

4

5

A

E

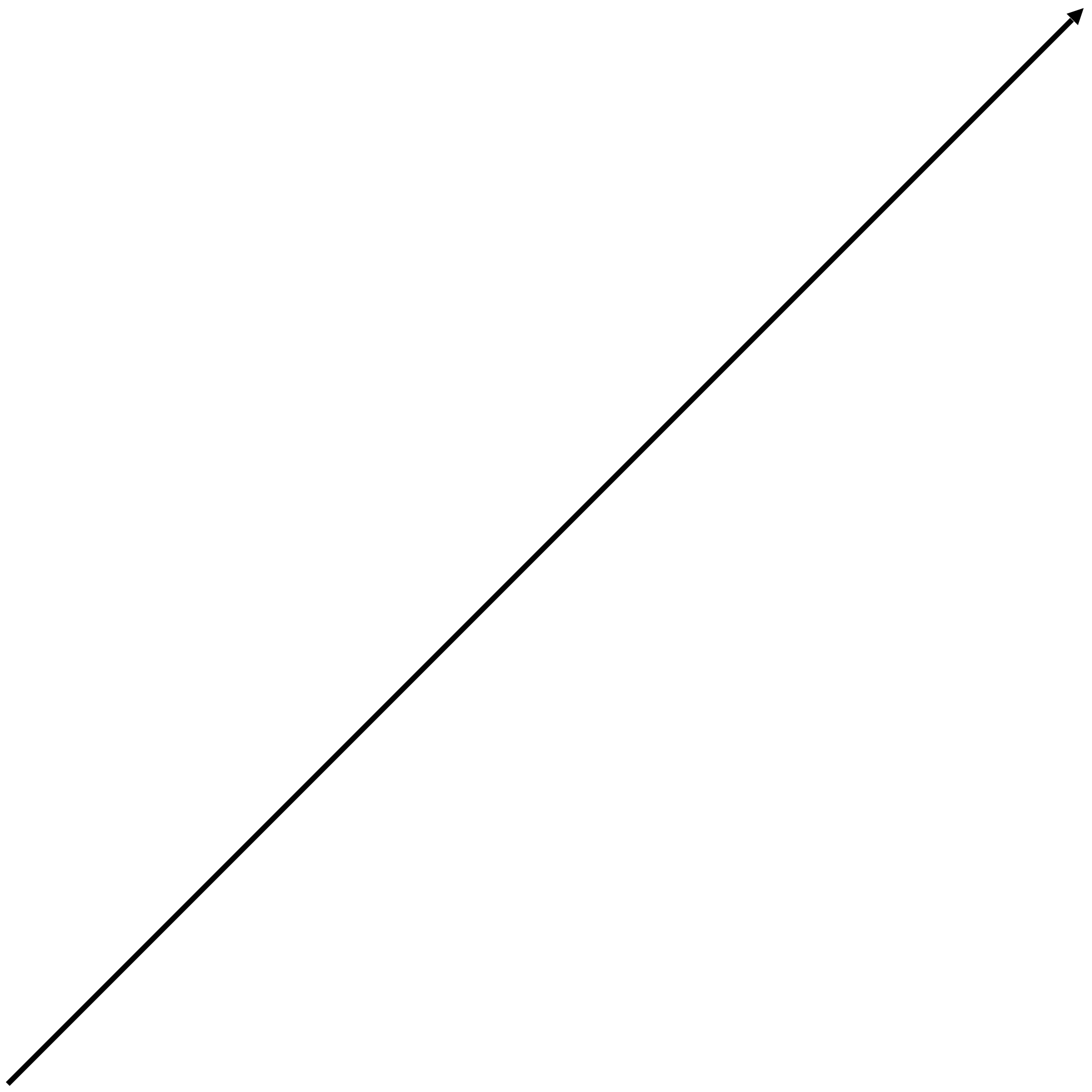
↑



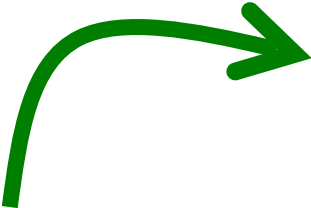
Y

O





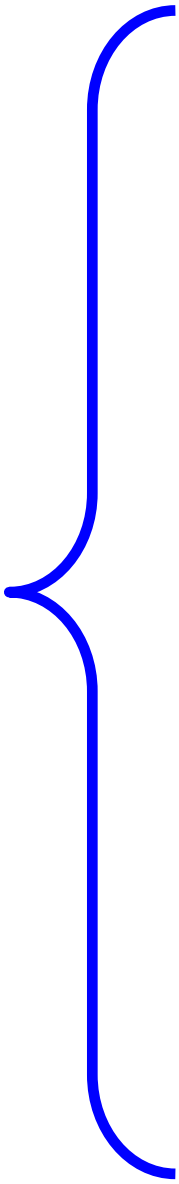


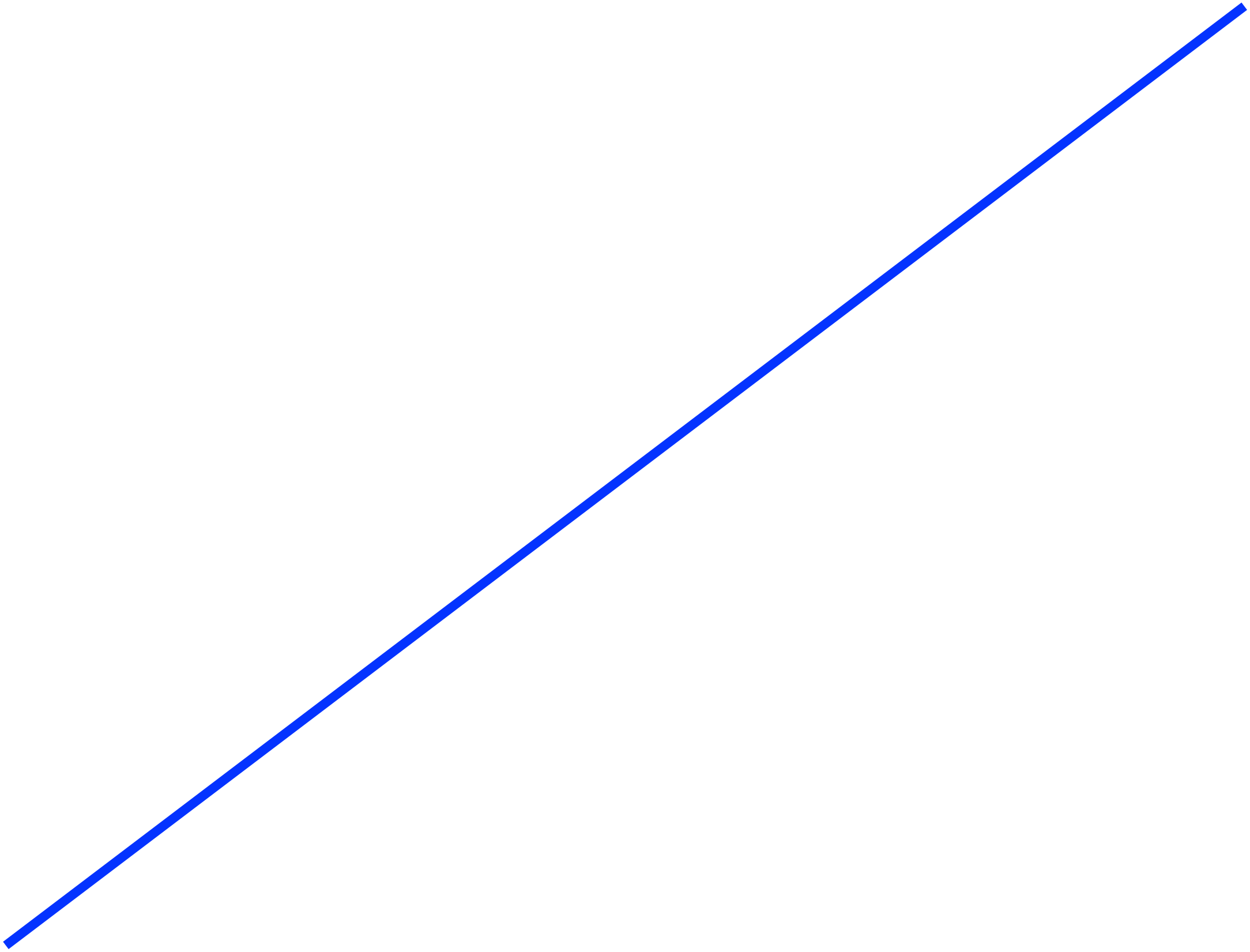


AE O

AE_1

$$\Delta A E = 280$$











$\Delta G \uparrow$

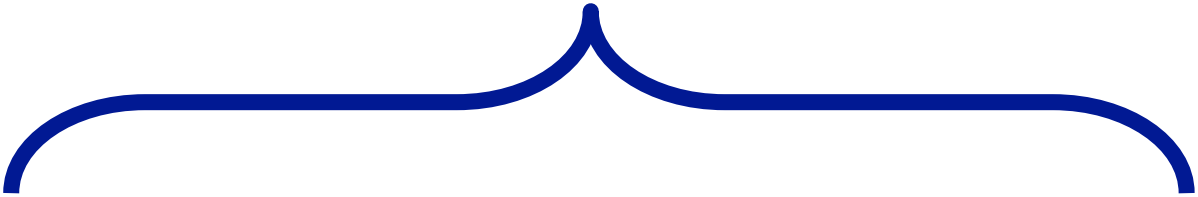
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$

