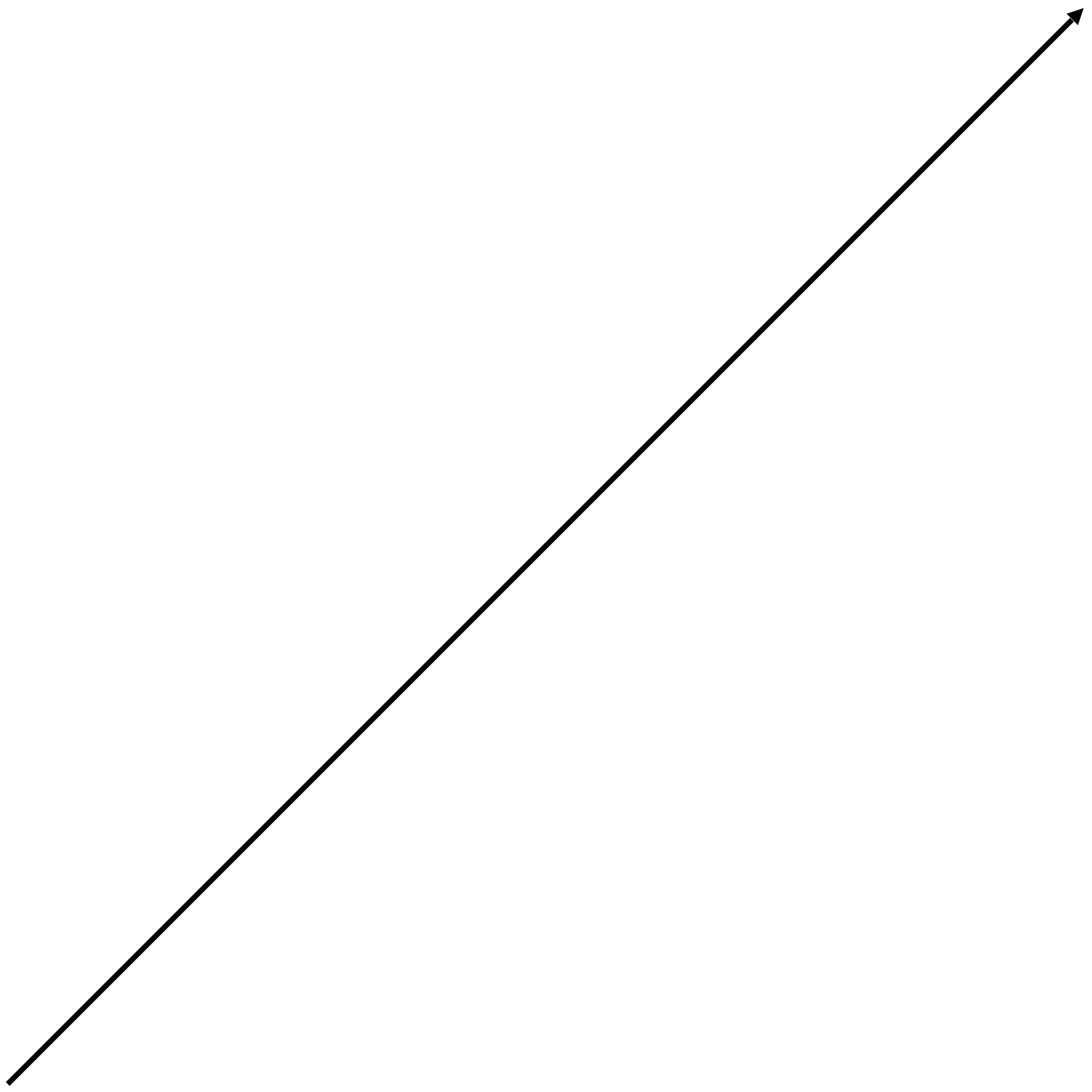
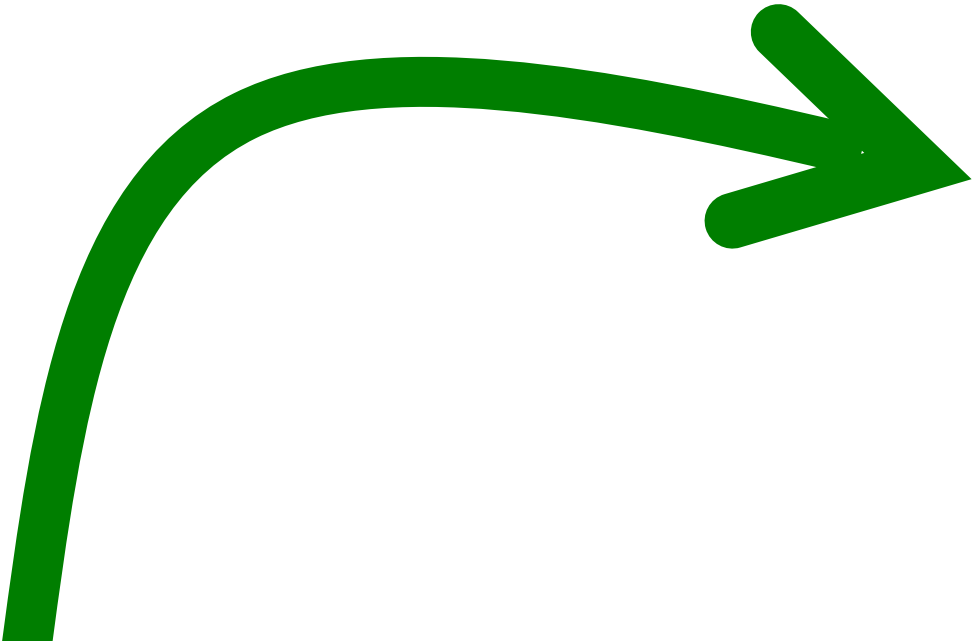

