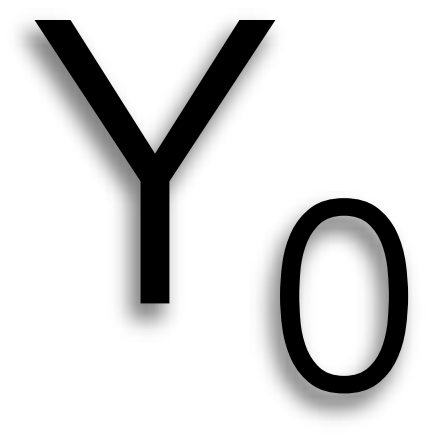
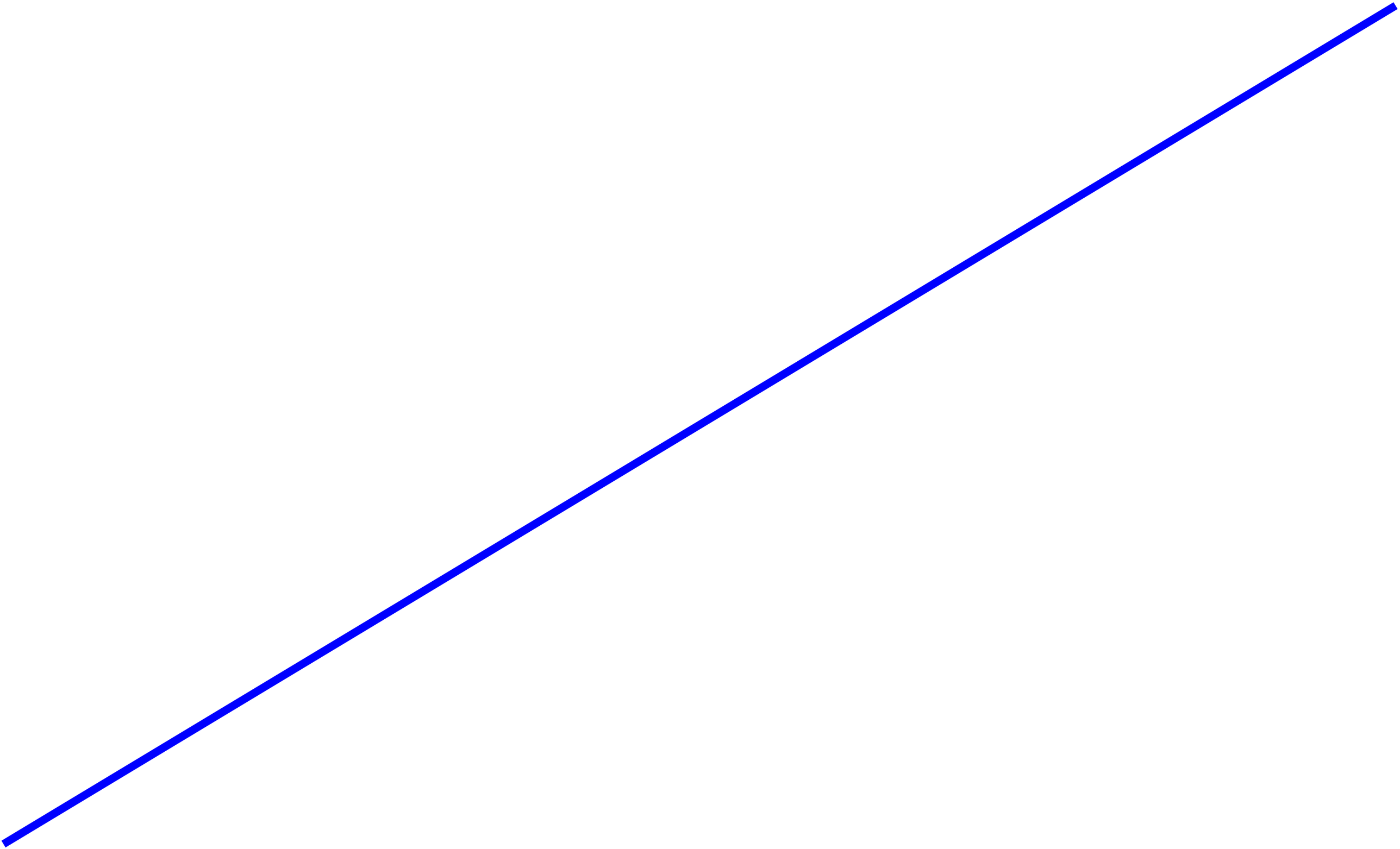
$$\Delta C = -100 * 0.9$$