Y₁

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









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GDP_o

P_1



AS

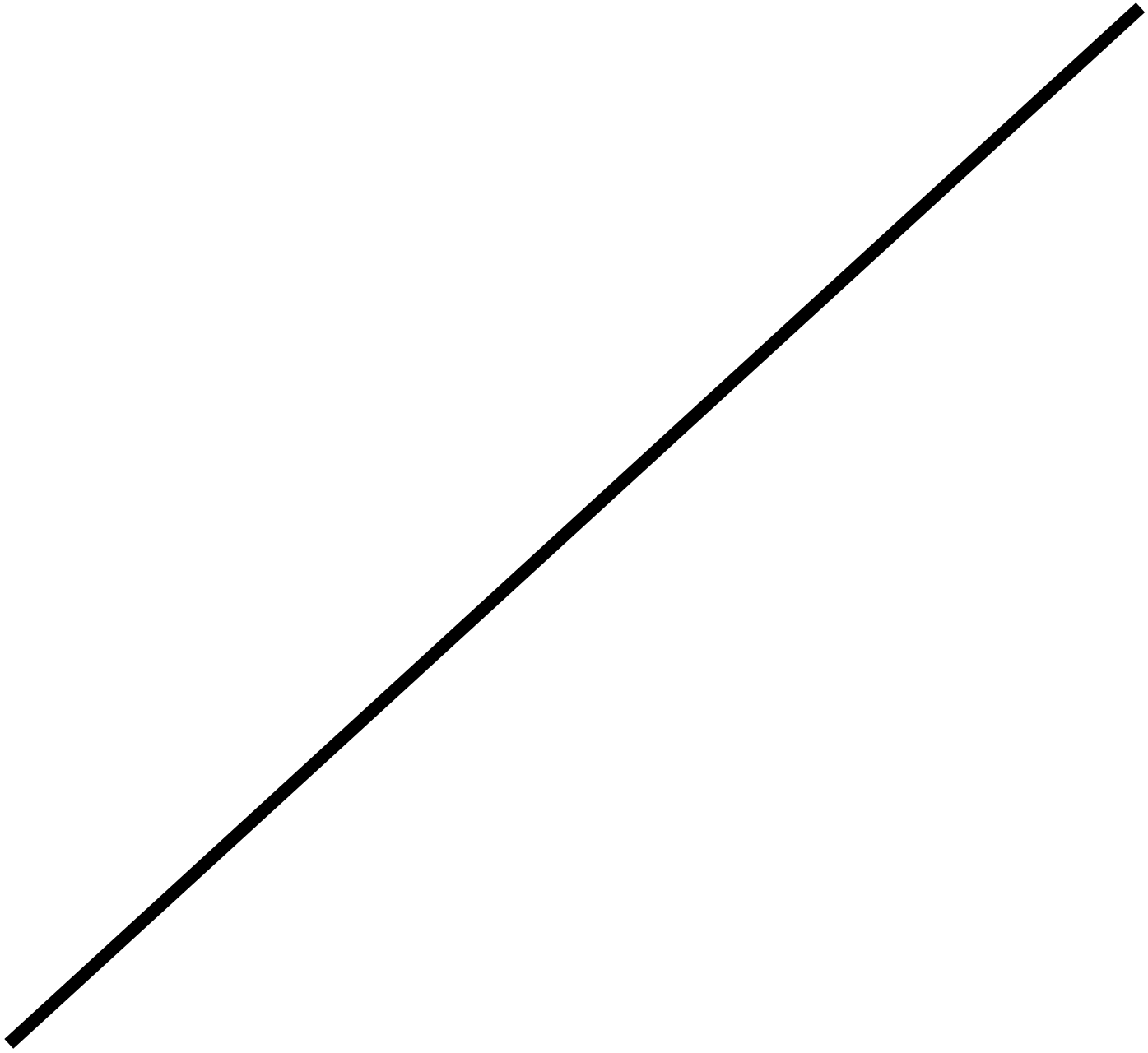
Aggregate Supply when prices = P_0

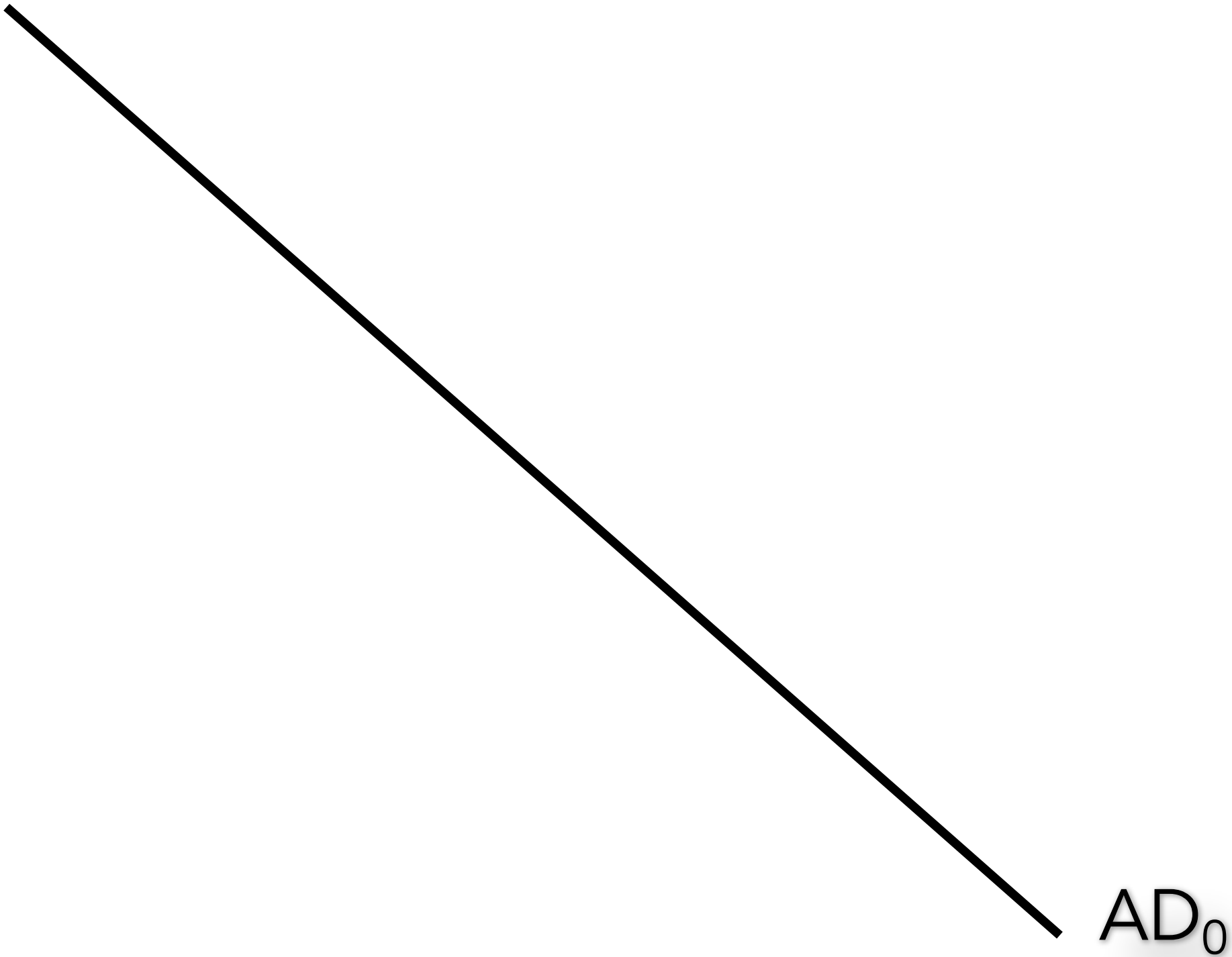
Price Level
(CPI)