45


AE1

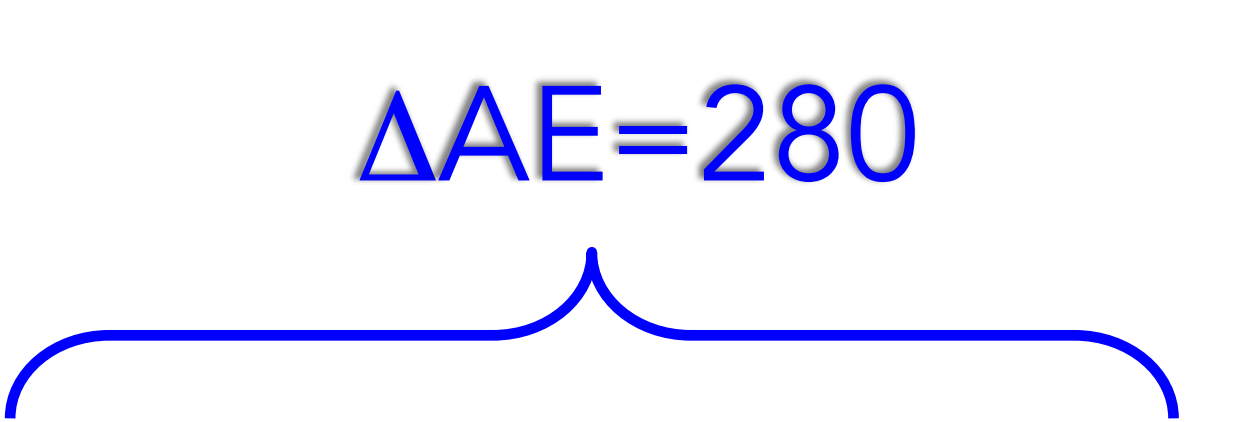

Y0

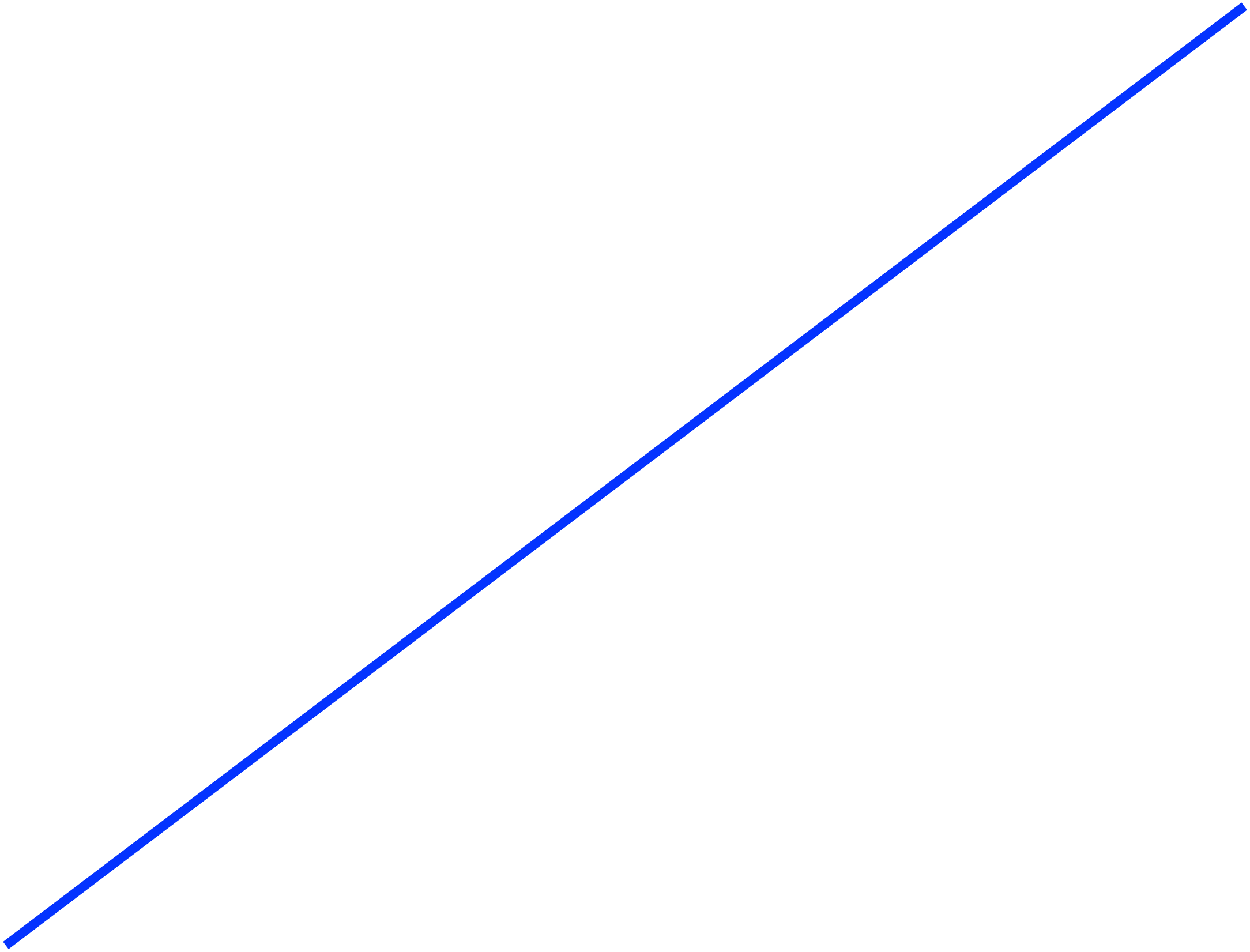


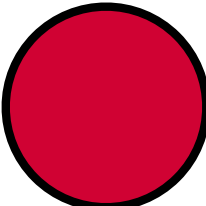


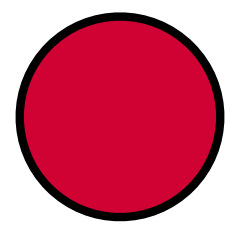

AE_0


AE_1


ΔAE=280








ΔG

