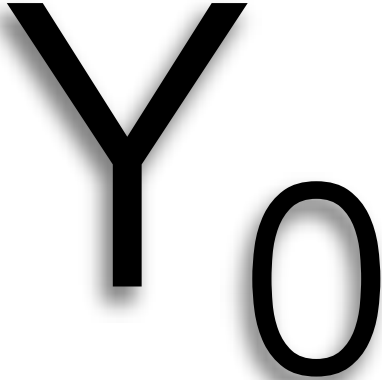
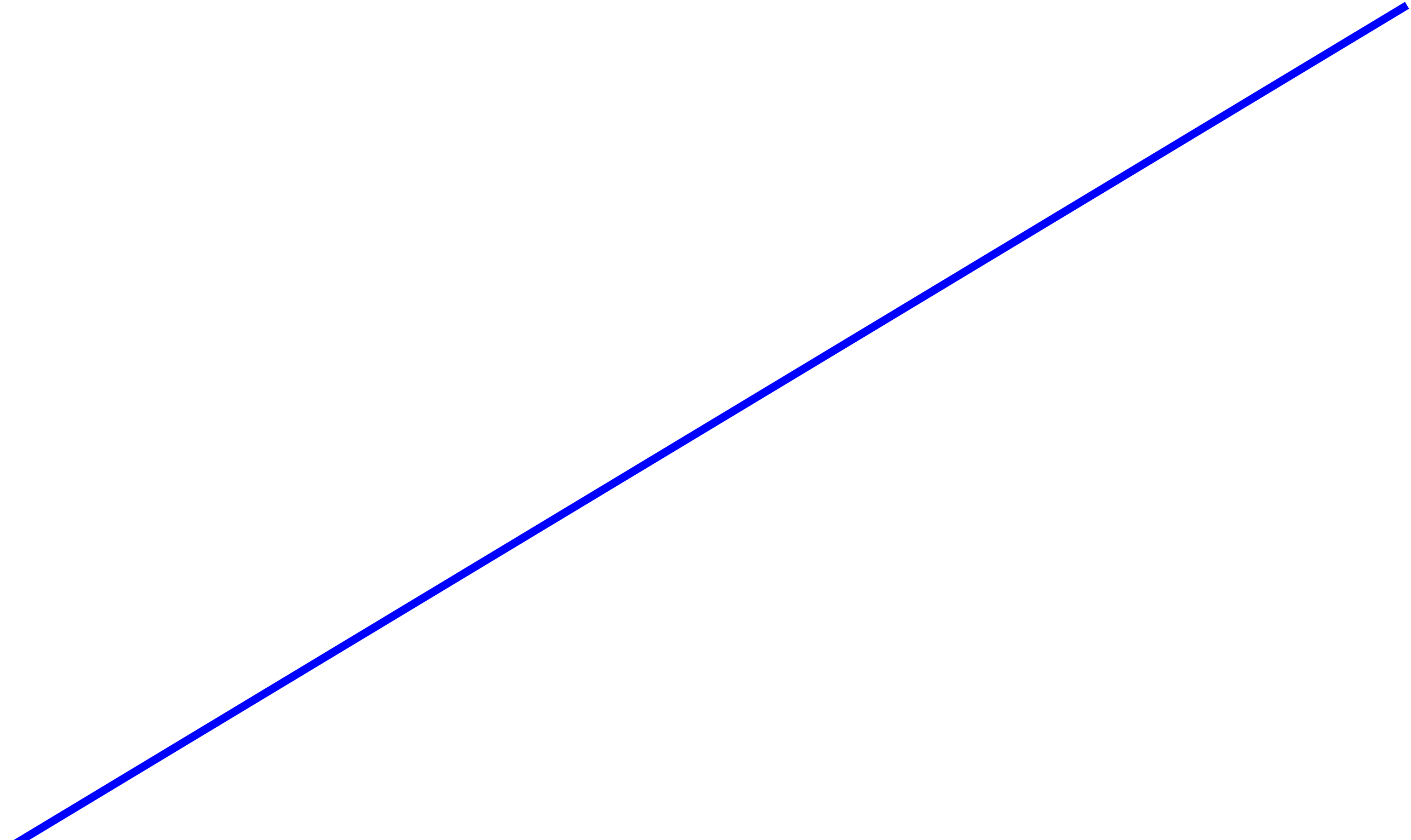
AE.