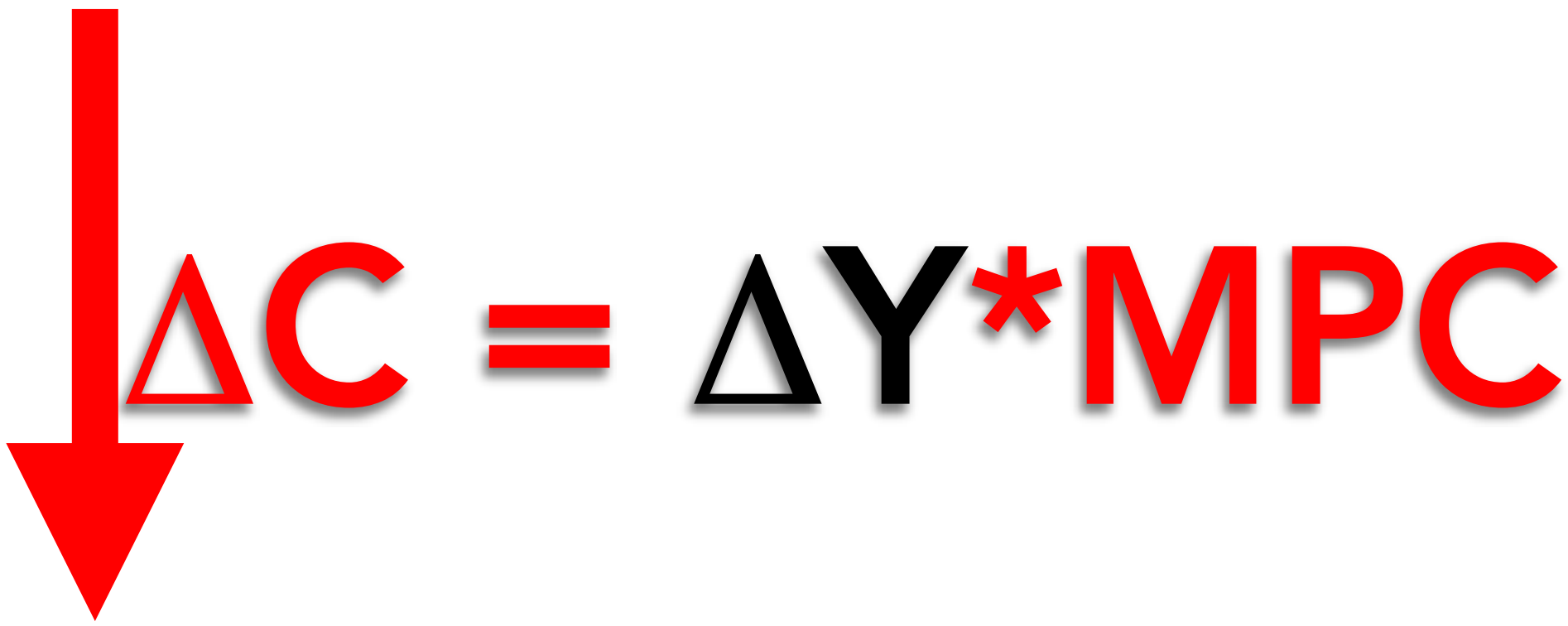

AE.


