

45

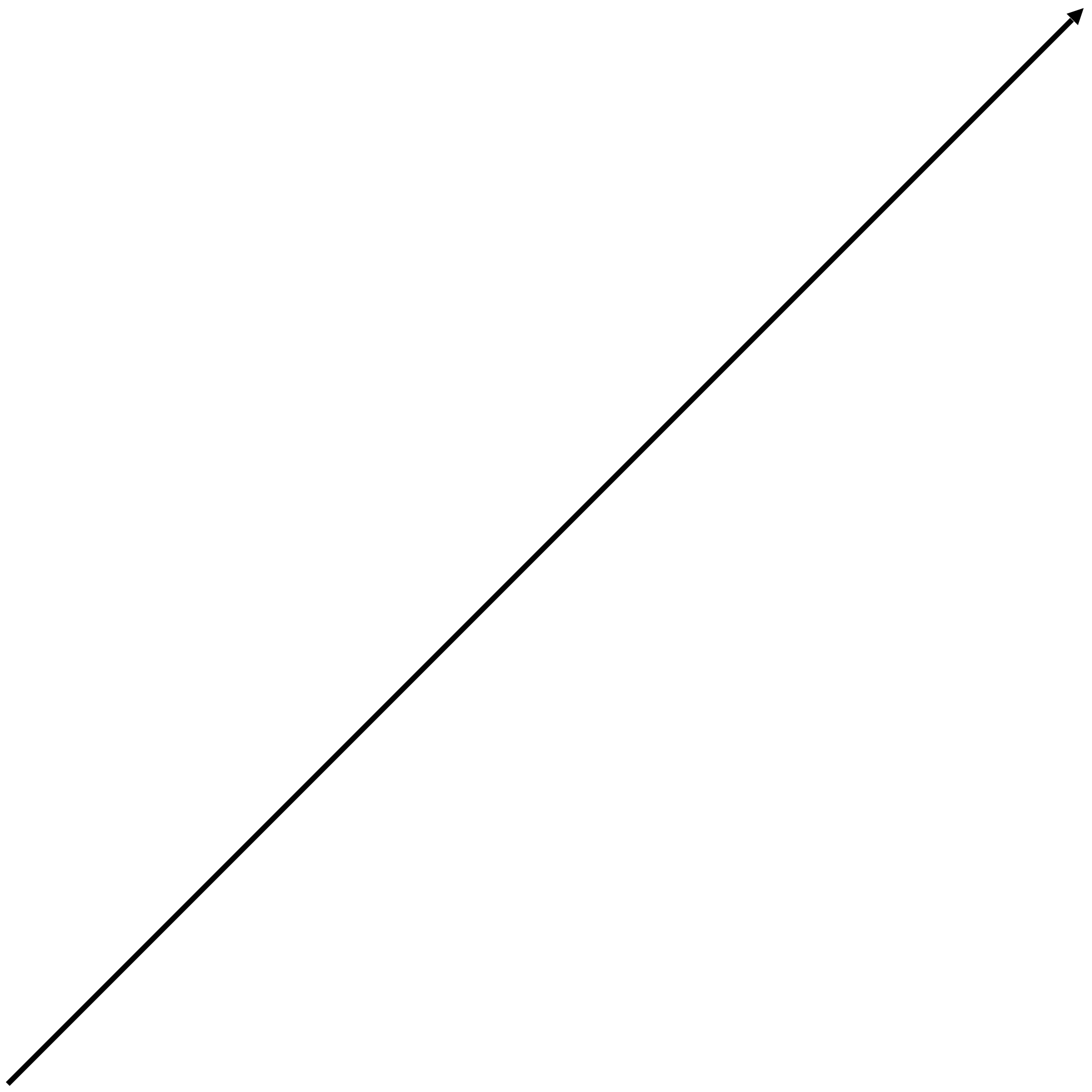
AE₁



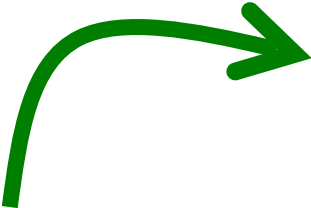
Y

O









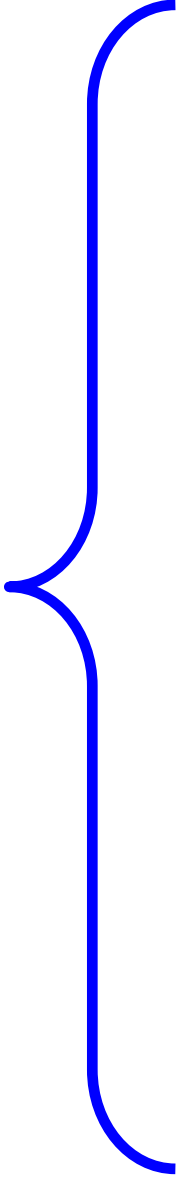
A

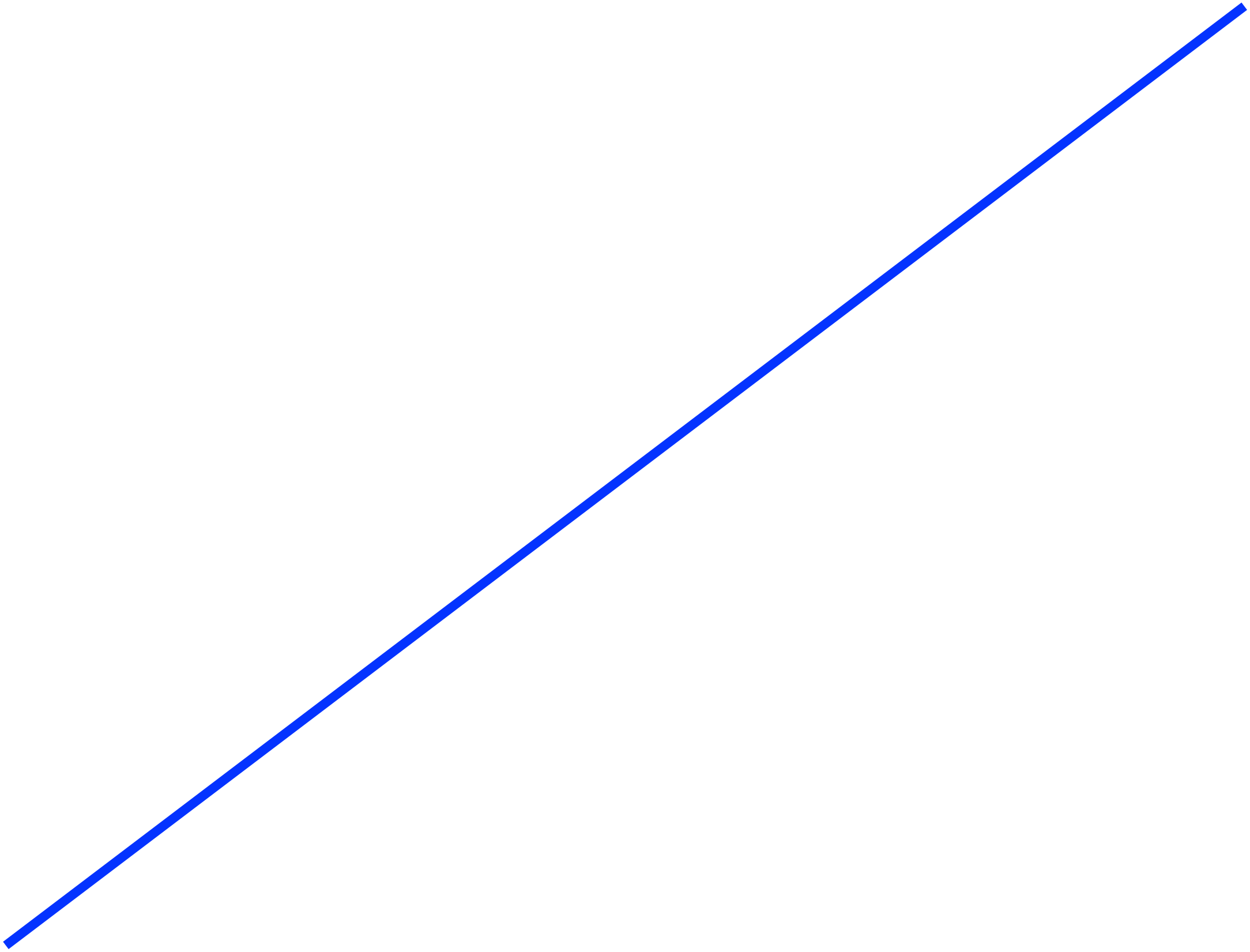
