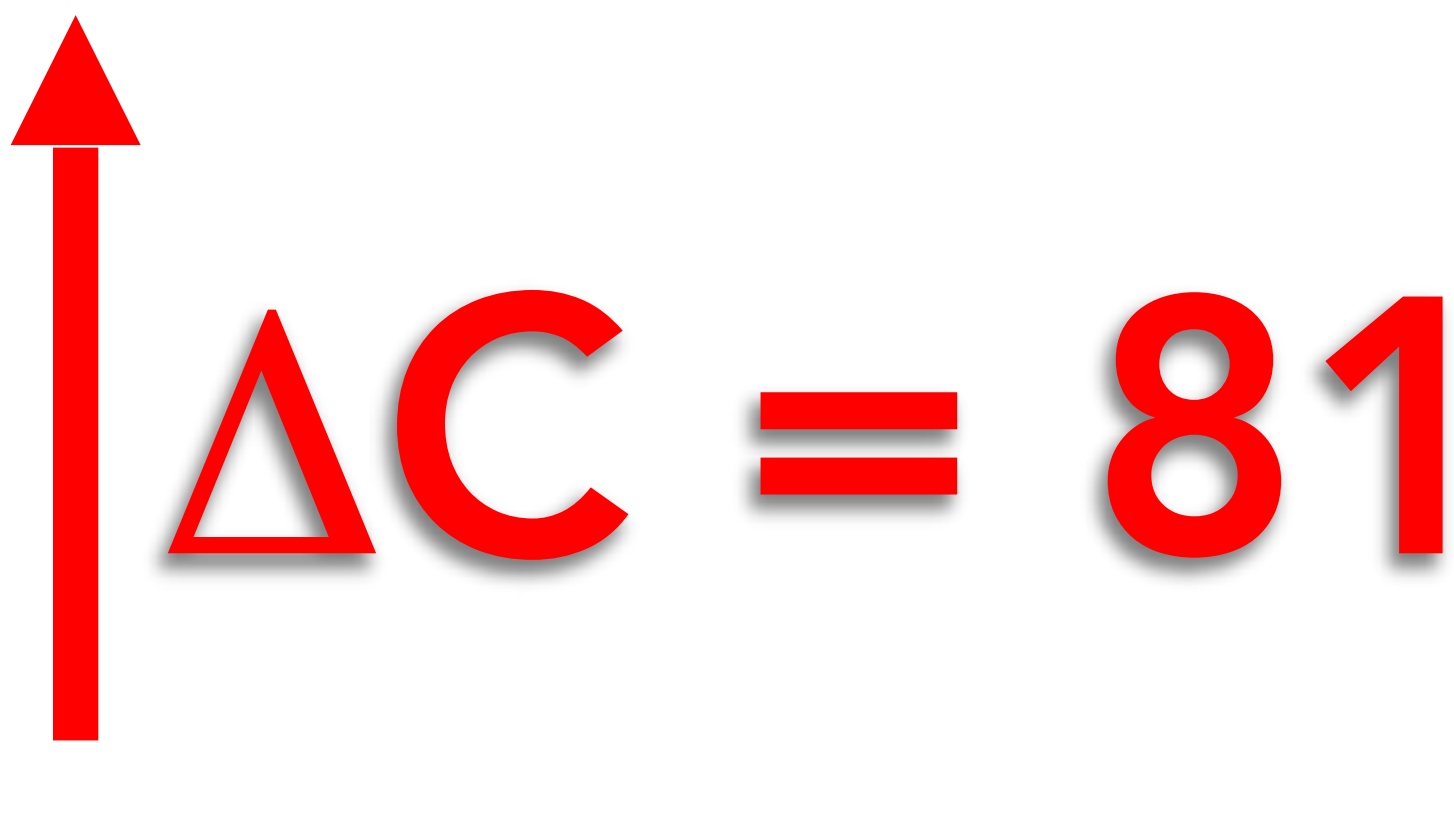
$$\Delta C = 100 * 0.9$$


ΔC = 90



Inventories

Drop


ΔC = 81

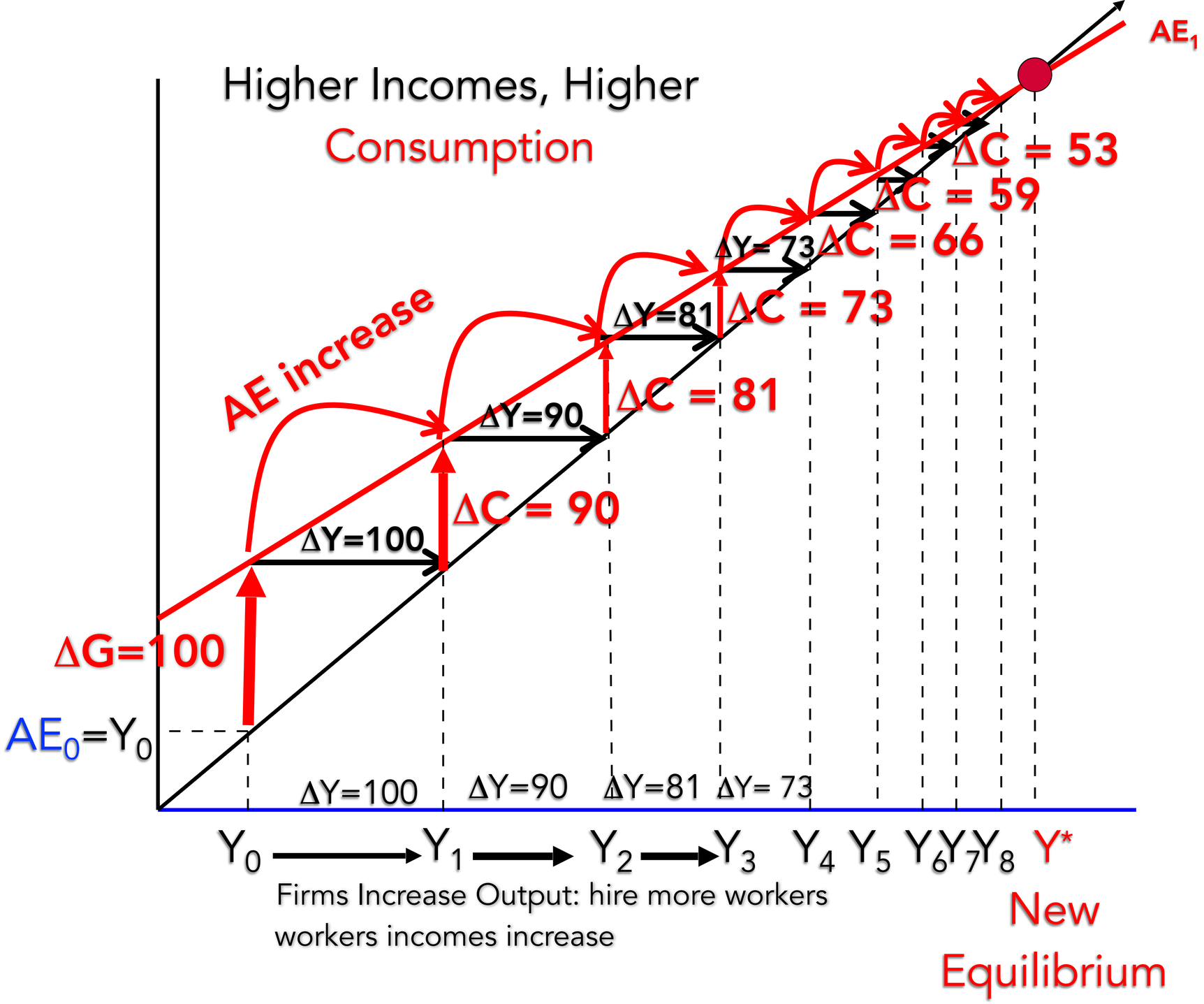
Inventories

Drop


Y 1


Y 2

The economy starts at equilibrium at Y_0 sellers have been selling Y_0 expect to sell Y_0 and thus produce Y_0


Higher Incomes, Higher
Consumption
AE1
ΔC = 53
ΔC = 59
ΔC = 66
ΔY= 73
ΔC = 73
ΔY=81
ΔC = 81
AE increase
ΔY=90
ΔC = 90
ΔY=100
ΔG=100
AE0=Y0
ΔY=100
ΔY=90
ΔY=81
ΔY= 73
Y0
Y1
Y2
Y3
Y4
Y5
Y6
Y7
Y8
Y*
Firms Increase Output: hire more workers
workers incomes increase
New
Equilibrium