AE1

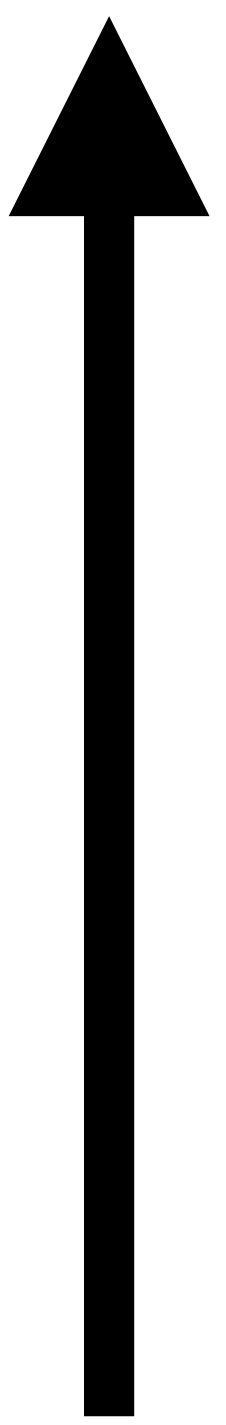
Firms Decrease Output: fire workers


Y
0




ΔC = ΔY*MPC

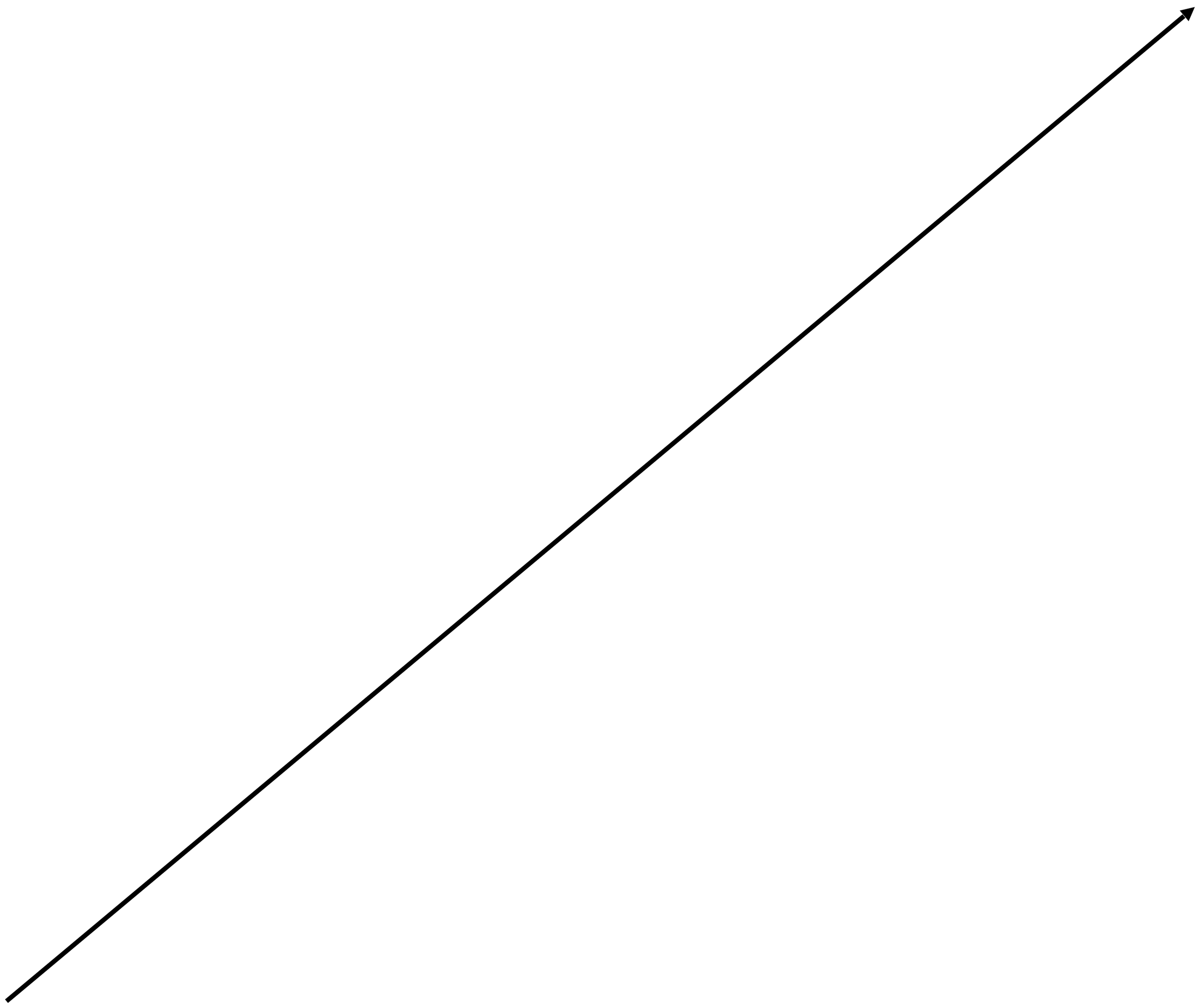
$$\Delta Y = -90$$



$$\Delta C \equiv -90$$

Lower Incomes, Lower Consumption

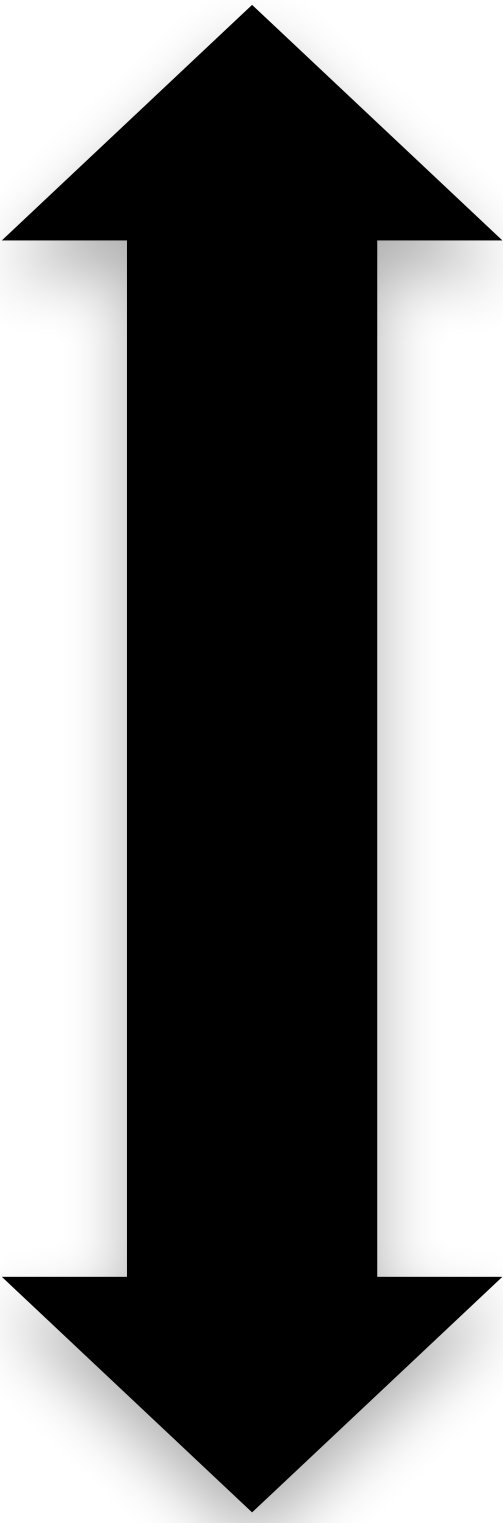
$\Delta Y = -100$