AE1

Firms Increase Output: hire more workers: incomes increase


Yo

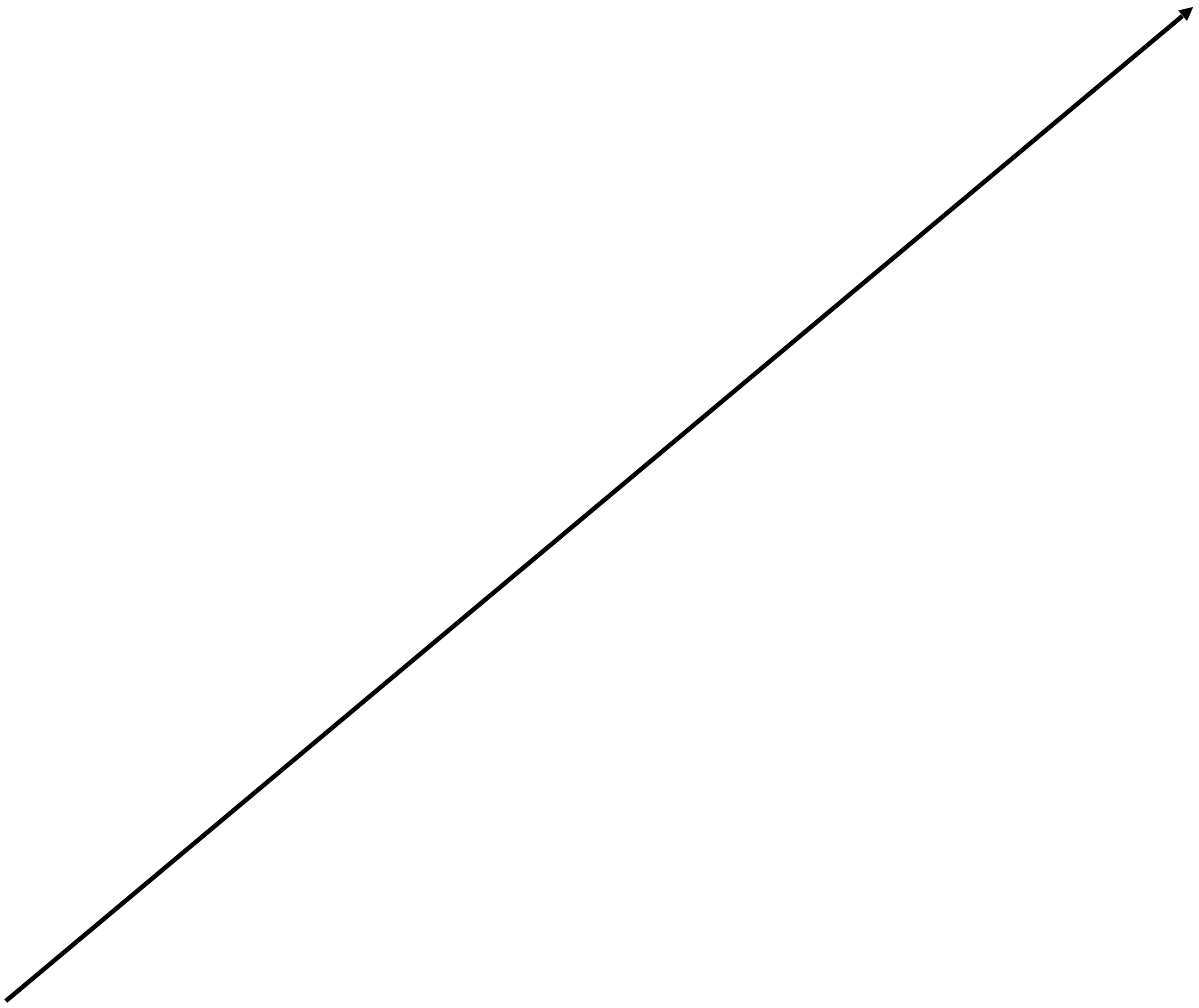


ΔY=90

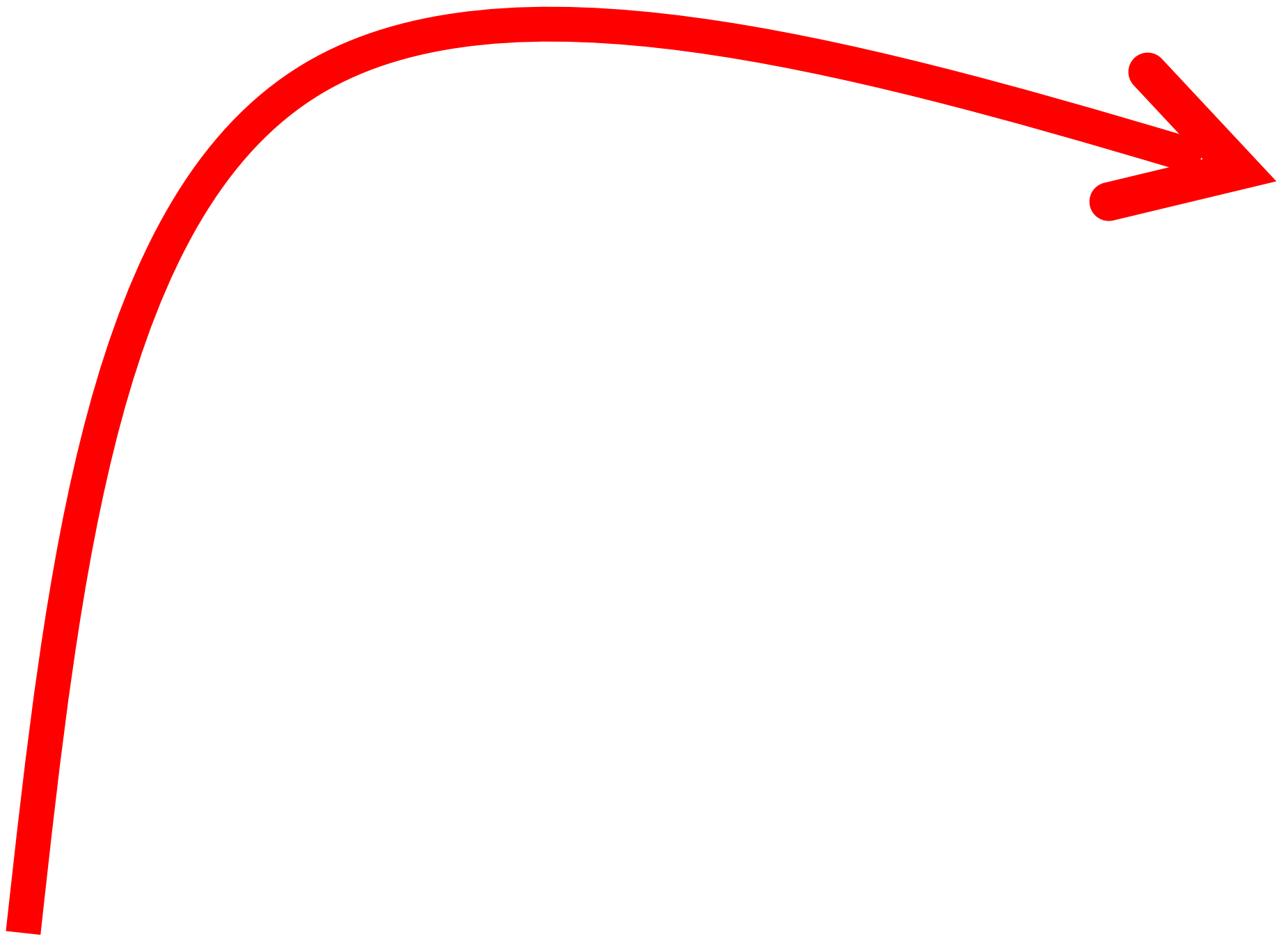
New workers, buy more goods and services:

Consumption increase

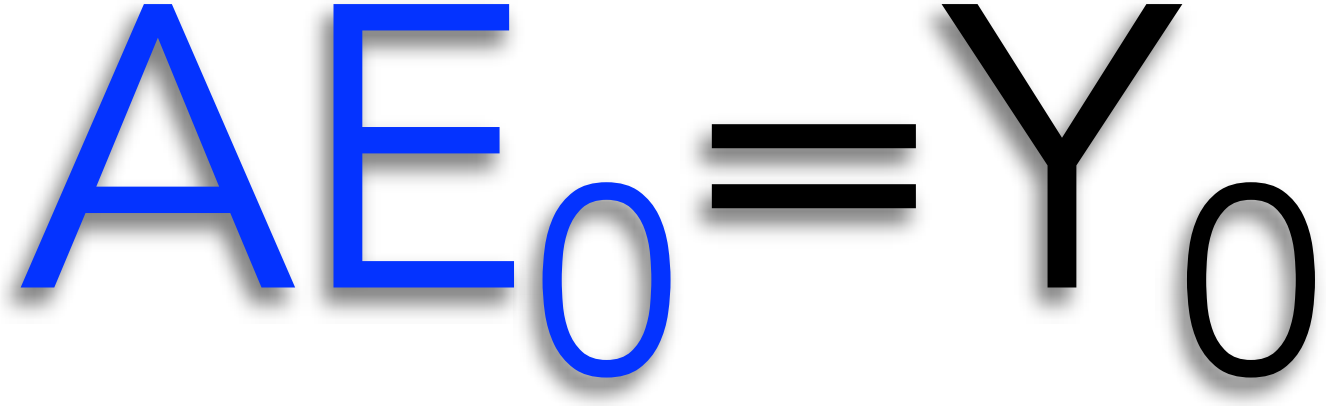
$\Delta Y=100$

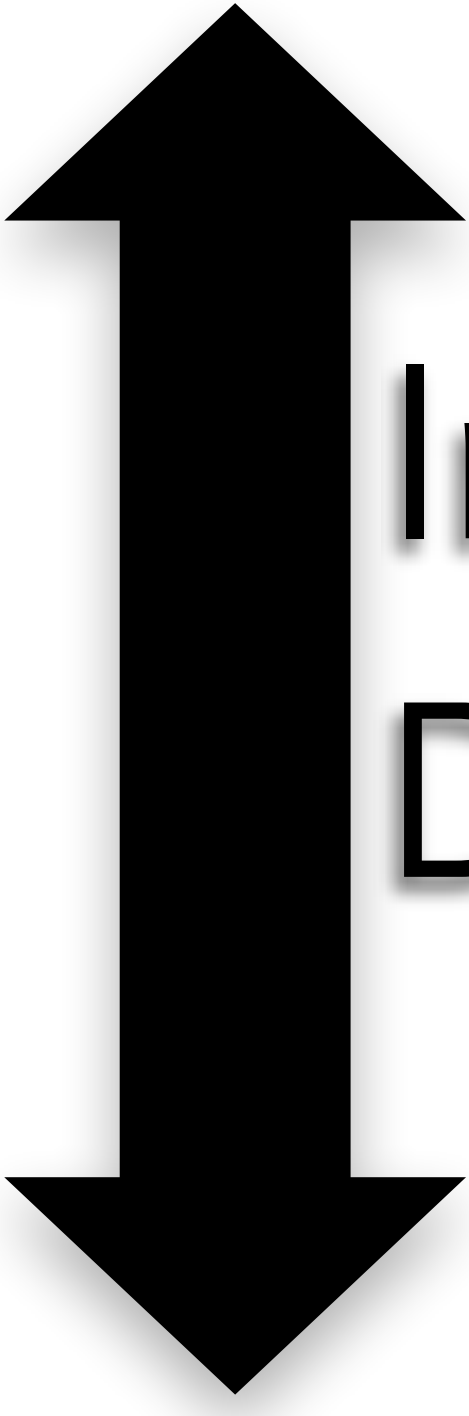


ΔG=100



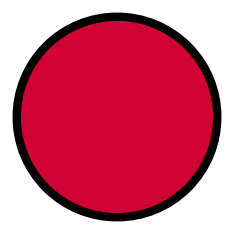
AE increase


AE0=Y0

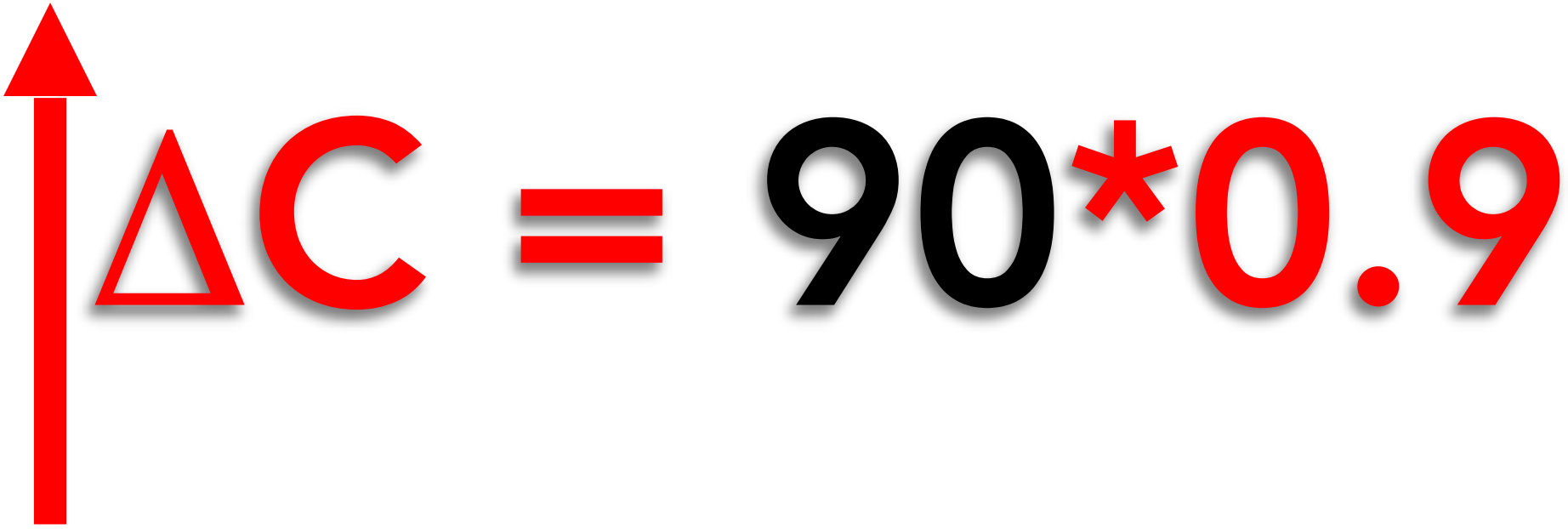


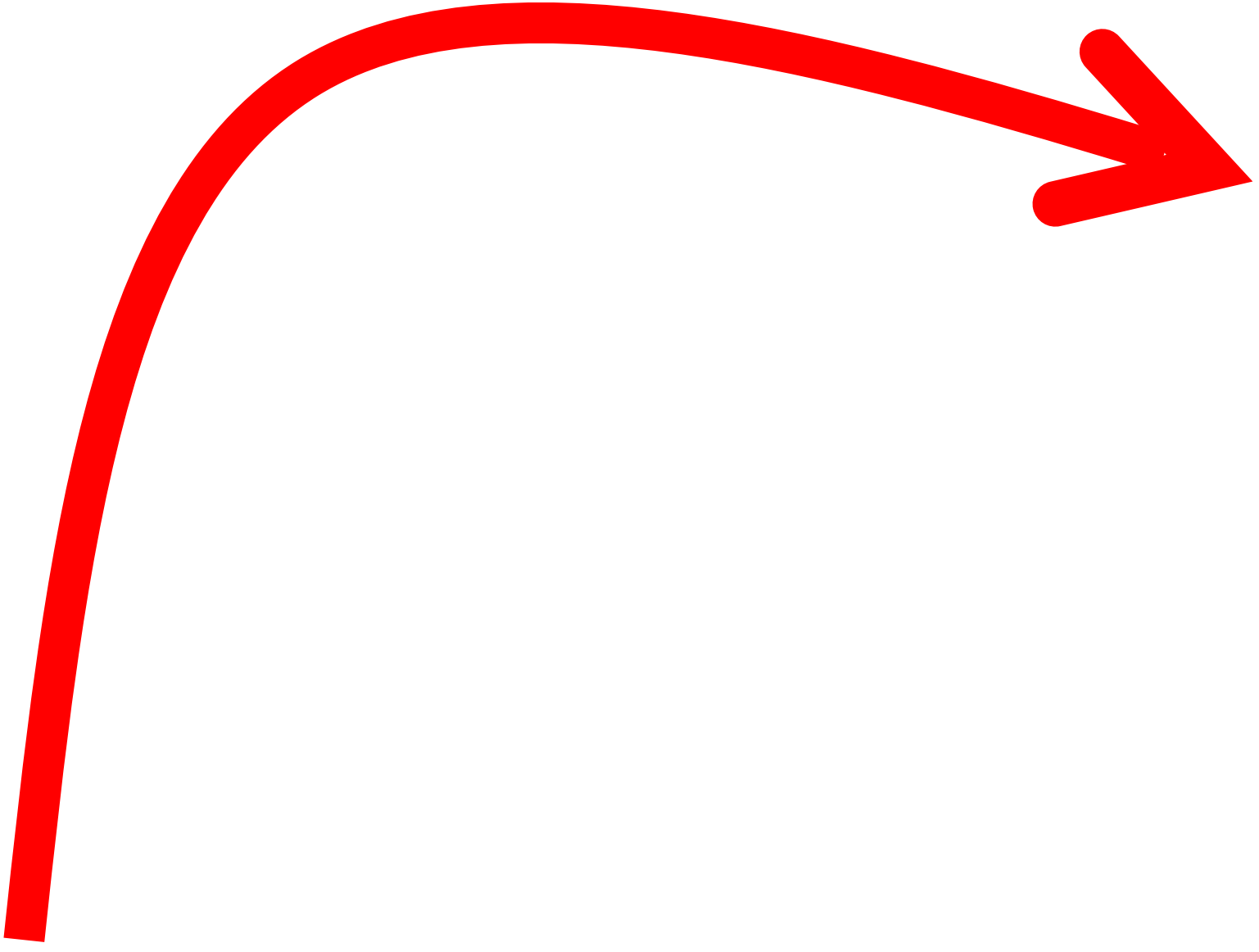
Inventories

Drop



Firms Increase Output: hire more workers incomes increase

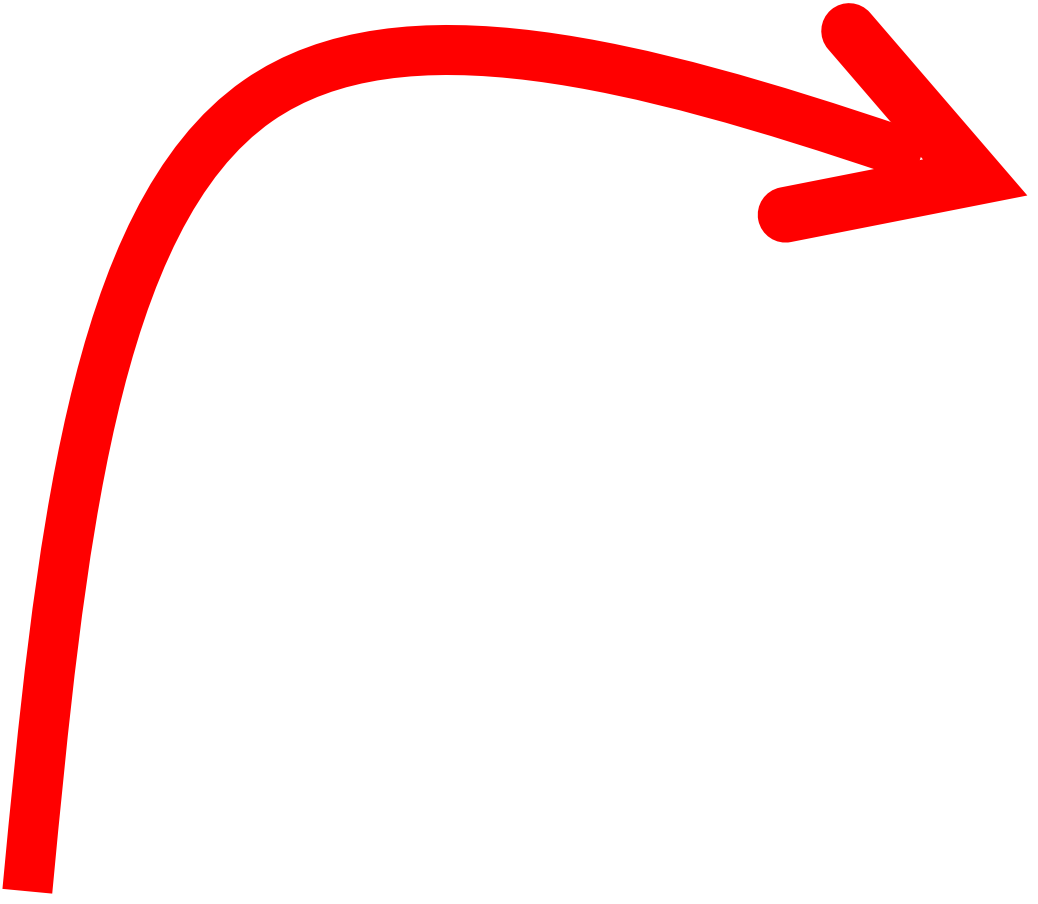

ΔC = 90*0.9



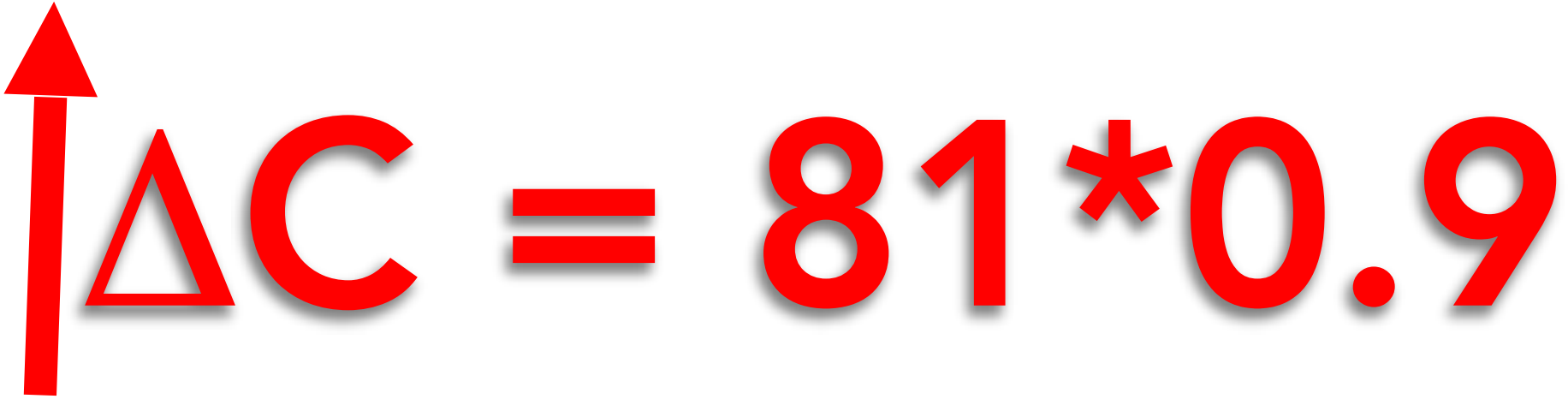
Firms Increase Output: hire more workers