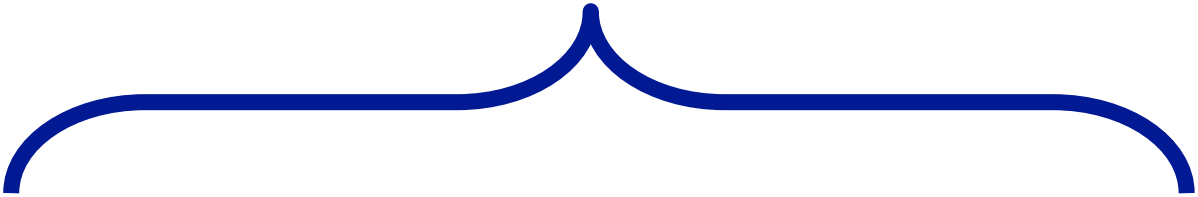
$$\Delta Y = 280$$

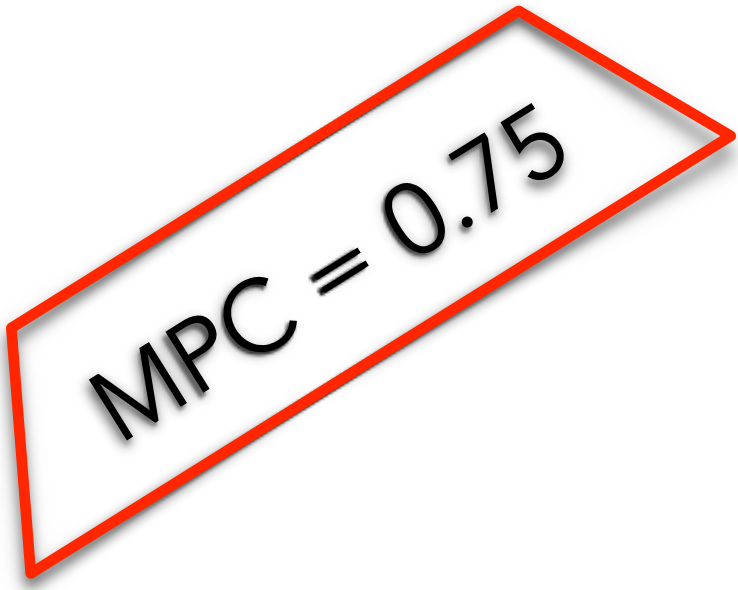
An increase in G

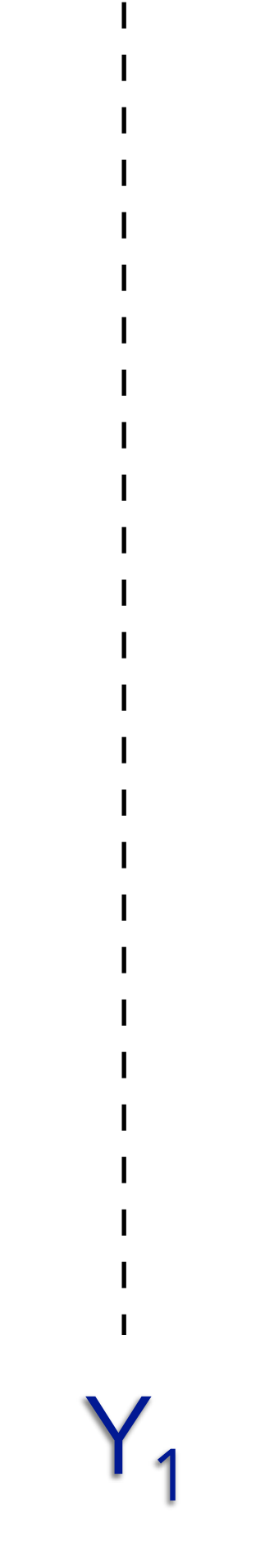
$\Delta G = +70$


AE_0

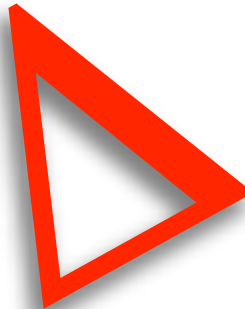
$$\Delta Y = \Delta G$$