E

O

AE_1

$$\Delta A E = 280$$













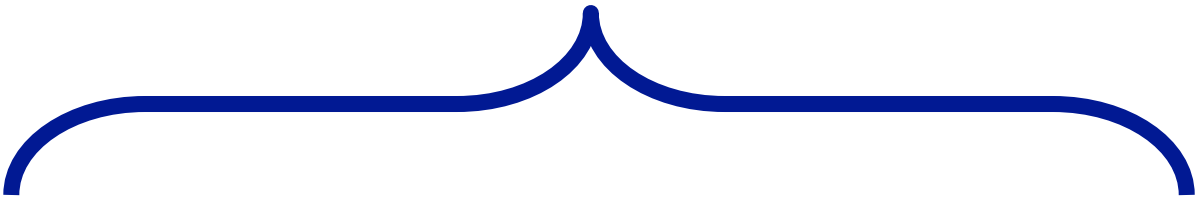
$$\Delta Y = 280$$

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

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GDP_o

$P_1 =$



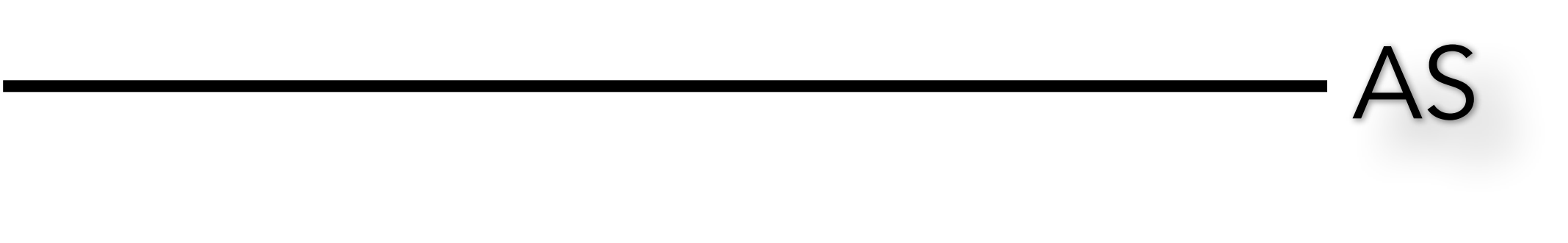
Aggregate Supply
when prices = P_o

Price Level
(CPI)