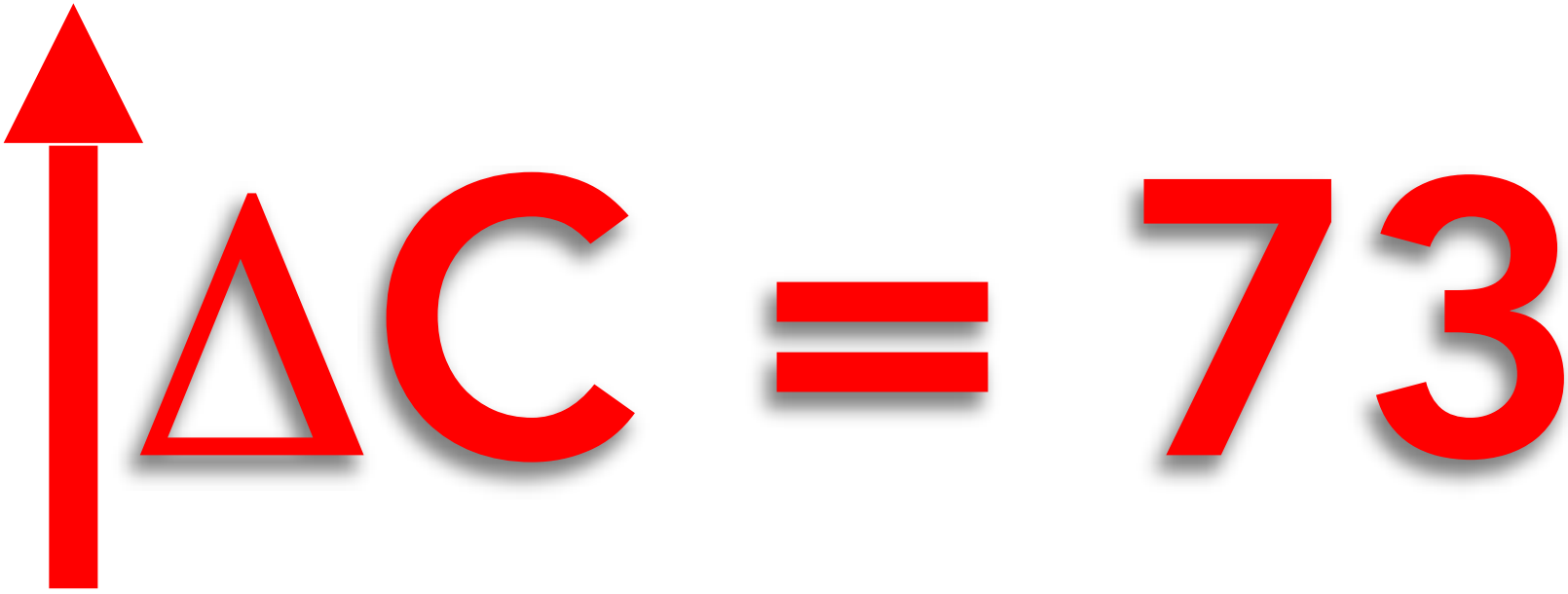
Y 3

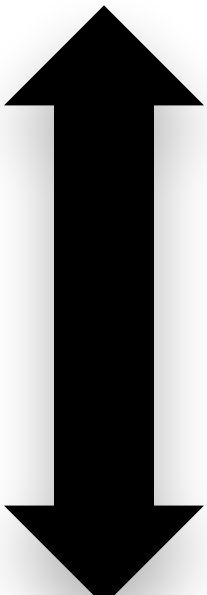
ΔY=81

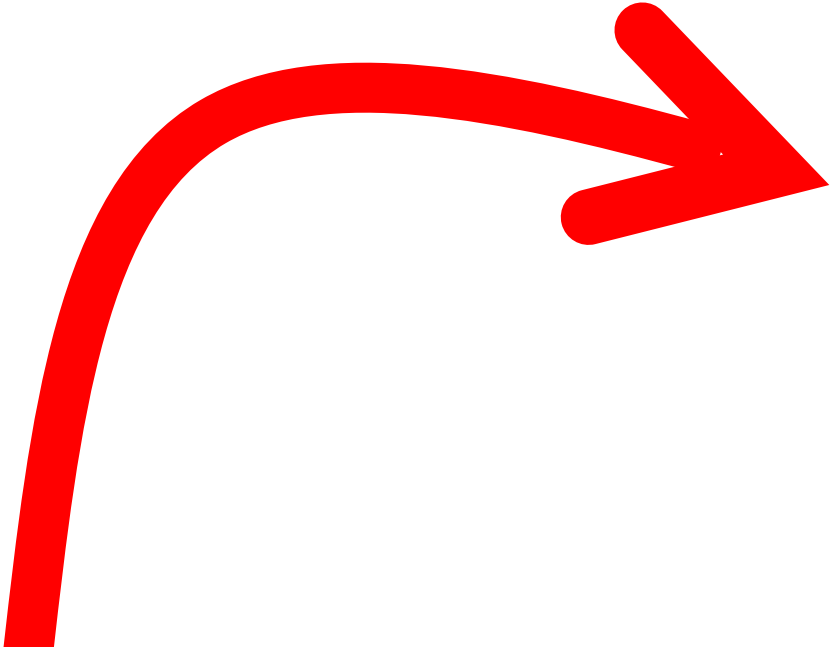


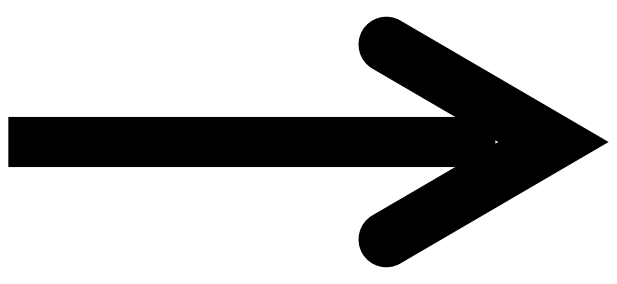
$\Delta Y = 73$


ΔC = 81*0.9


ΔC = 73

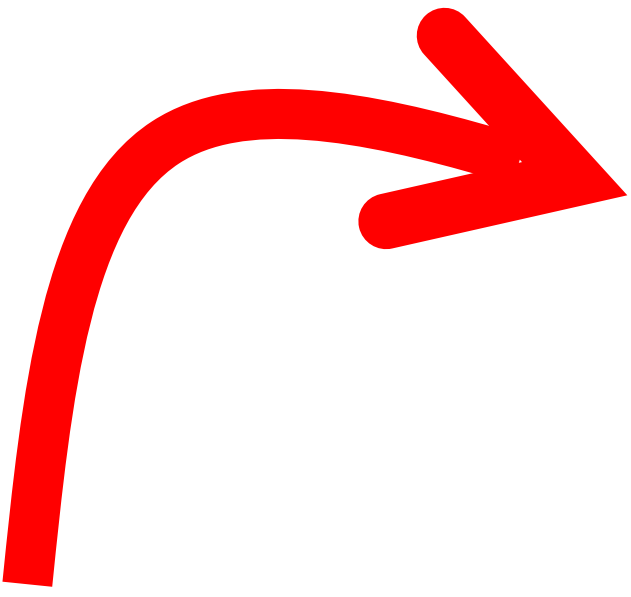


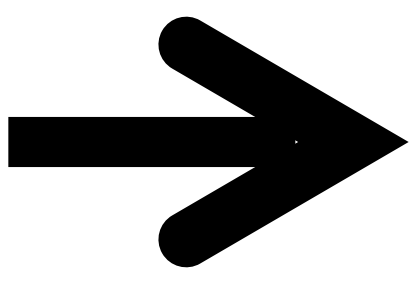


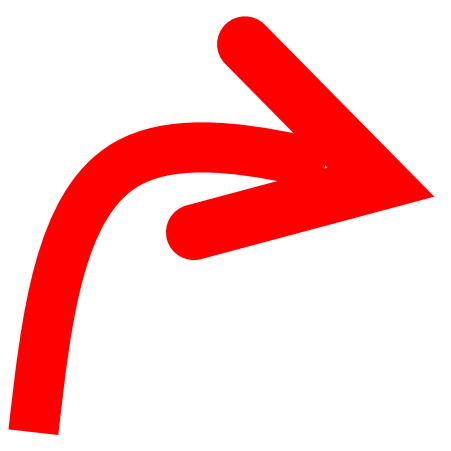


Y4

Y 5



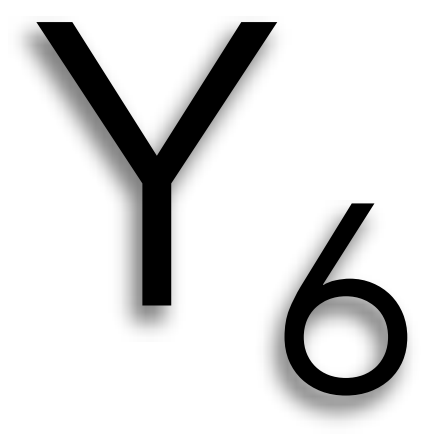


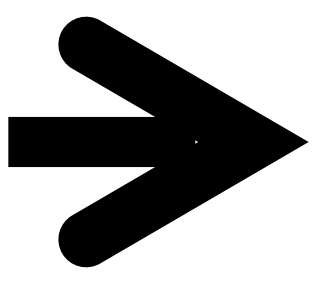


Y*

New

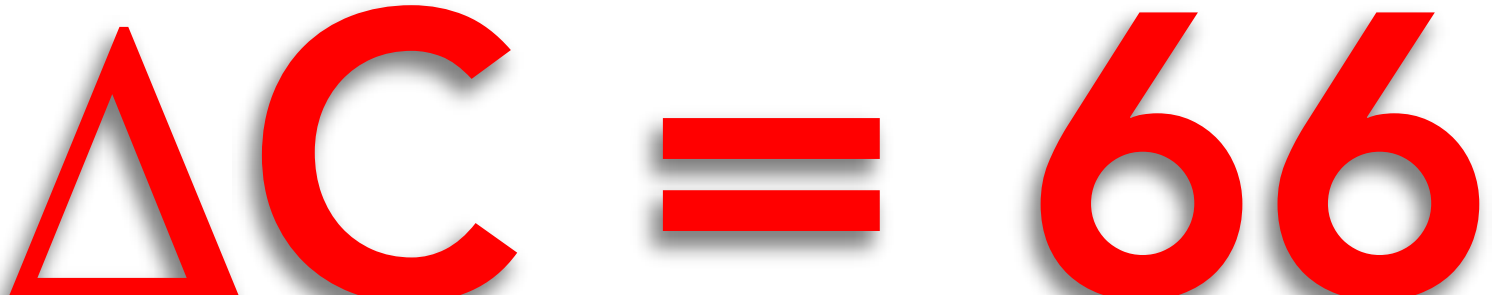
Equilibrium


Y
6



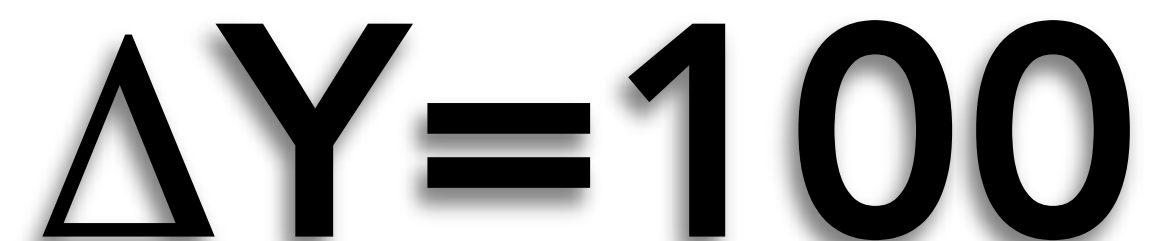
Y7

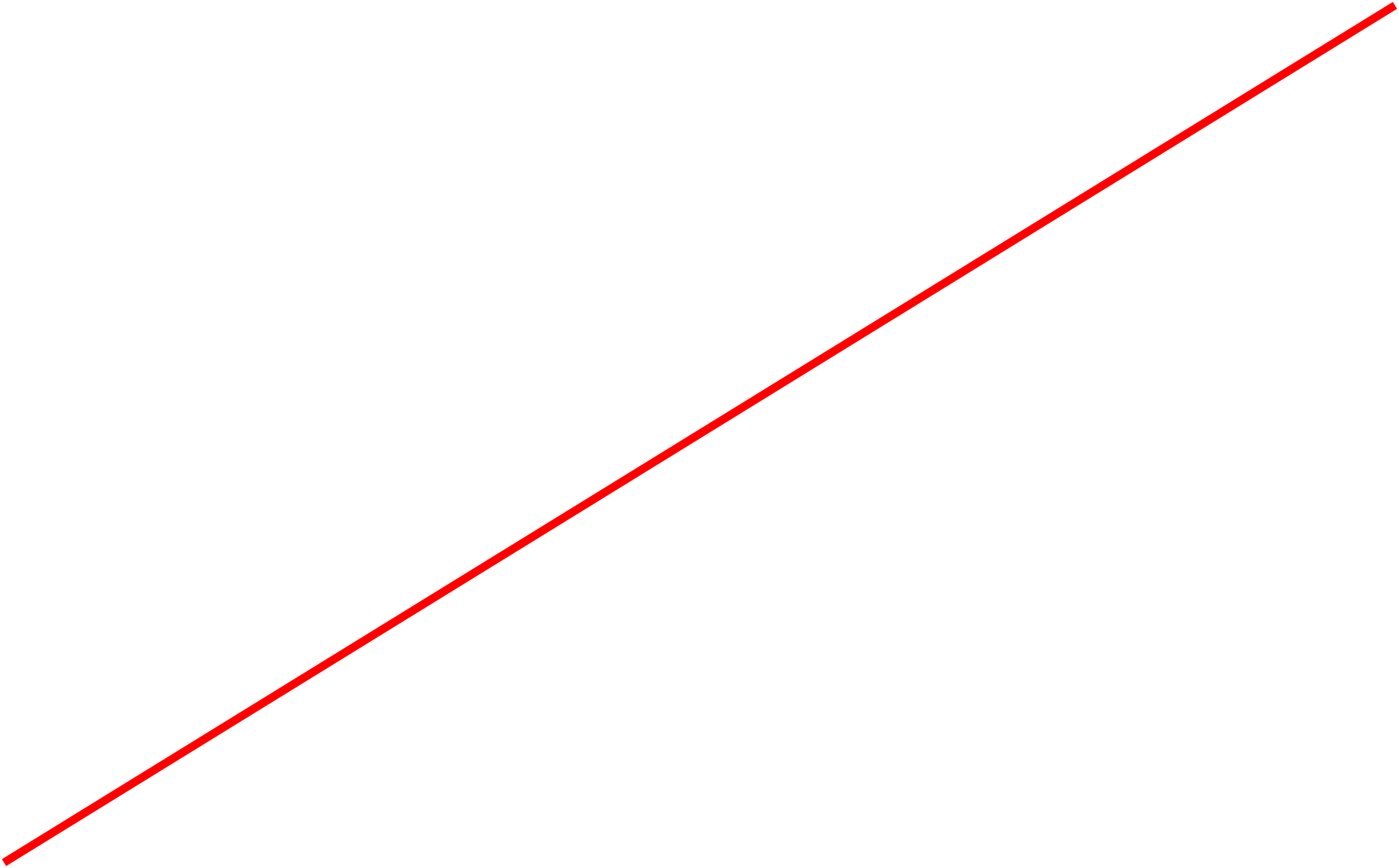
Y 8


ΔC = 66

$\Delta C = 59$

$\Delta C = 53$

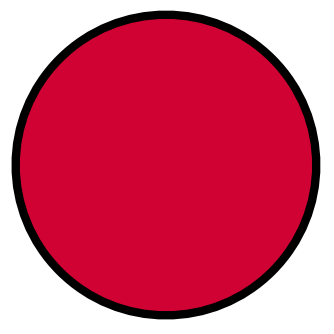

ΔY=100

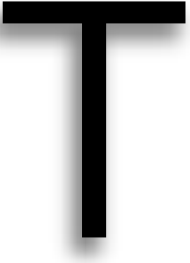


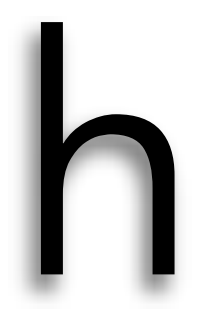