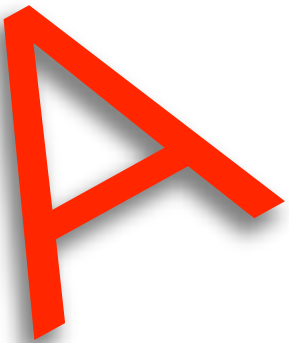


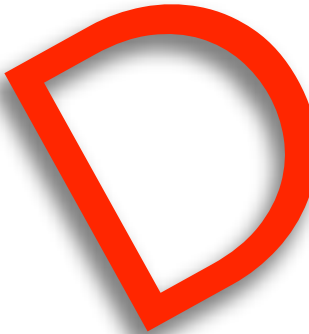

MPC = 0.75

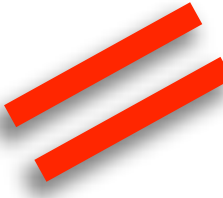

Y1

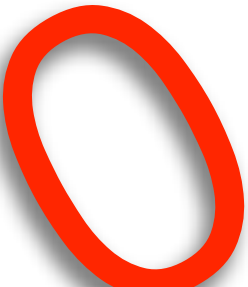

1
1-MPC











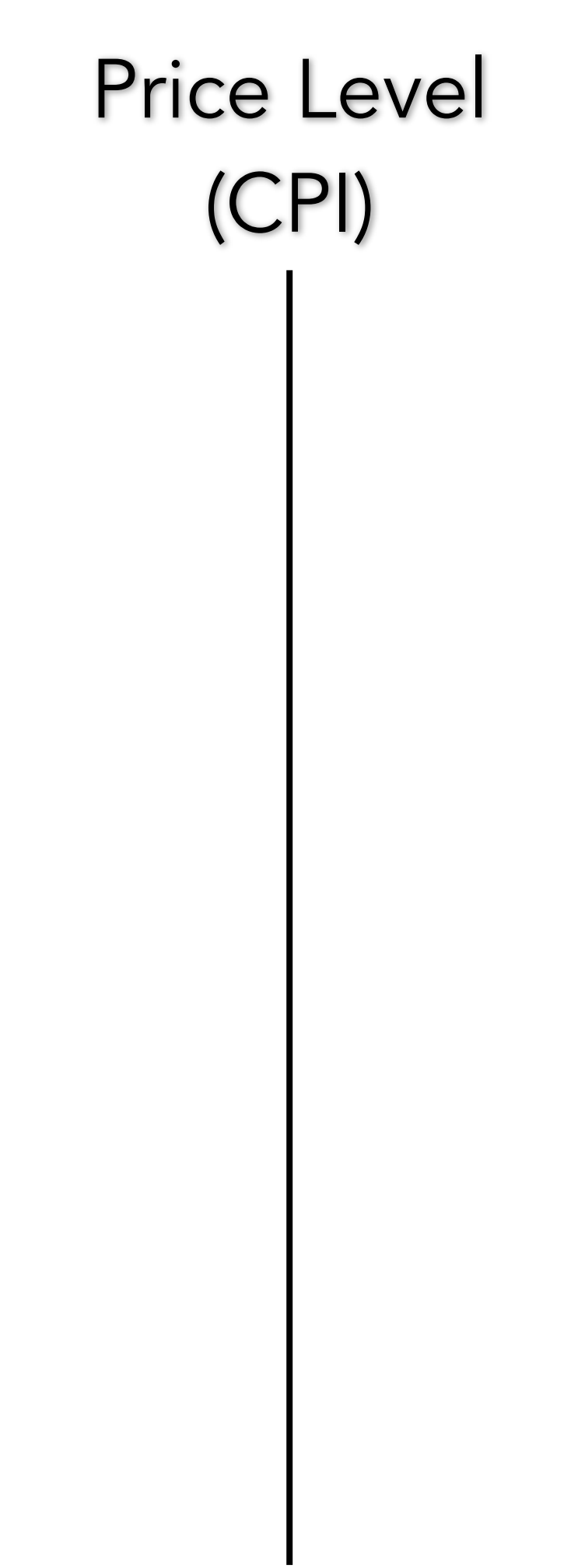