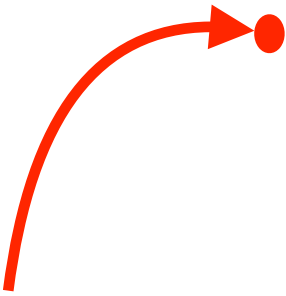


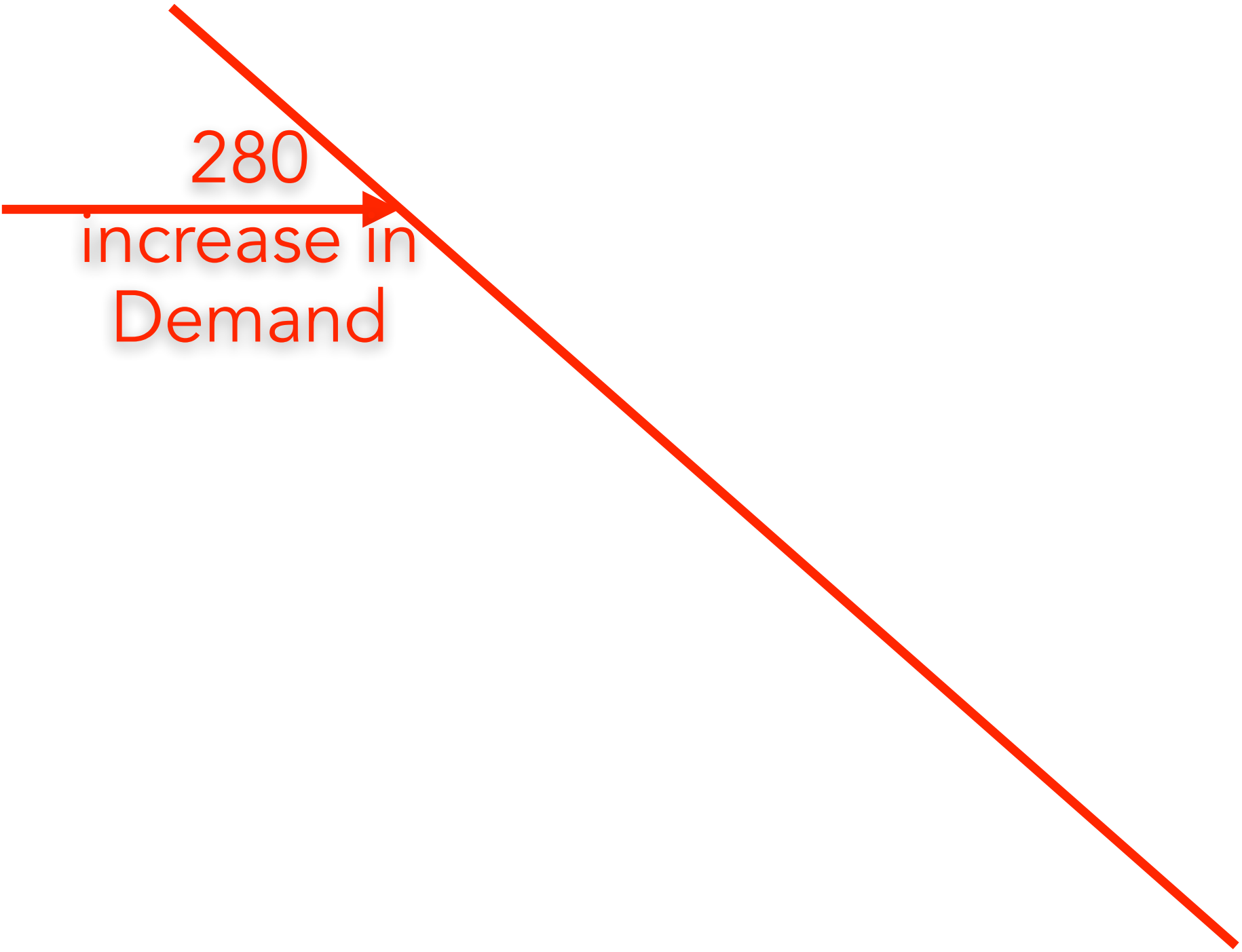
Firms increase
production and prices











$$\Delta AD = 280$$