ΔY=90

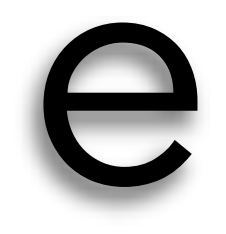
ΔY=81

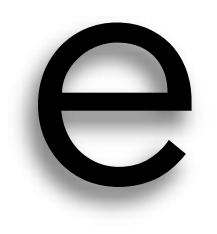
ΔY= 73

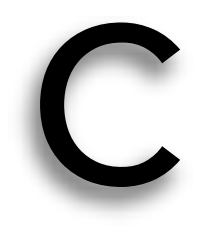


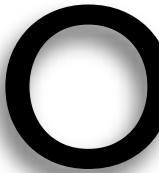


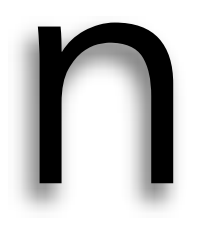








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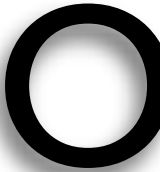

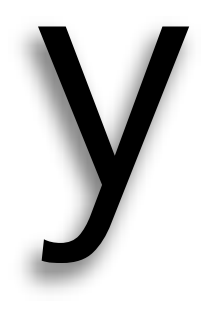

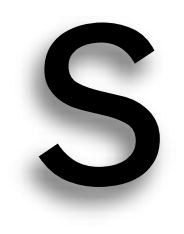
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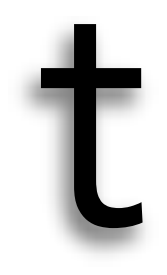

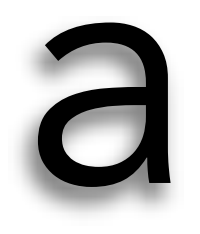
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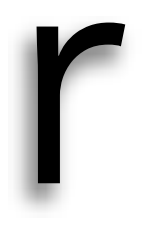

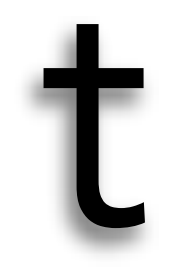

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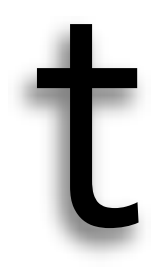