Po

GDPo

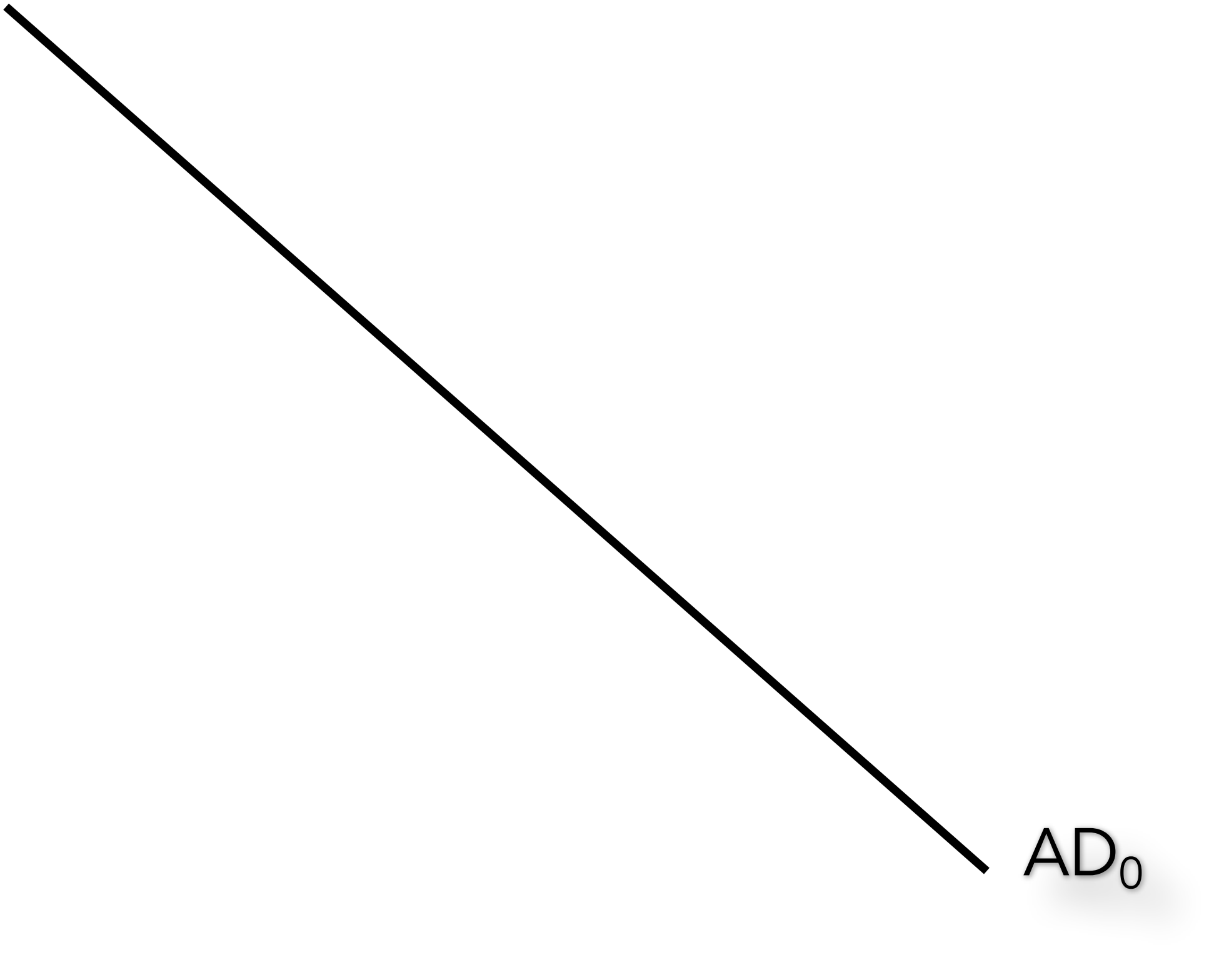
P_1

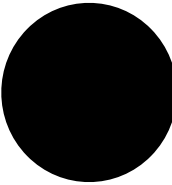
AS

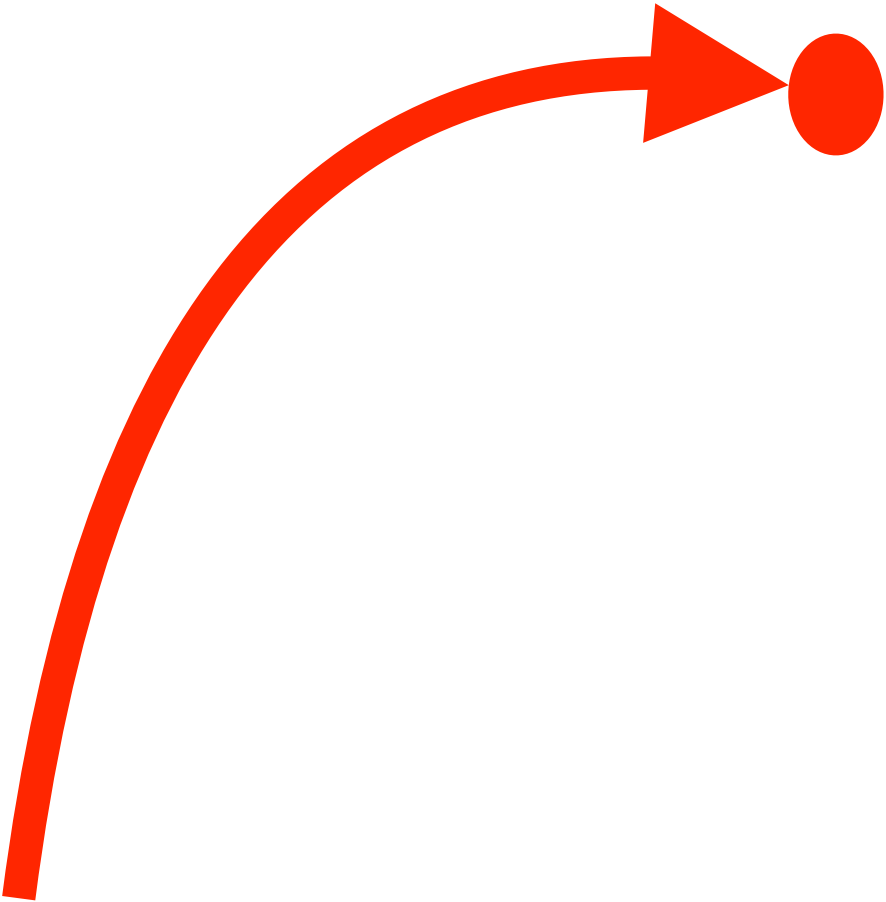
Aggregate Supply when prices =Po

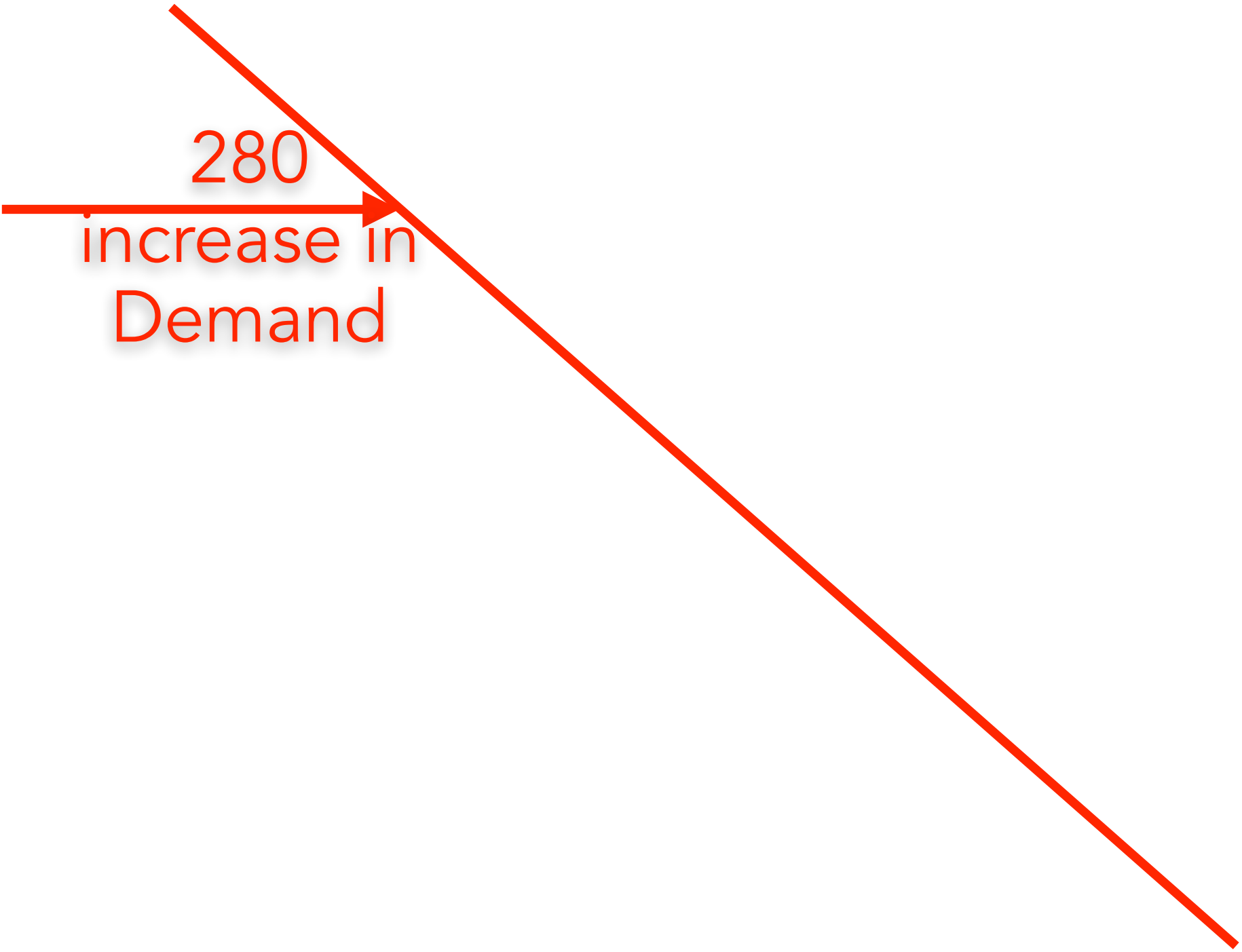

Price Level
(CPI)