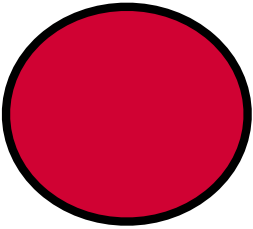


$\Delta a = -100$

$AE_0 \equiv Y_0$

Inventories Rise





Firms Decrease Output: fire workers

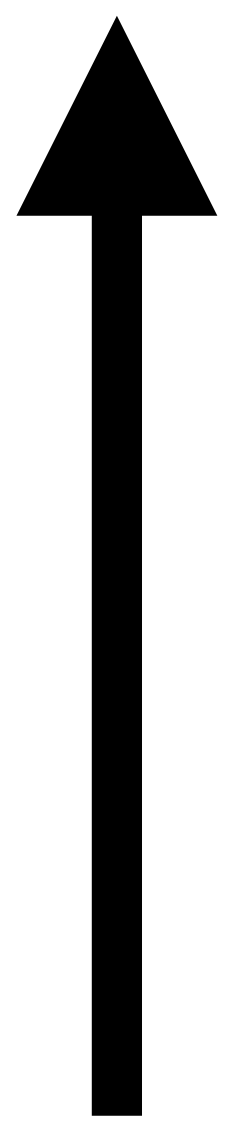

Y 2

$$\Delta C = -81$$

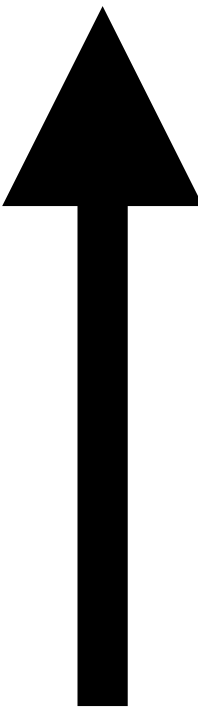
$$\Delta C = -90 * 0.9$$