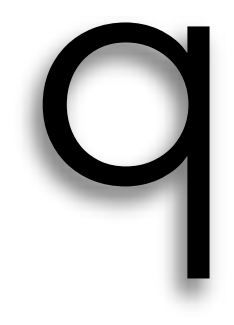

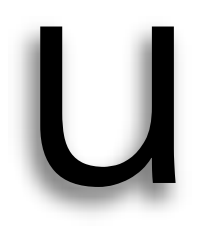

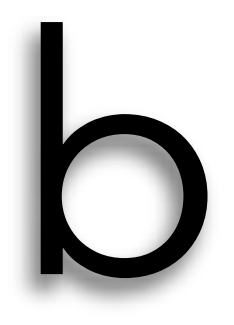

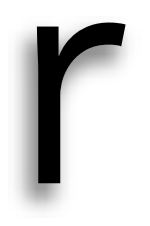

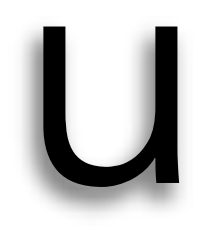

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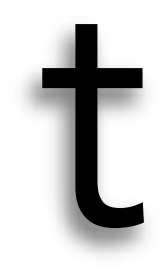

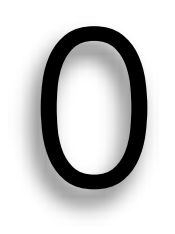

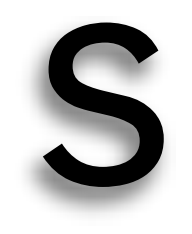
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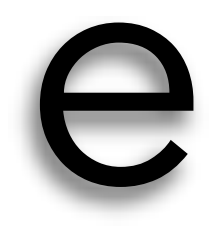

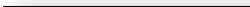

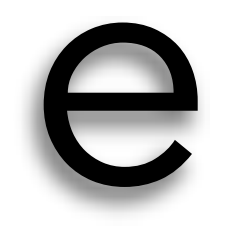

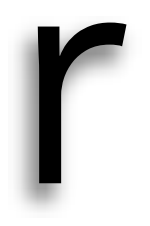

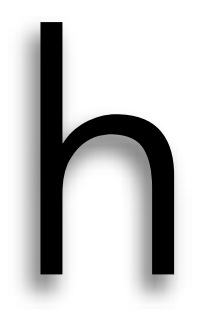

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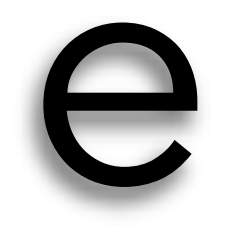

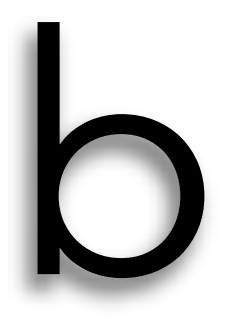

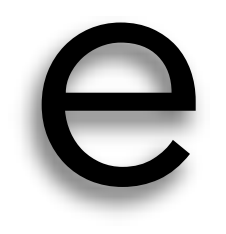

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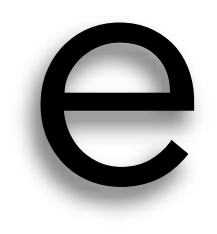

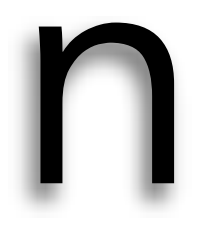
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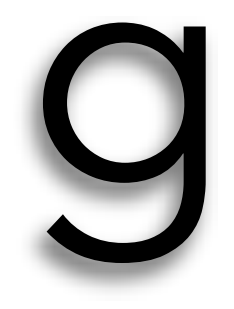

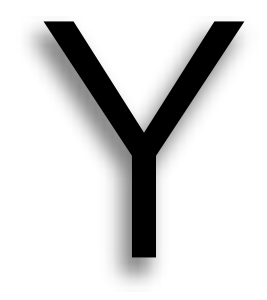

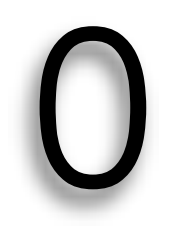

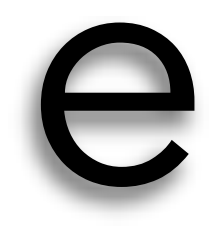

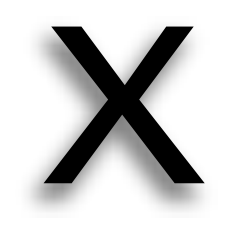

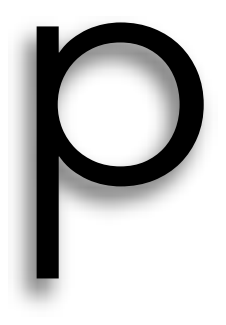

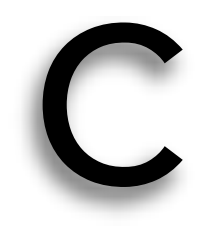

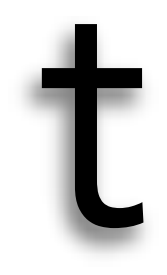

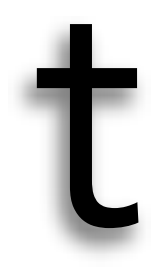

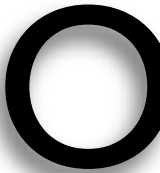

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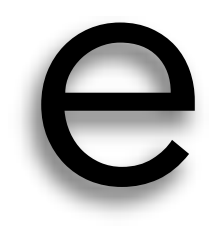

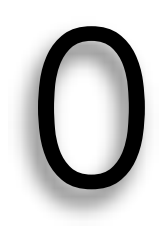

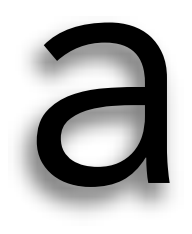
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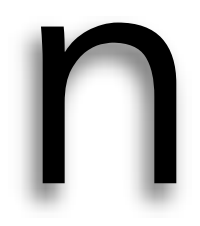
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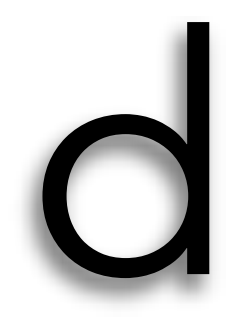
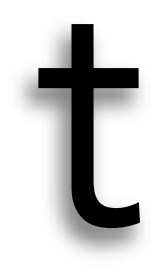
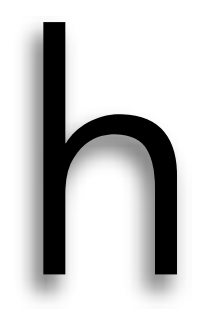
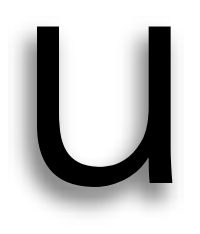
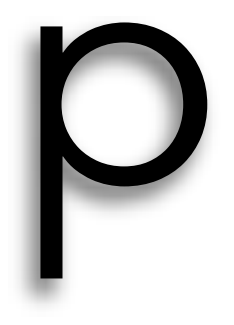
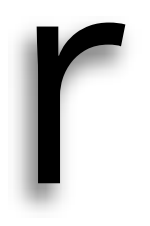