Firms increase production and prices


AD_0

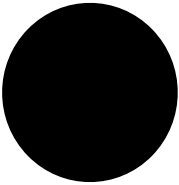


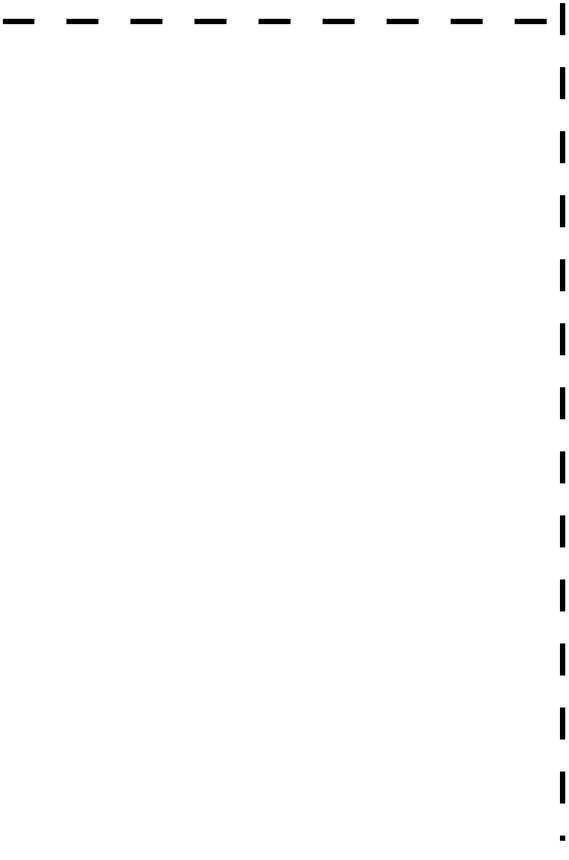



280
increase in
Demand

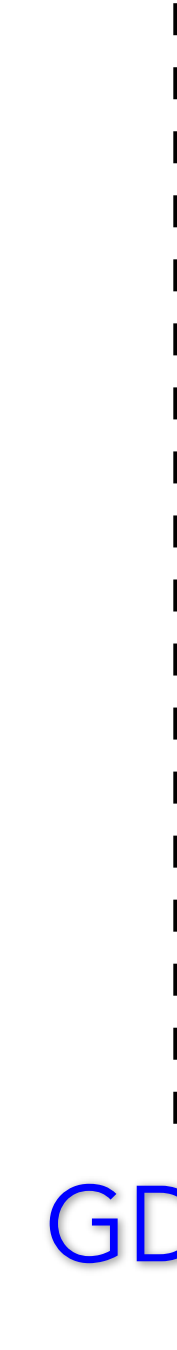
$$\Delta AD = 280$$

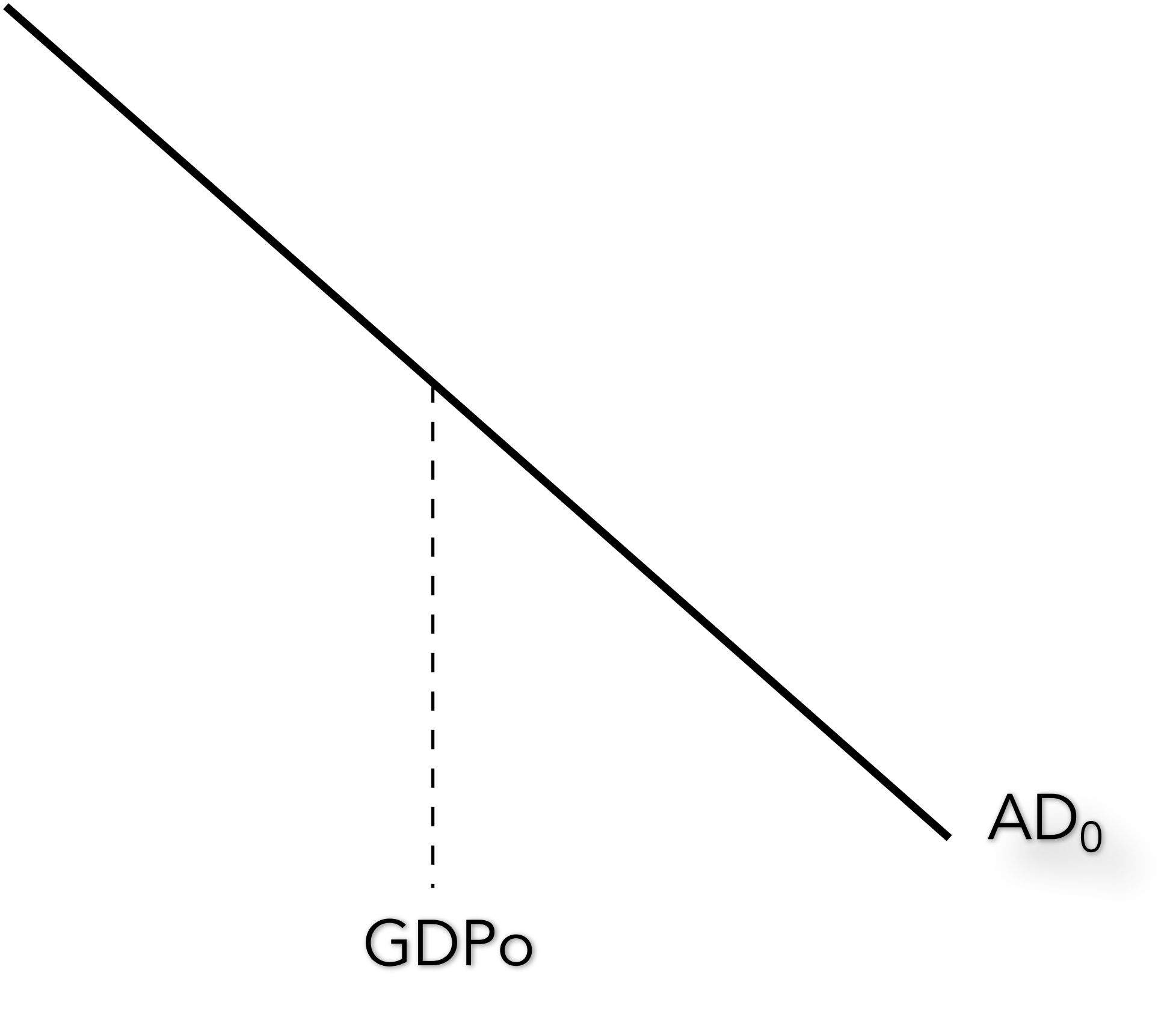

AD1





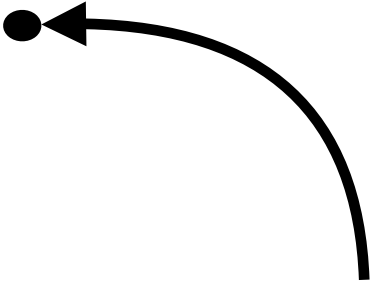
Aggregate Demand when prices = Po


GDP_1


AD0
GDPo

280 increase in Demand

Increase in GDP less than 280



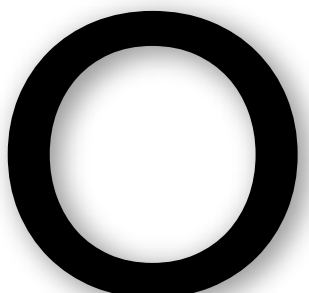
As prices rise
AD decrease

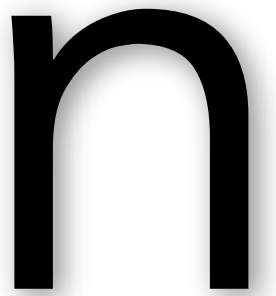
Inflation Decreases the Multiplier

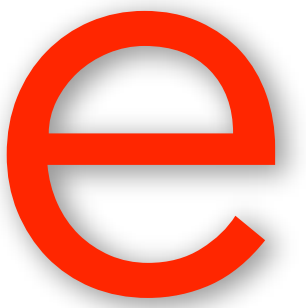
n

a

t







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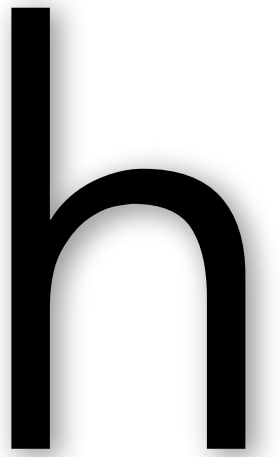
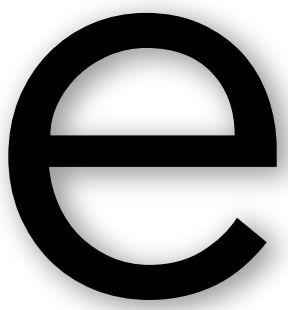
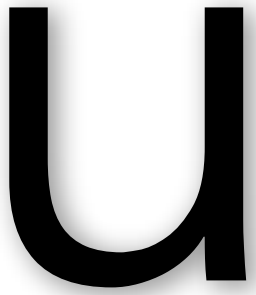