Firms Decrease Output: fire more workers


Y 3



$$\Delta Y = -81$$



$\Delta Y = -73$


Y4


Y 5

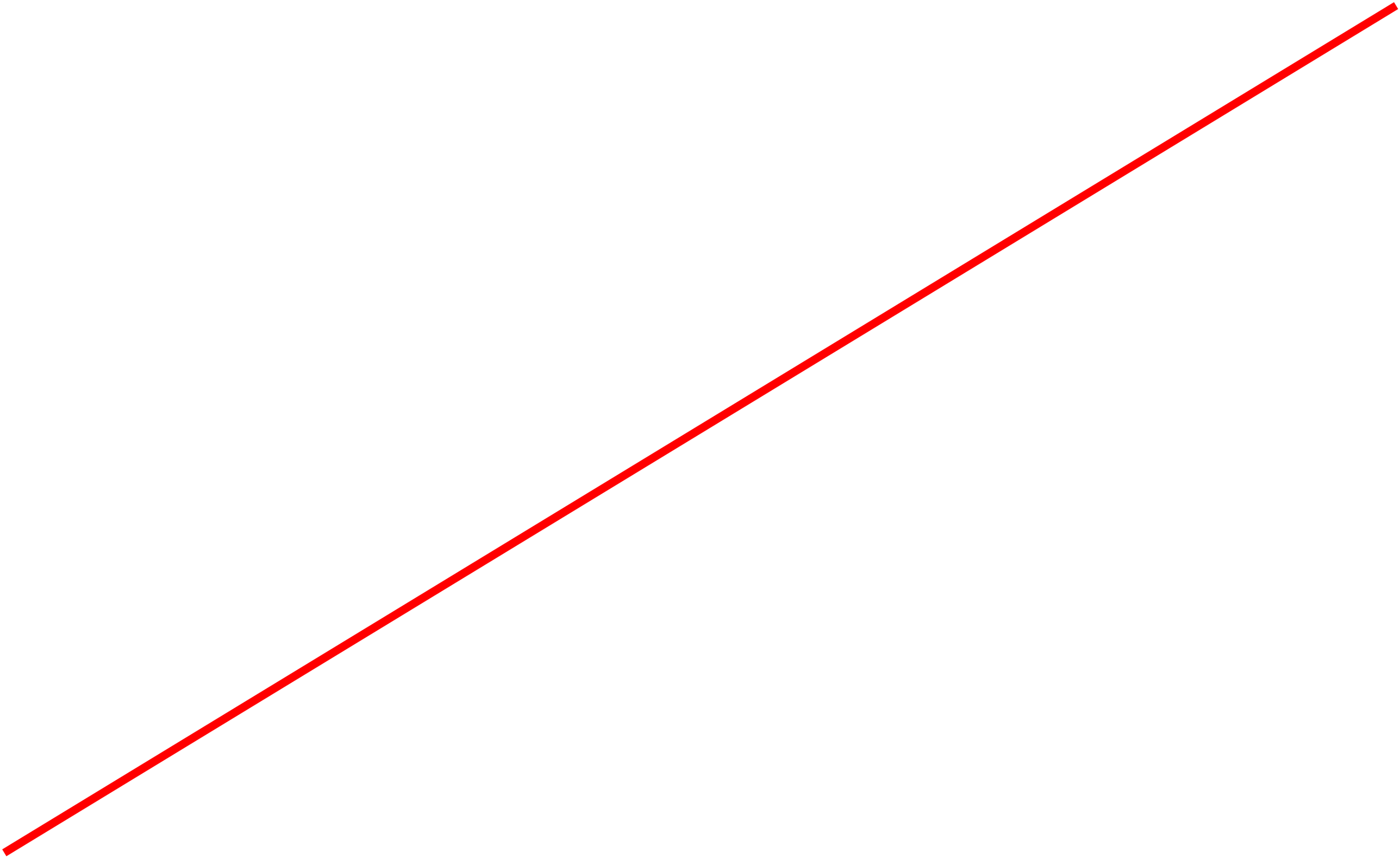

Y6


Y7


Y 8

$$\Delta C = -53$$

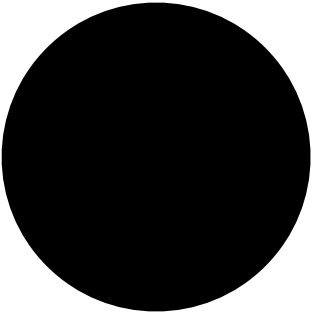
$$\Delta Y = -100$$

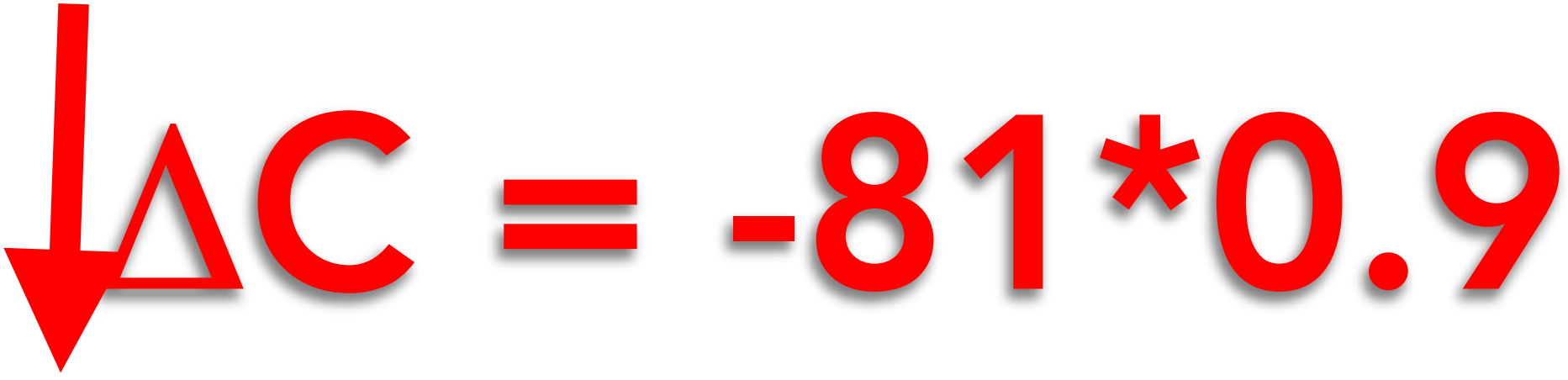


$$\Delta Y = -90$$