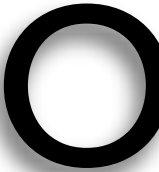


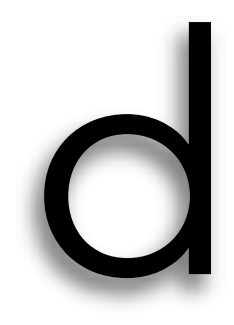


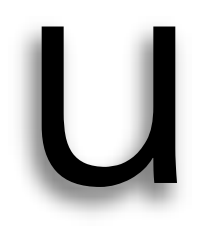


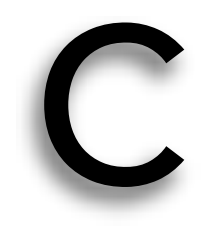


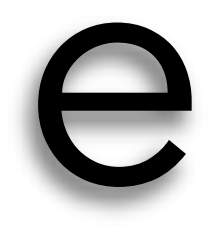


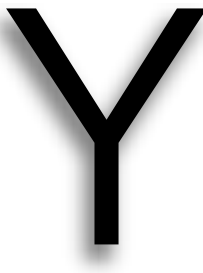


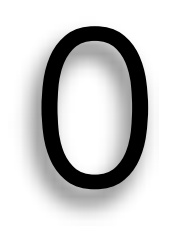






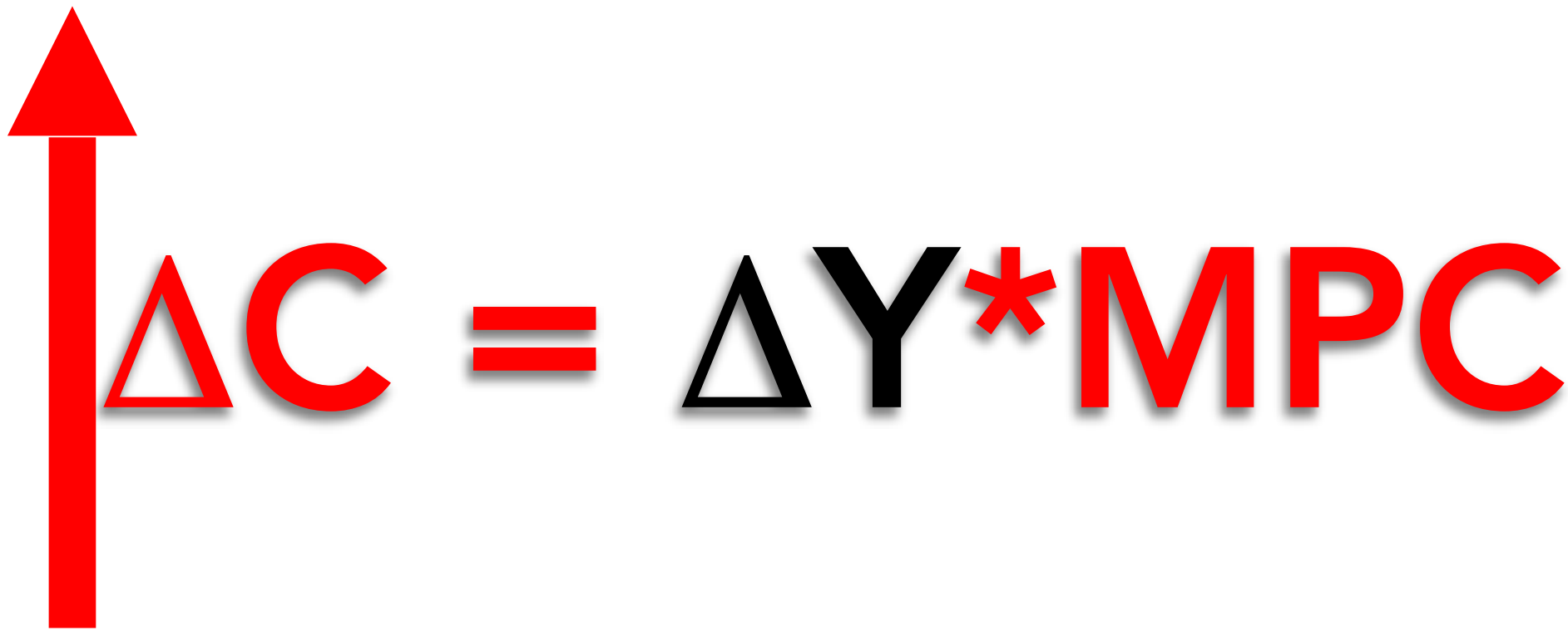


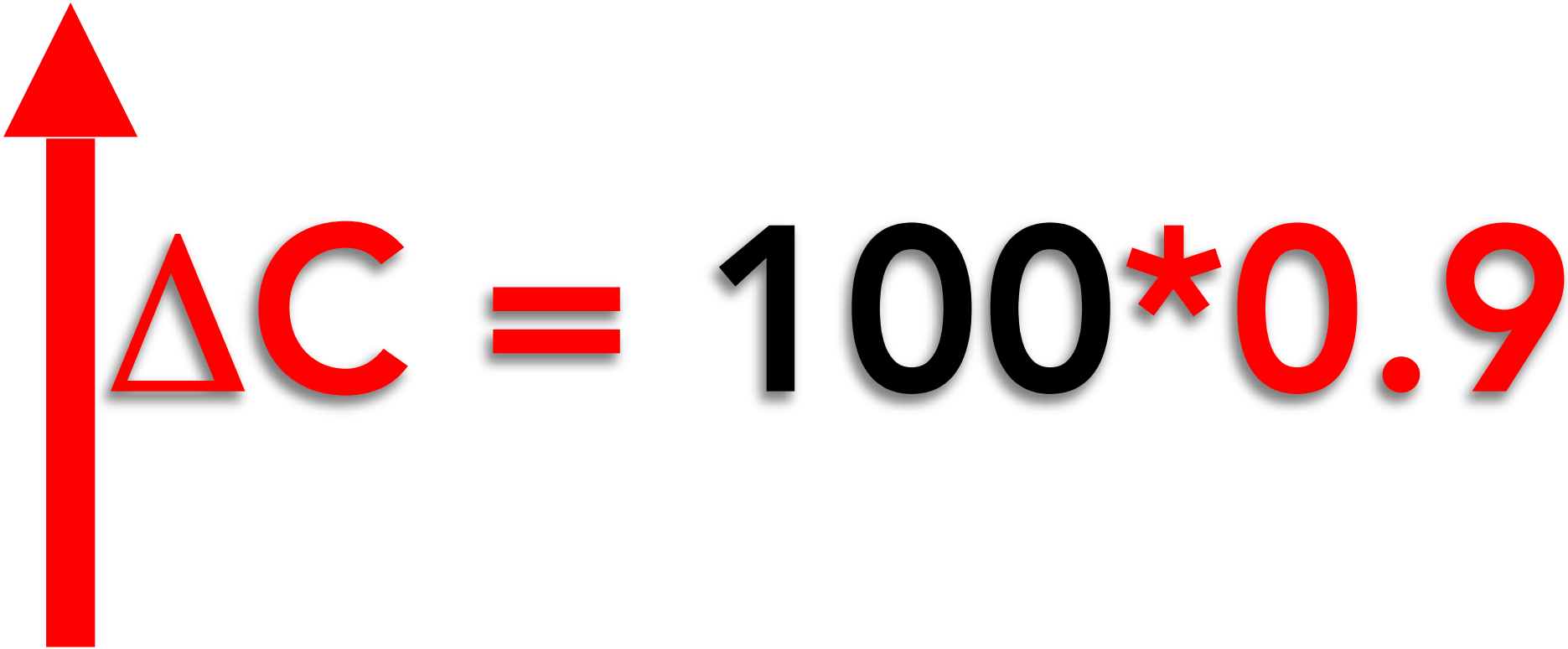


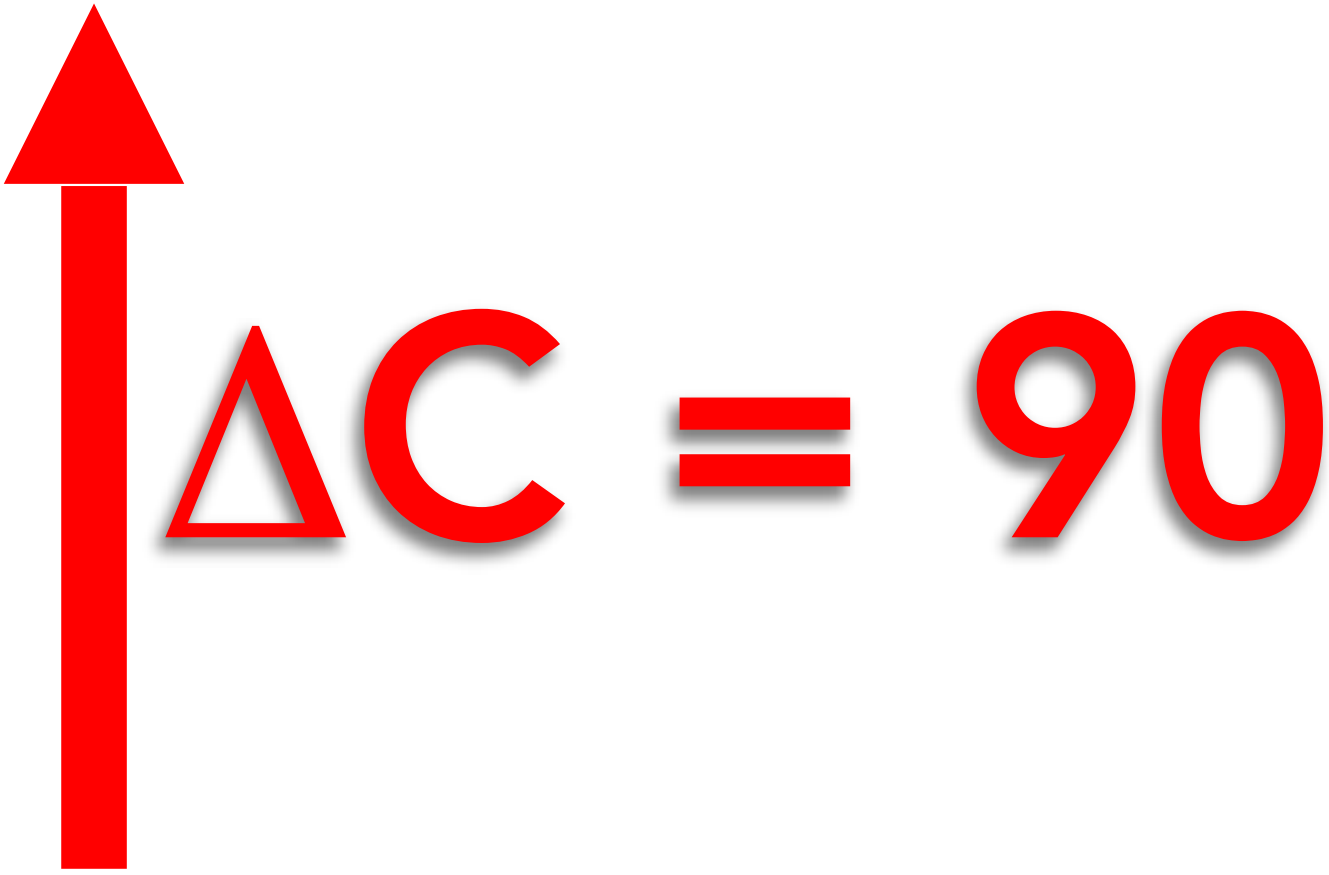


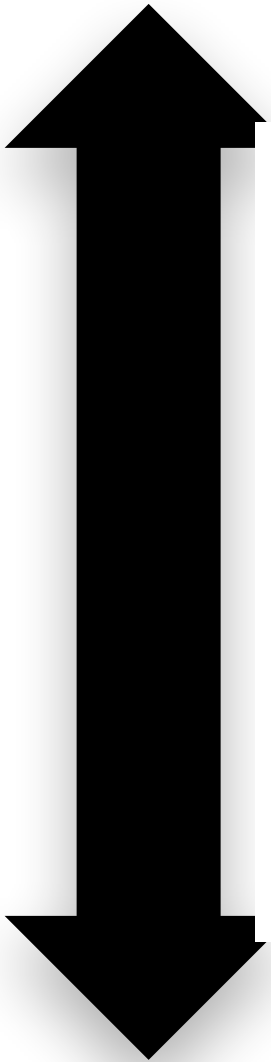
Government pays contractors to repair bridges