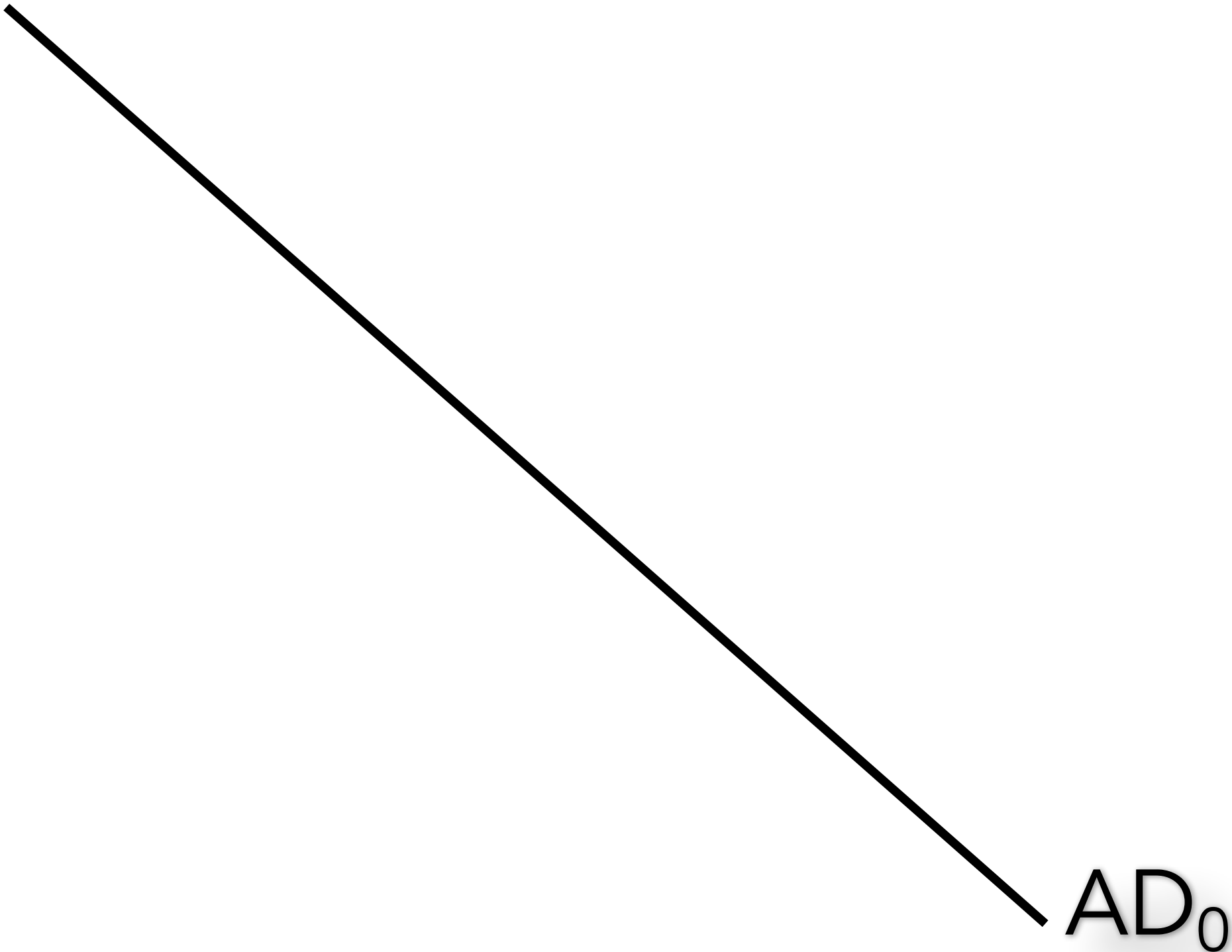