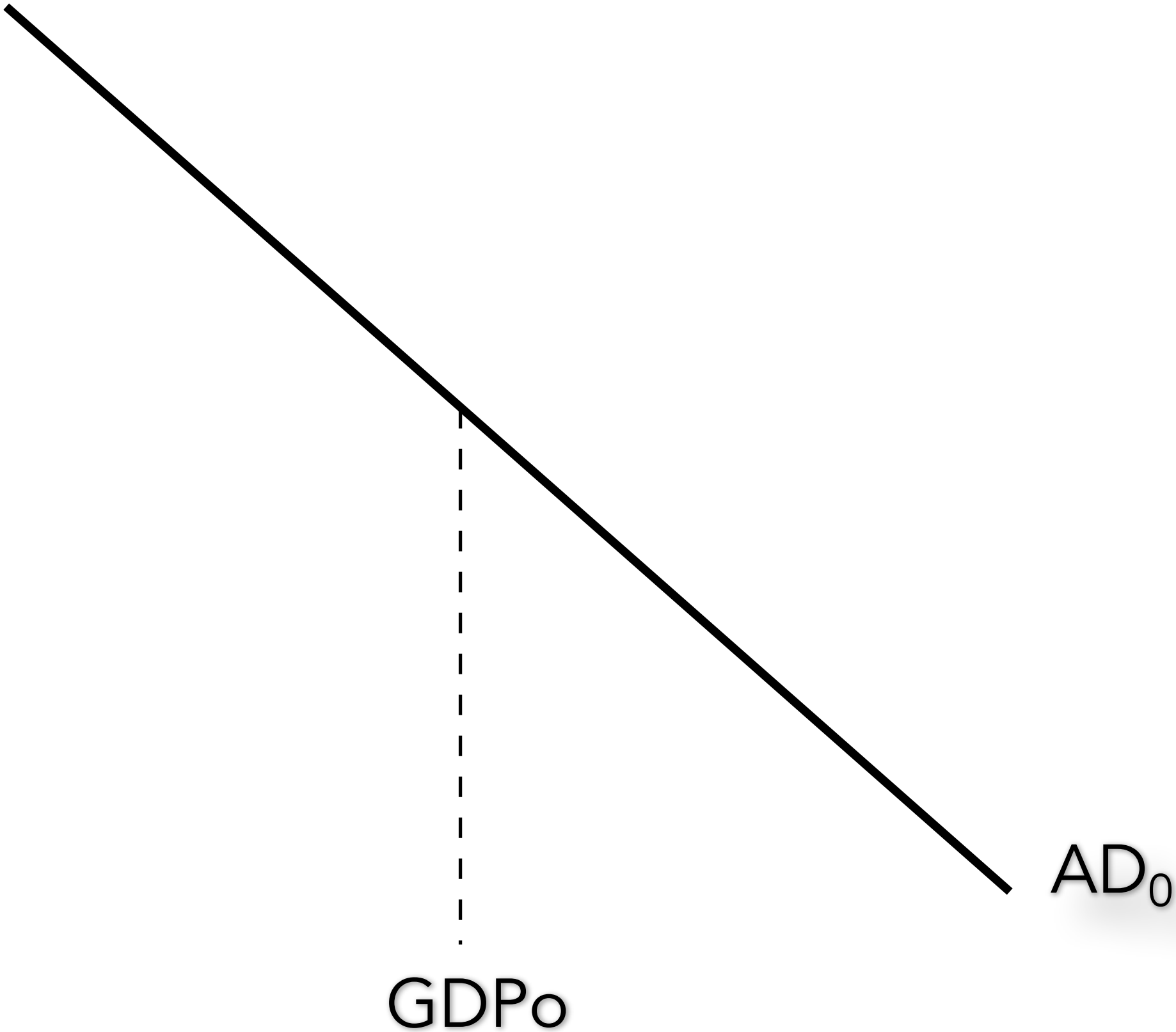
AD₁





Aggregate Demand
when prices = P_0

GDP₁



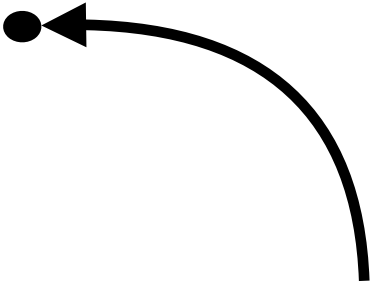


280

increase in
Demand



Increase in
GDP less