$\Delta Y = -81$

$$\Delta Y = -73$$

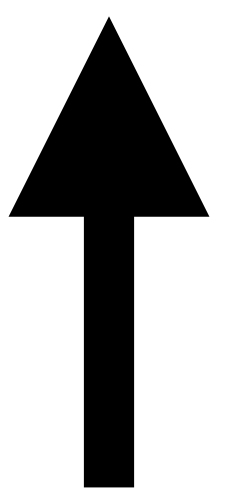


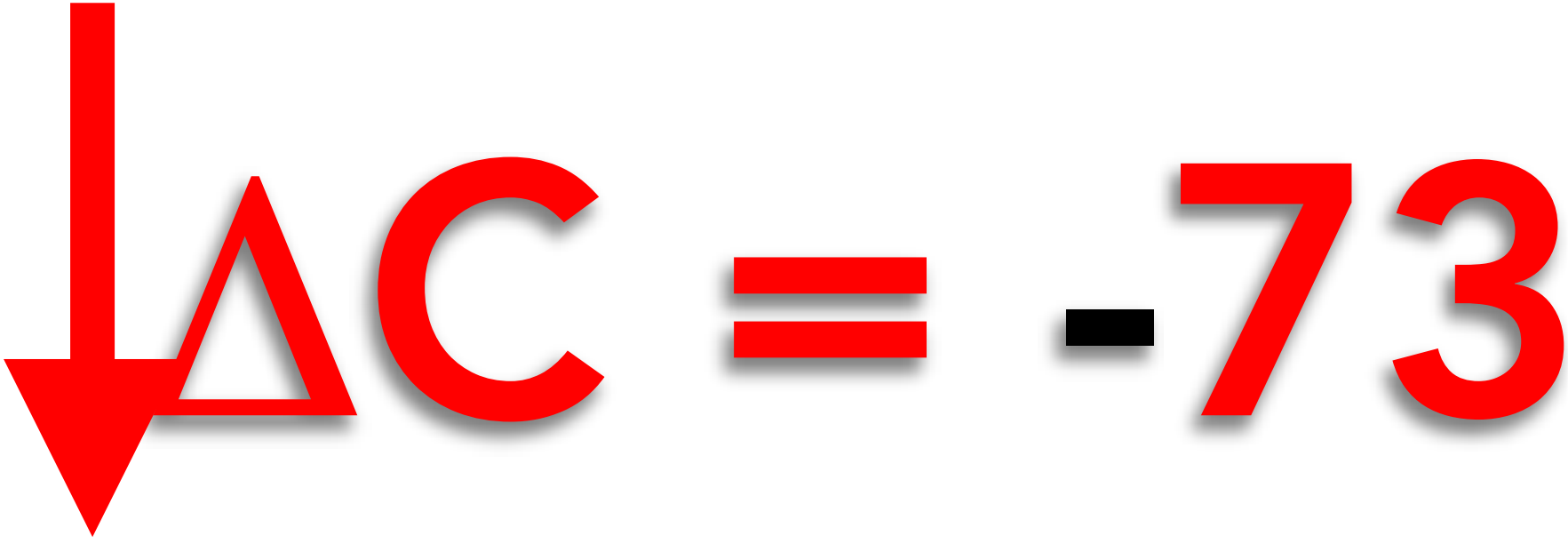

ΔC = -81*0.9

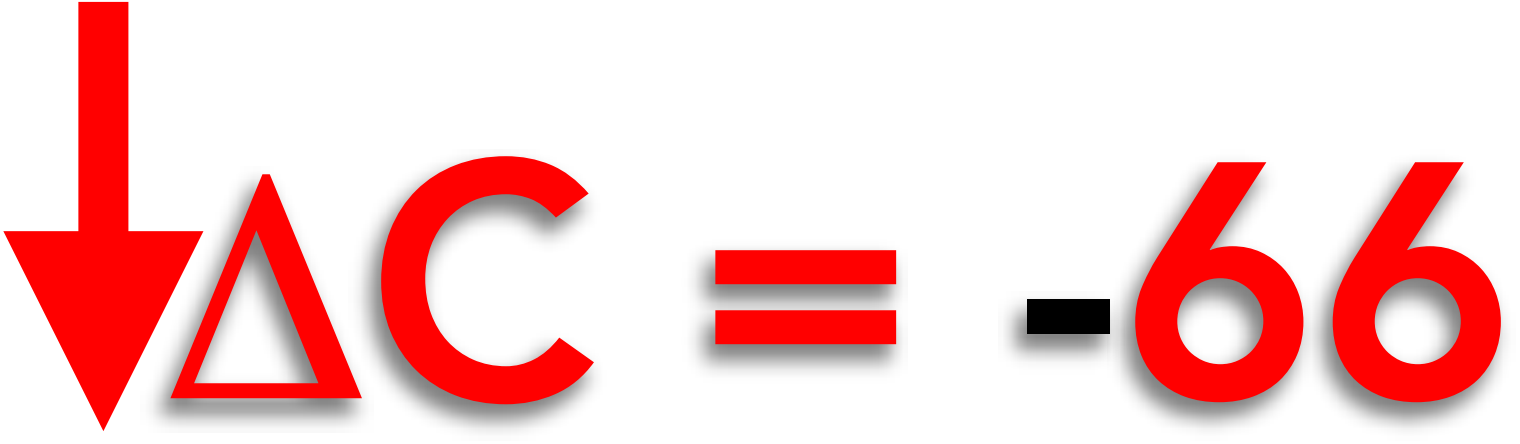
Y*

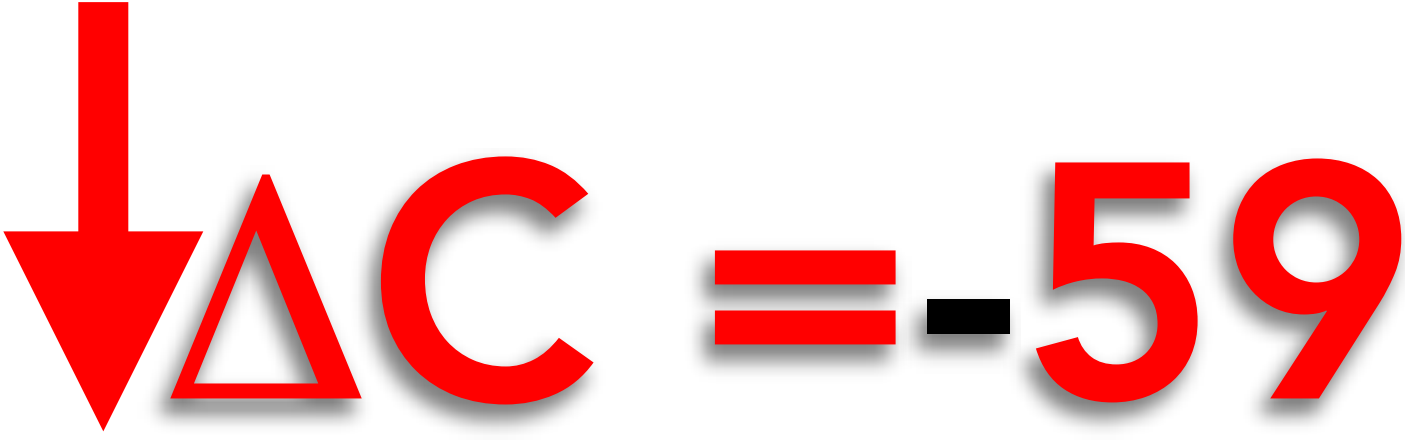
New

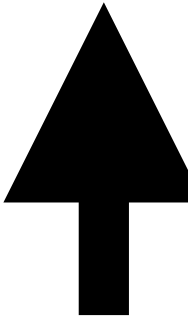
Equilibrium