M



t

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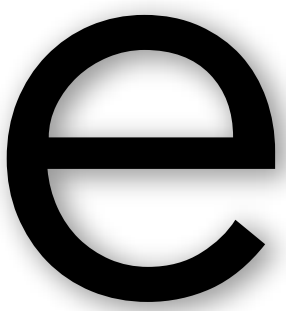
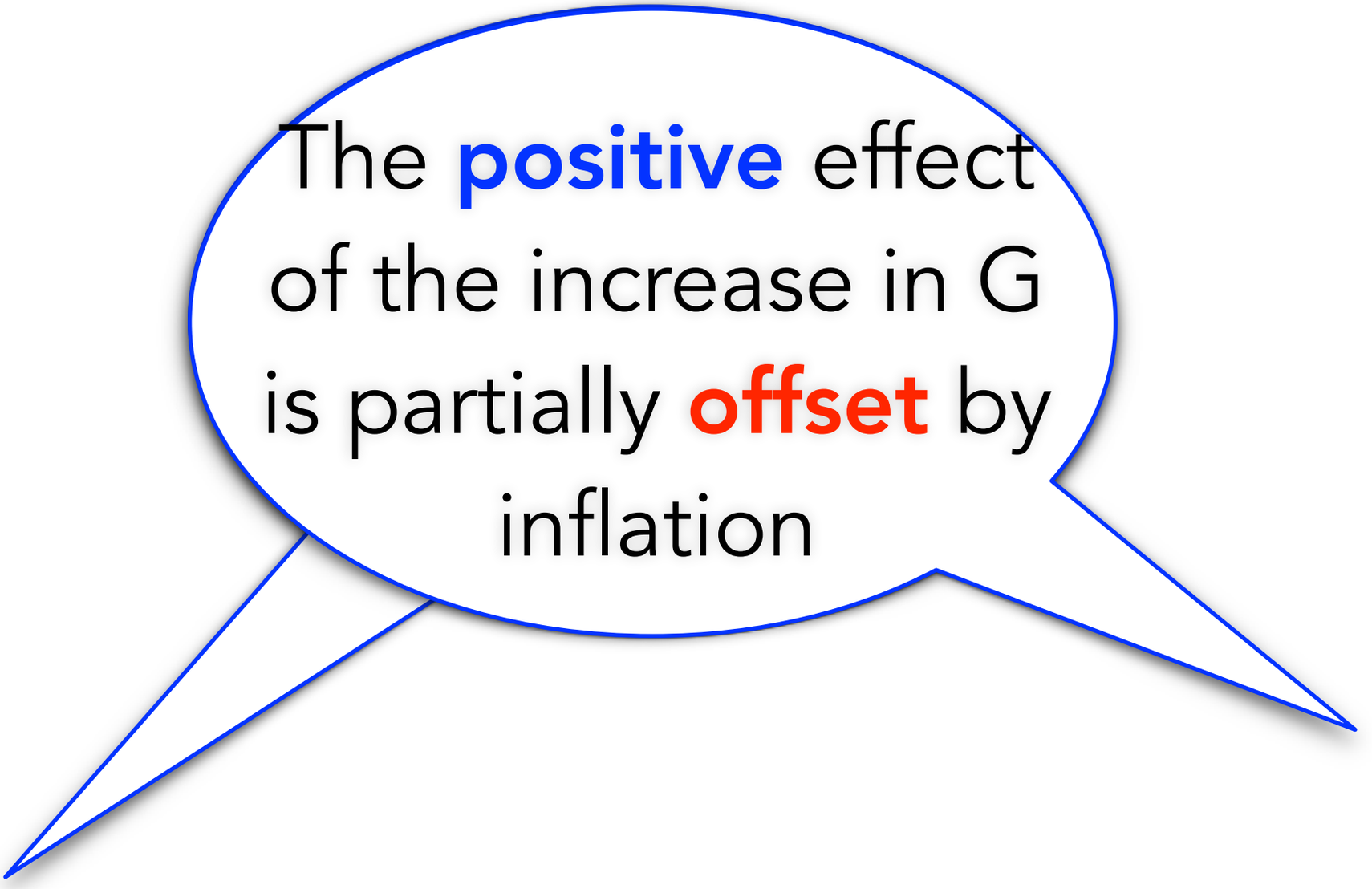
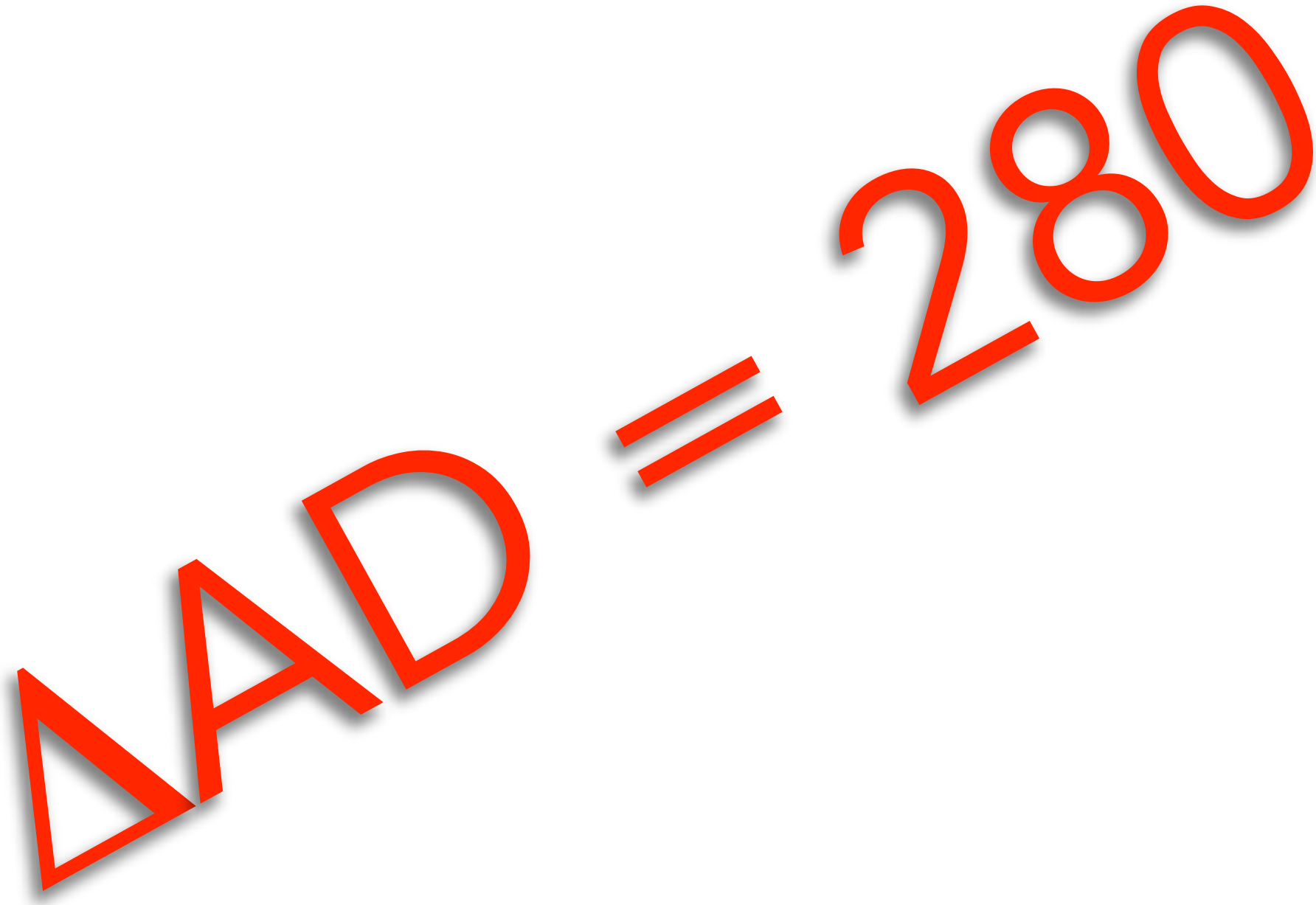