than 280



As prices rise

AD decrease

Inflation Decreases the Multiplier



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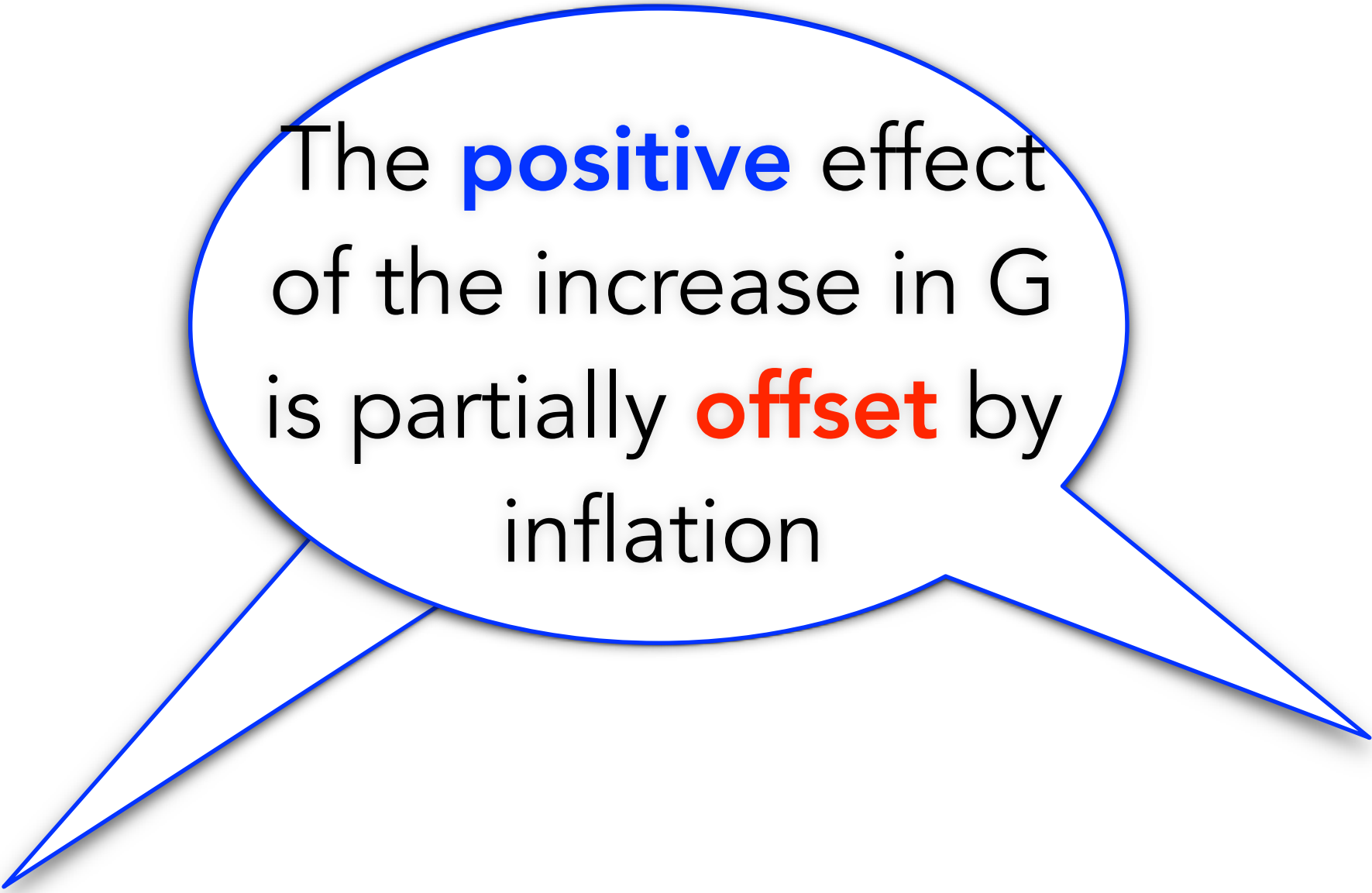
i