ΔC = -73

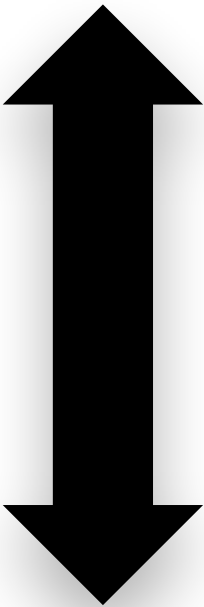

ΔC = -66

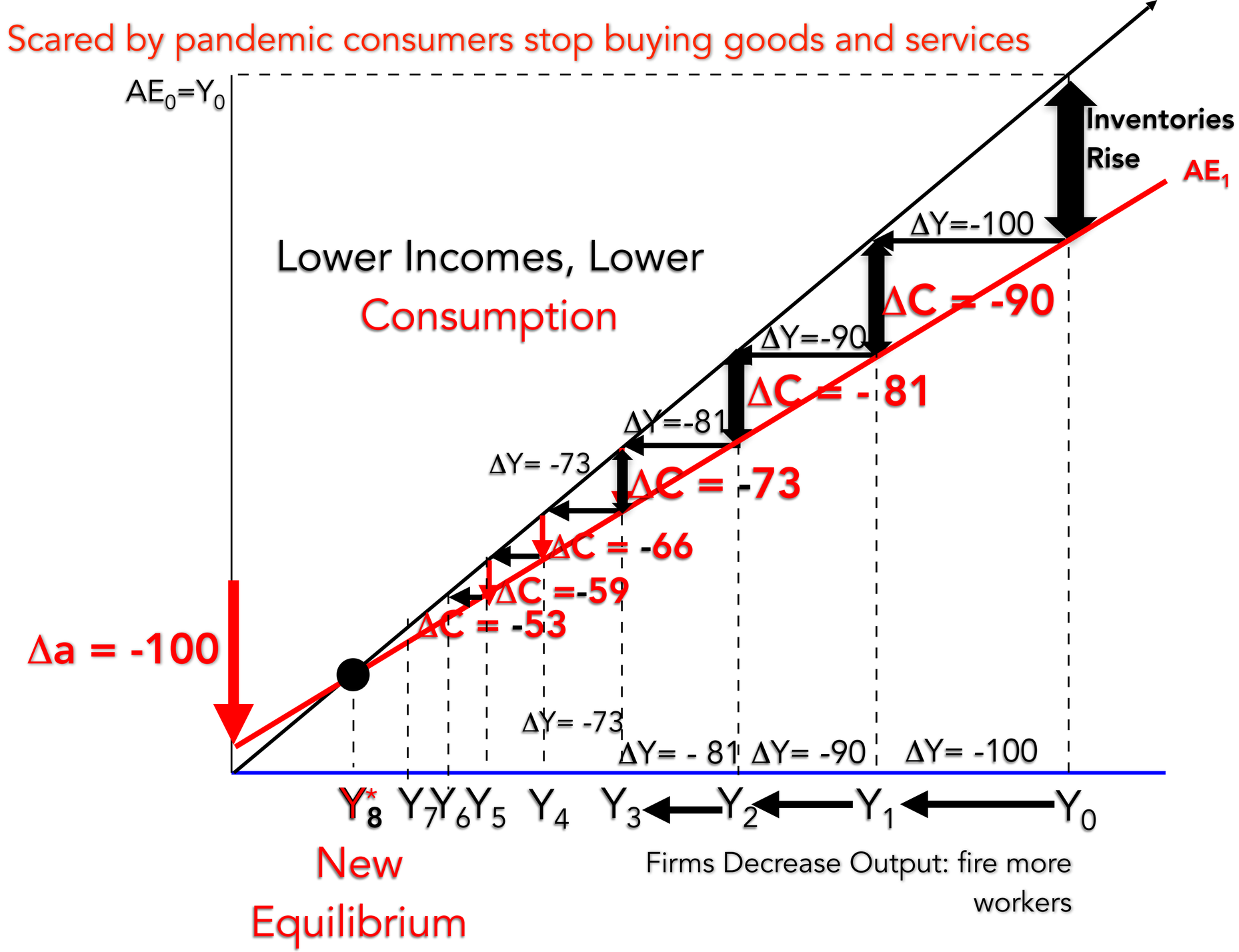

ΔC =-59



Scared by pandemic consumers stop buying goods and services

The economy starts at equilibrium at Y_0




Scared by pandemic consumers stop buying goods and services
$AE_0=Y_0$
Inventories Rise
AE_1
Lower Incomes, Lower Consumption
ΔY=-100
ΔC = -90
ΔY=-90
ΔC = - 81
ΔY=-81
ΔY= -73
ΔC = -73
ΔC = -66
ΔC =-59
ΔC = -53
Δa = -100
ΔY= -73
ΔY= - 81
ΔY= -90
ΔY= -100
Y^*_8 Y_7 Y_6 Y_5 Y_4 Y_3 Y_2 Y_1 Y_0
New Equilibrium
Firms Decrease Output: fire more workers