Contractors hire more workers to meet the new Government orders


ΔC = ΔY*MPC

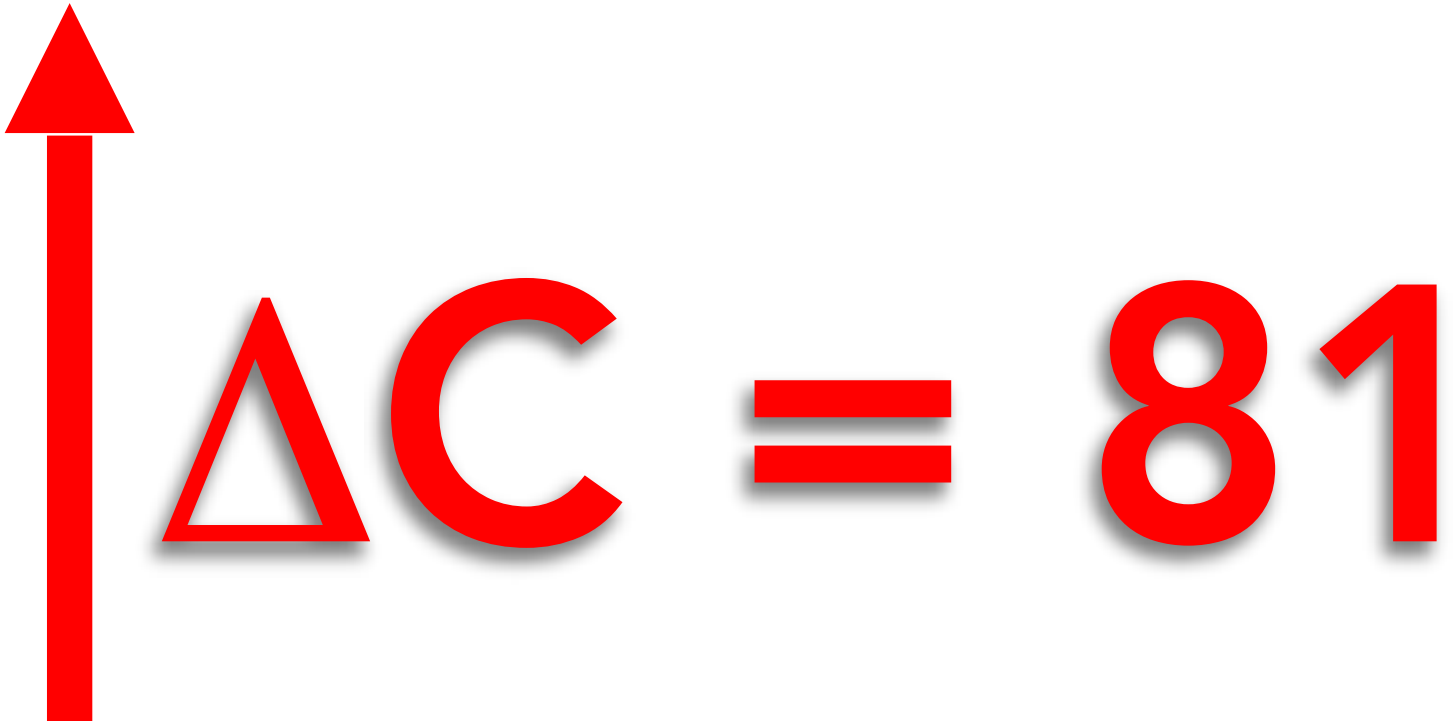

ΔC = 100*0.9


ΔC = 90



Inventories

Drop


ΔC = 81

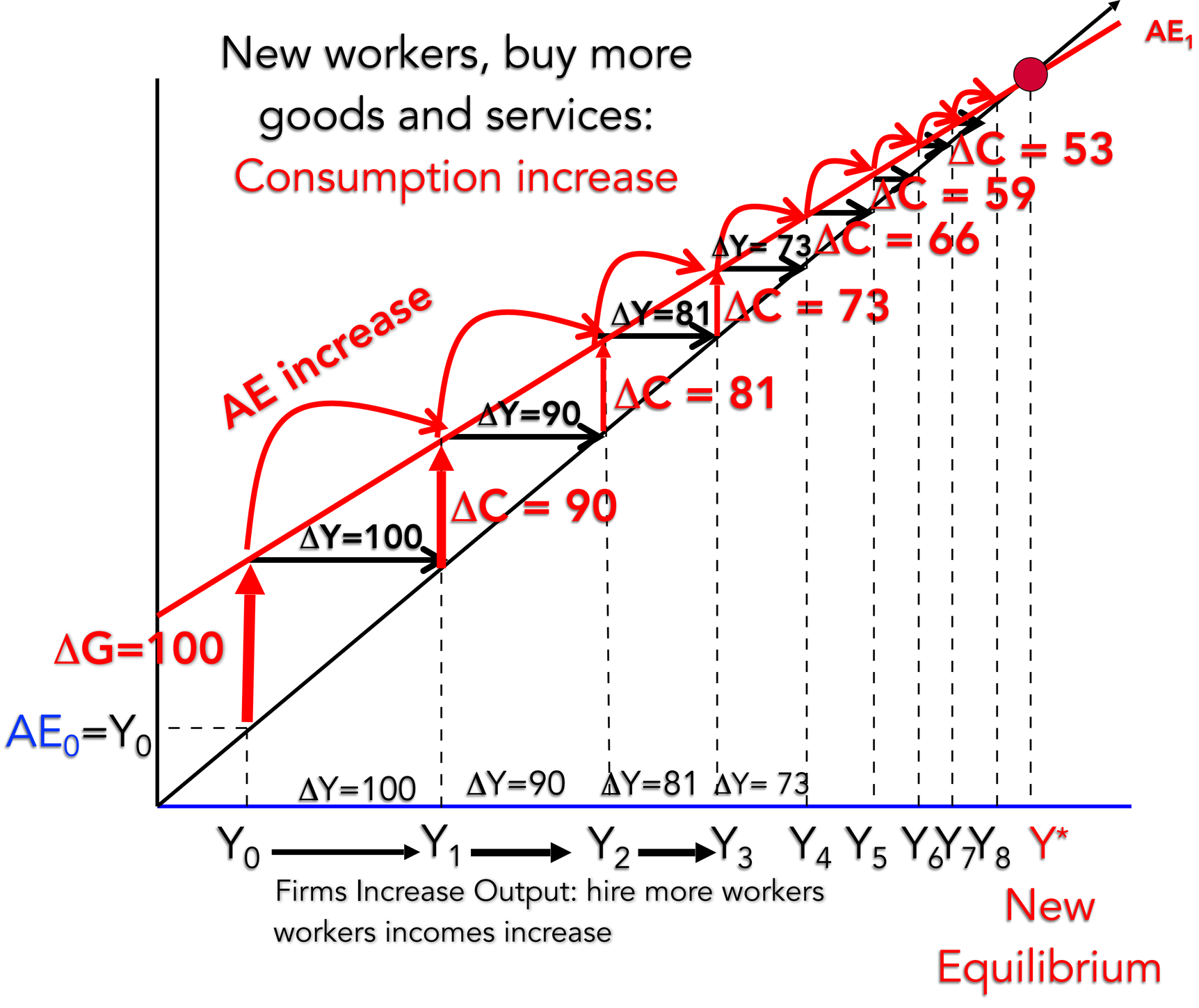
Inventories

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


New workers, buy more goods and services:
Consumption increase
AE increase
AE_1
$\Delta G=100$
$AE_0=Y_0$
$\Delta Y=100$
$\Delta C = 90$
$\Delta Y=90$
$\Delta C = 81$
$\Delta Y=81$
$\Delta C = 73$
$\Delta Y= 73$
$\Delta C = 66$
$\Delta C = 59$
$\Delta C = 53$
$\Delta Y=100$ $\Delta Y=90$ $\Delta Y=81$ $\Delta Y= 73$
Y_0 Y_1 Y_2 Y_3 Y_4 Y_5 Y_6 Y_7 Y_8 Y^*
Firms Increase Output: hire more workers
workers incomes increase
New Equilibrium