r

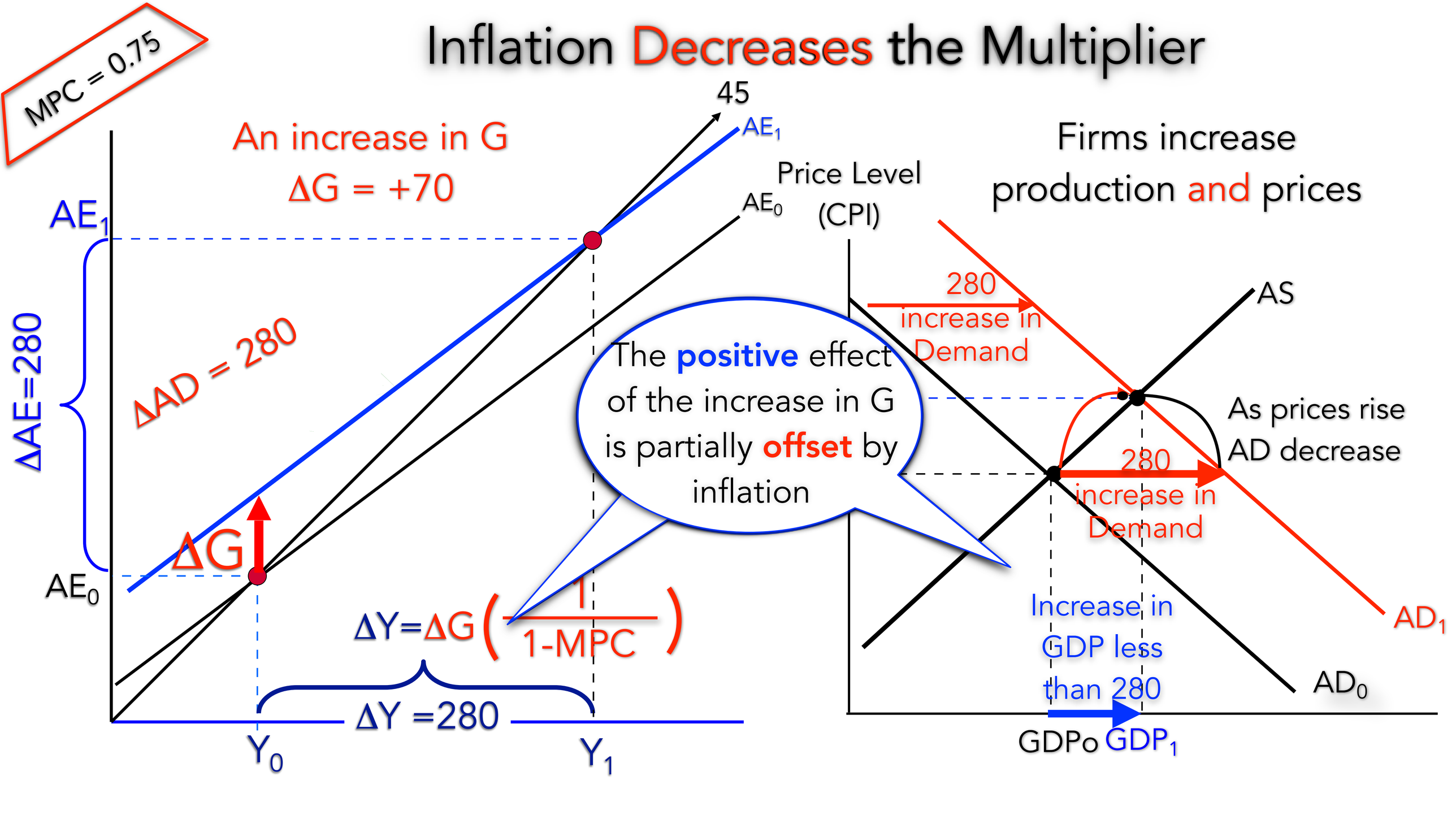

GDP does NOT
increase by the full
multiplier amount


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


ΔAD = 280

Inflation Decreases the Multiplier

Inflation Decreases the Multiplier



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