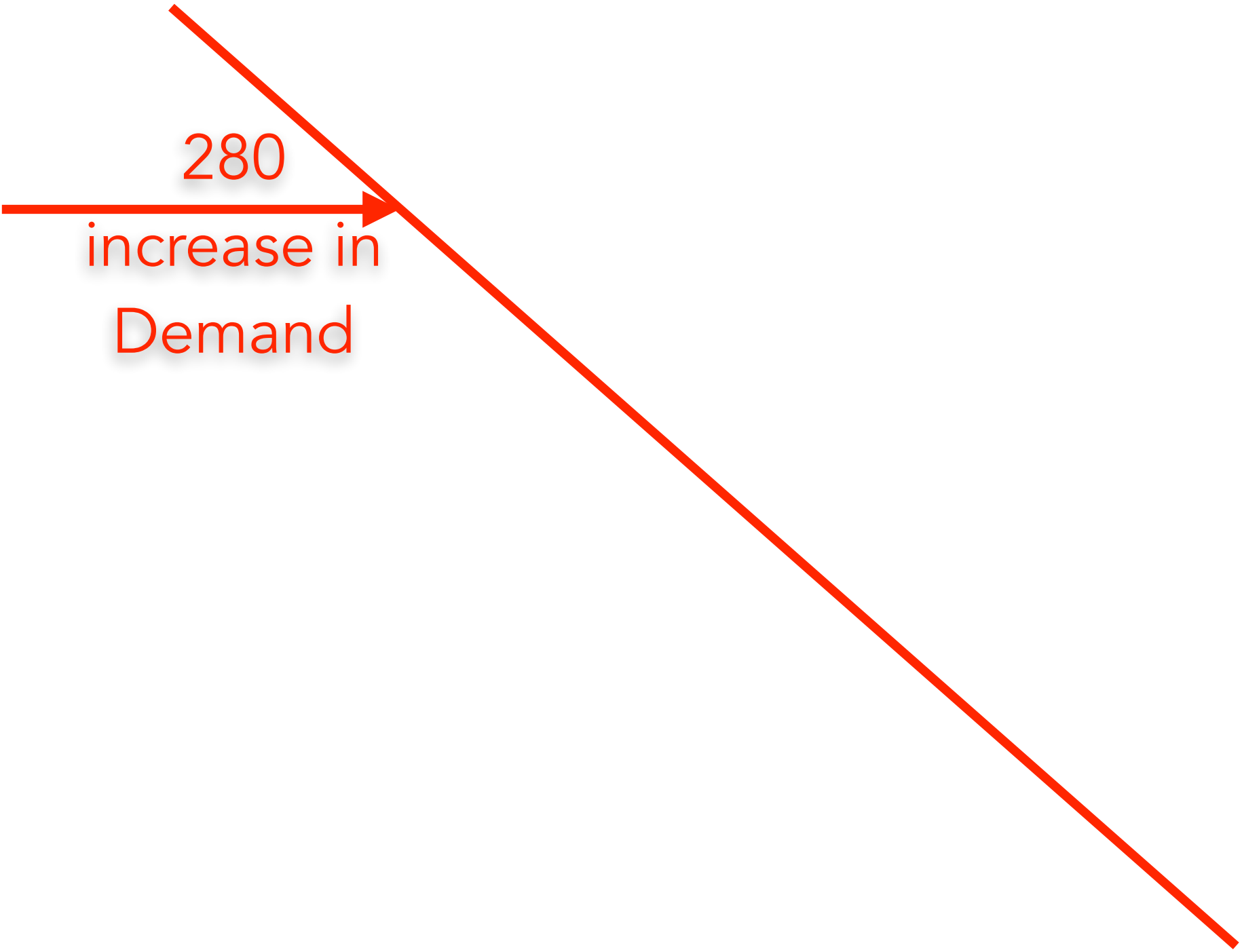
Firms increase
production **NOT**
prices



