

45

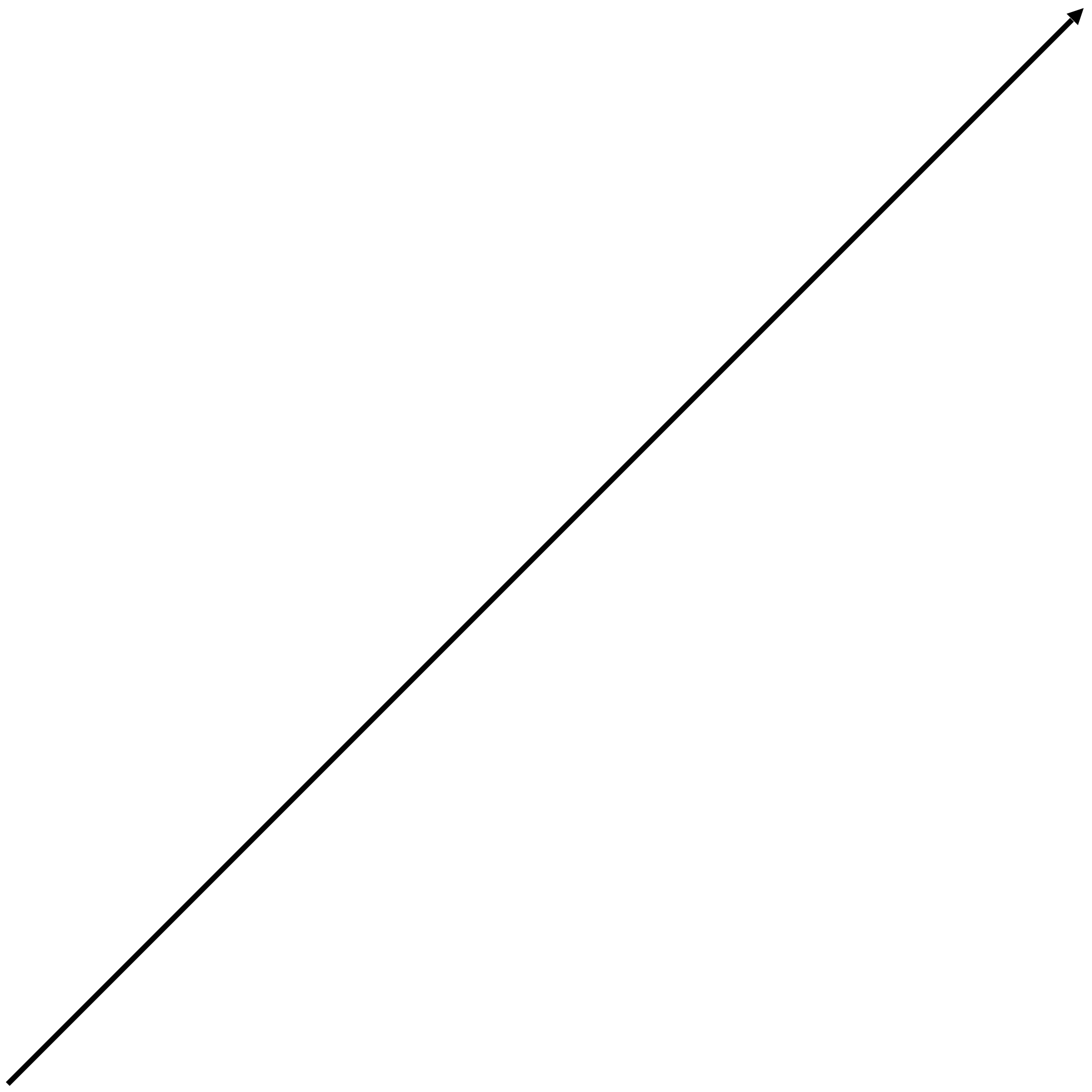
AE<sub>1</sub>



Y

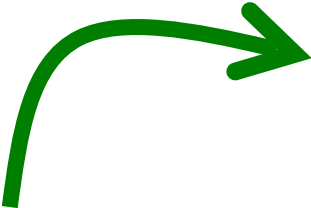
O











A

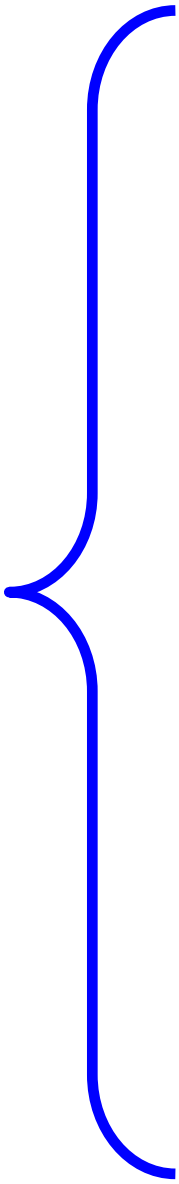
E

O

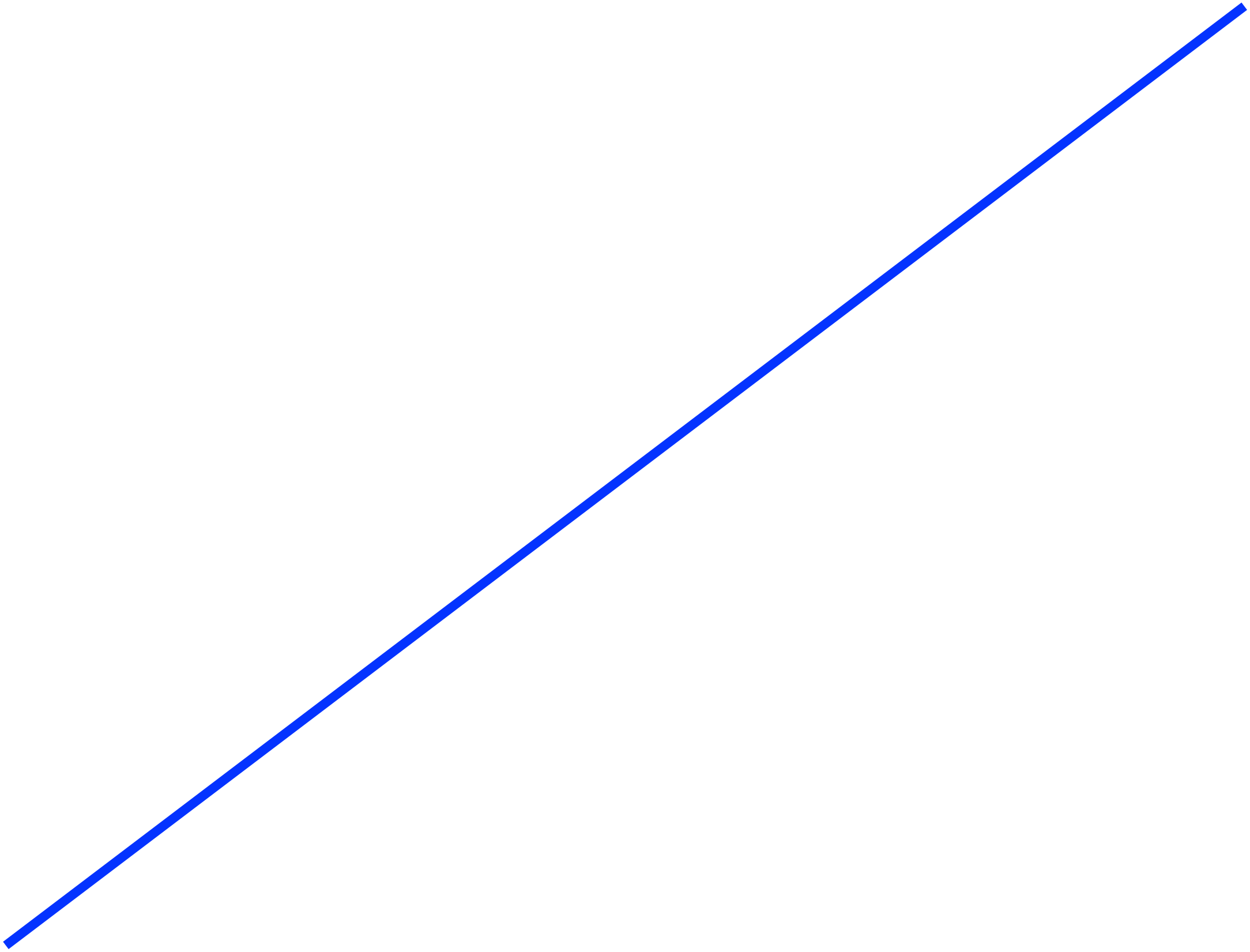
$AE_1$

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$$\Delta A E = 280$$















$\Delta G \uparrow$

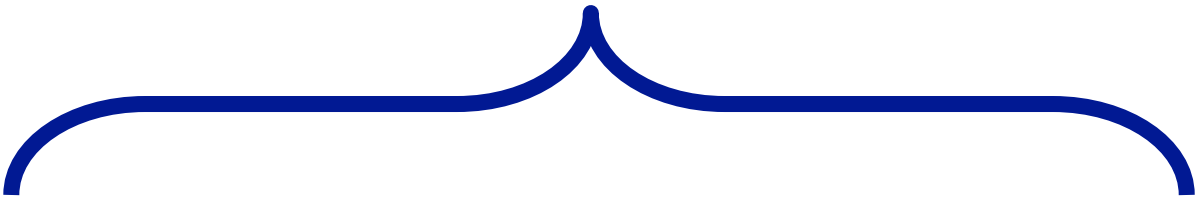
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$



Y<sub>1</sub>

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

$\Delta AD = 280$

Po.

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# GDP<sub>o</sub>

$P_1 =$

.....

Aggregate Supply  
when prices =  $P_o$

Price Level  
(CPI)