e

r



GDP does NOT
increase by the full
multiplier amount



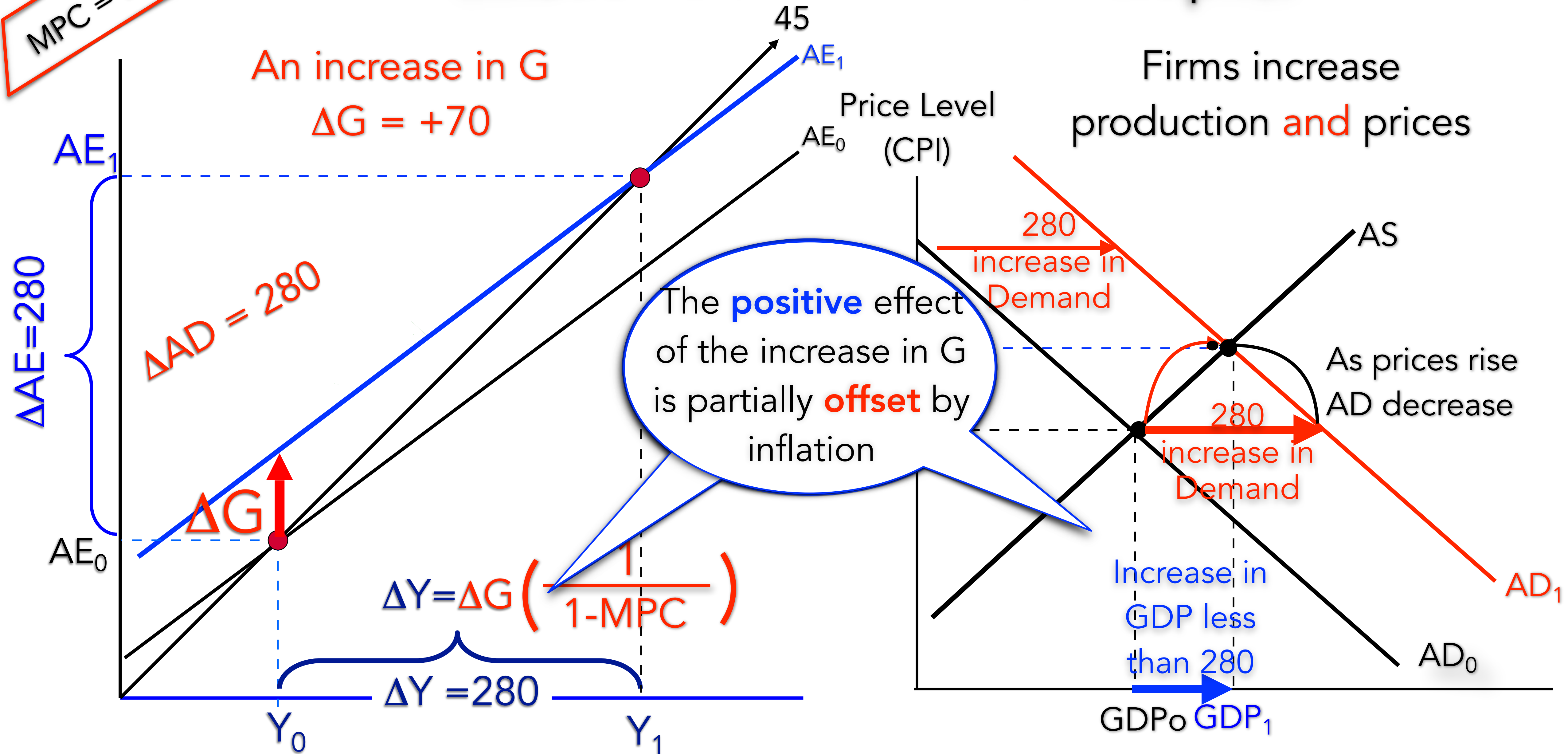
The **positive** effect
of the increase in G
is partially **offset** by
inflation

$\Delta AD = 280$

Inflation **Decreases** the Multiplier

Inflation **Decreases** the Multiplier

$MPC = 0.75$



An increase in Government Spending results
in higher GDP and higher Prices