AS







$$\Delta AD = 280$$



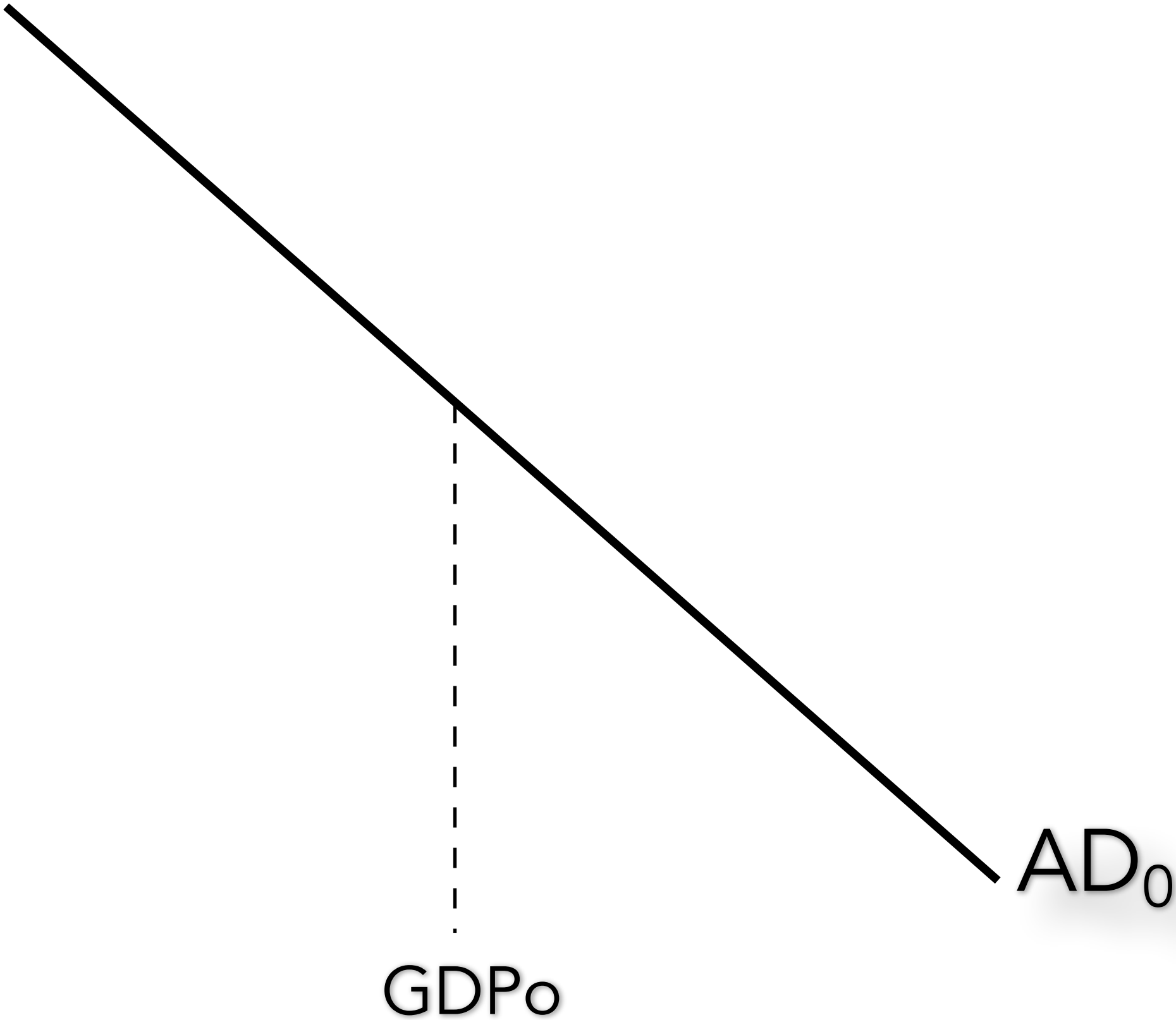
AD₁





Aggregate Demand
when prices = P_o

GDP₁





280

increase in
Demand



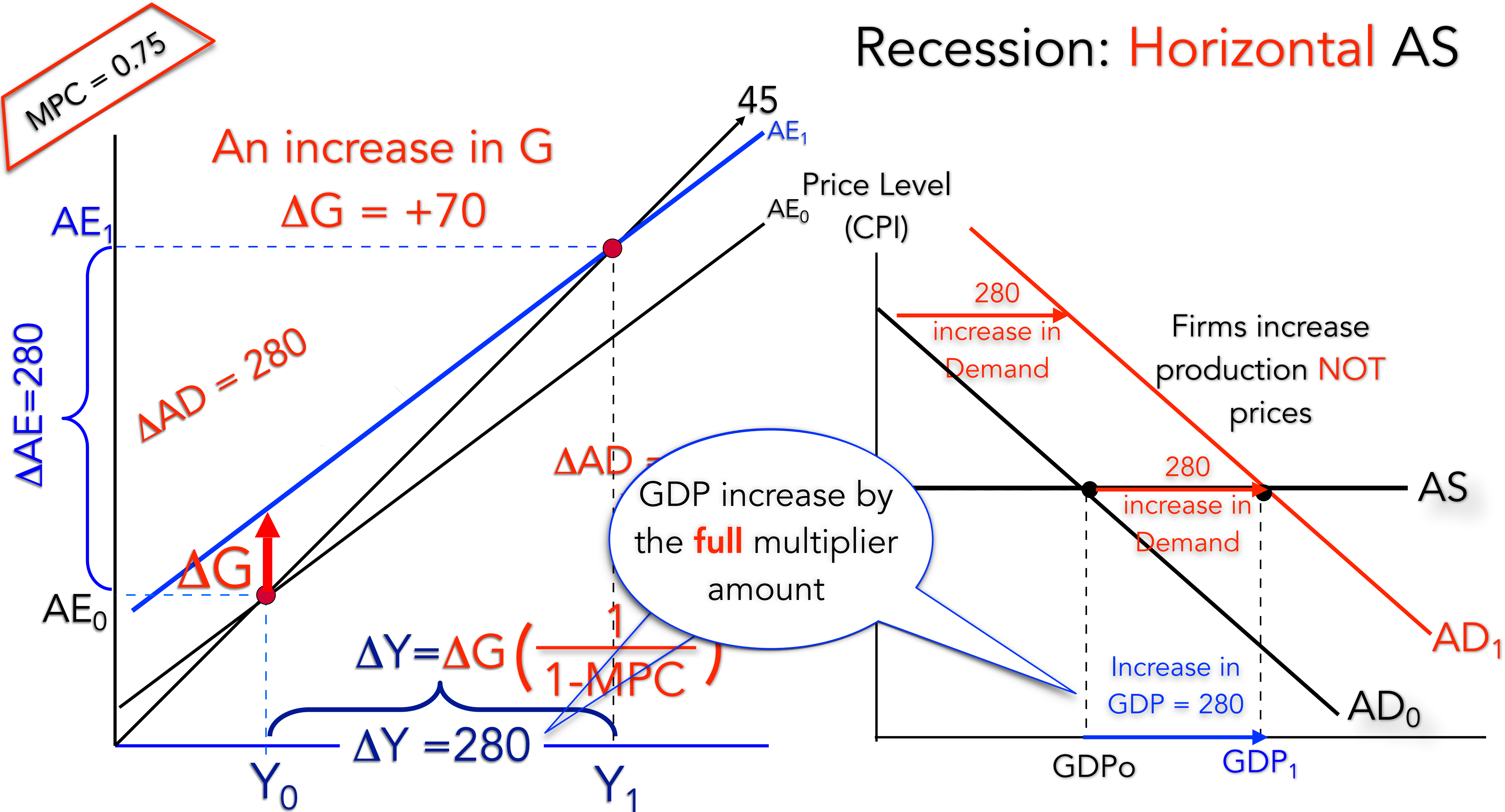
Increase in
GDP = 280

Residence: Horizontal AS



GDP increase by
the **full** multiplier
amount

Recession: Horizontal AS



MPC = 0.75

An increase in G
 $\Delta G = +70$

$\Delta AE = 280$

$\Delta AD = 280$

ΔG

$$\Delta Y = \Delta G \left(\frac{1}{1 - MPC} \right)$$

$\Delta Y = 280$

Y_0

Y_1

Price Level
(CPI)

P_0

GDP_0

AD_0