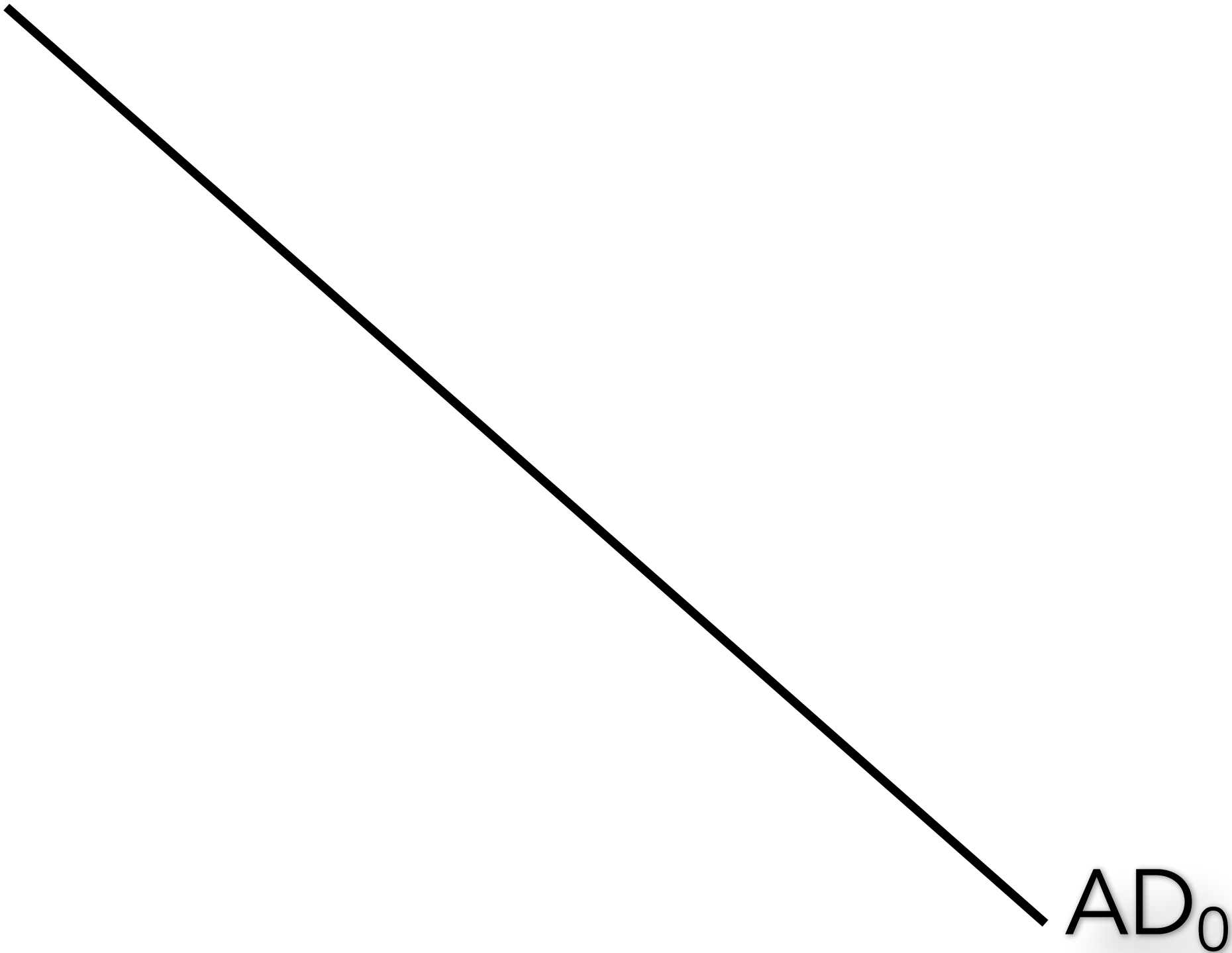




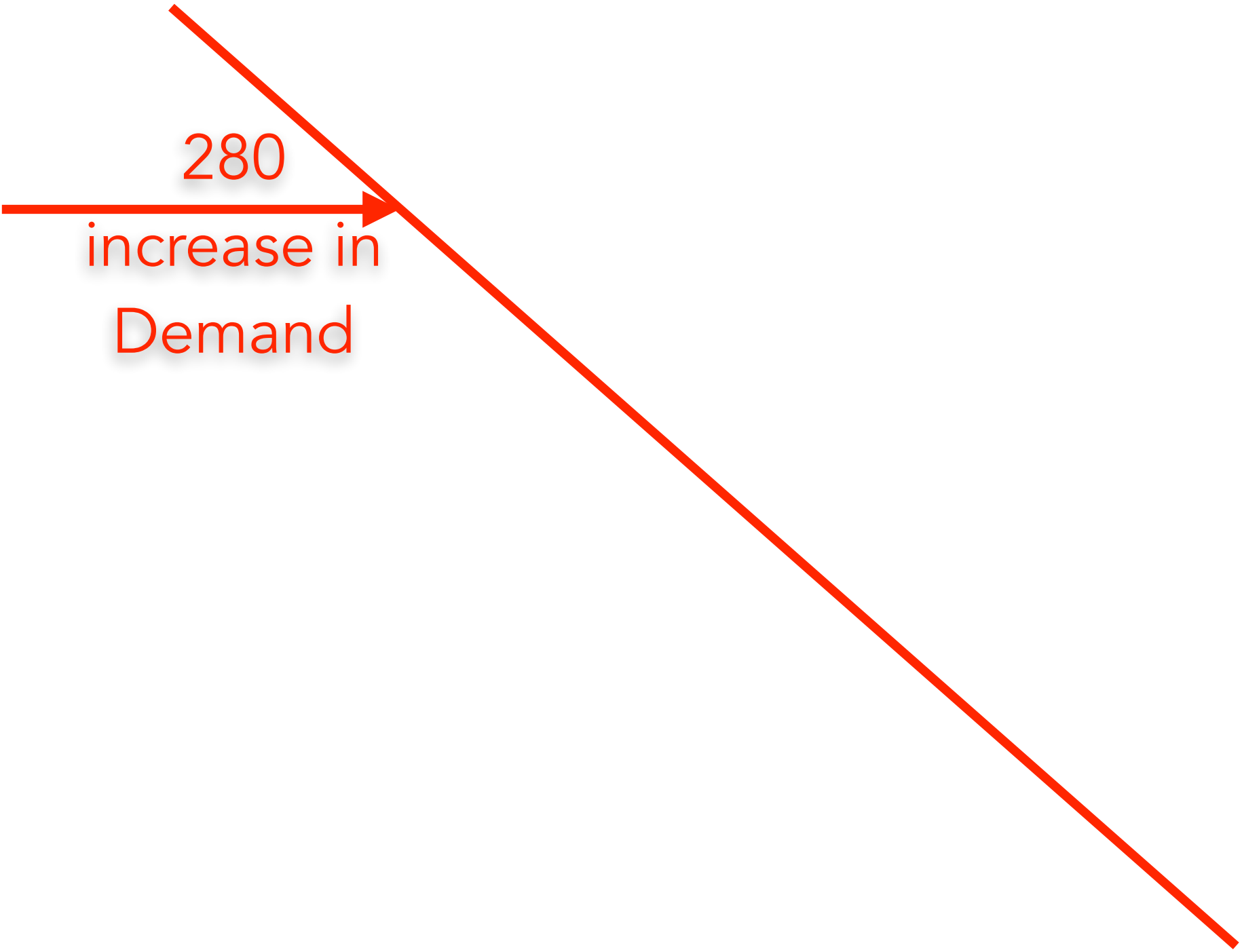
Firms increase  
production **NOT**  
prices

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AS







$$\Delta AD = 280$$



AD<sub>1</sub>



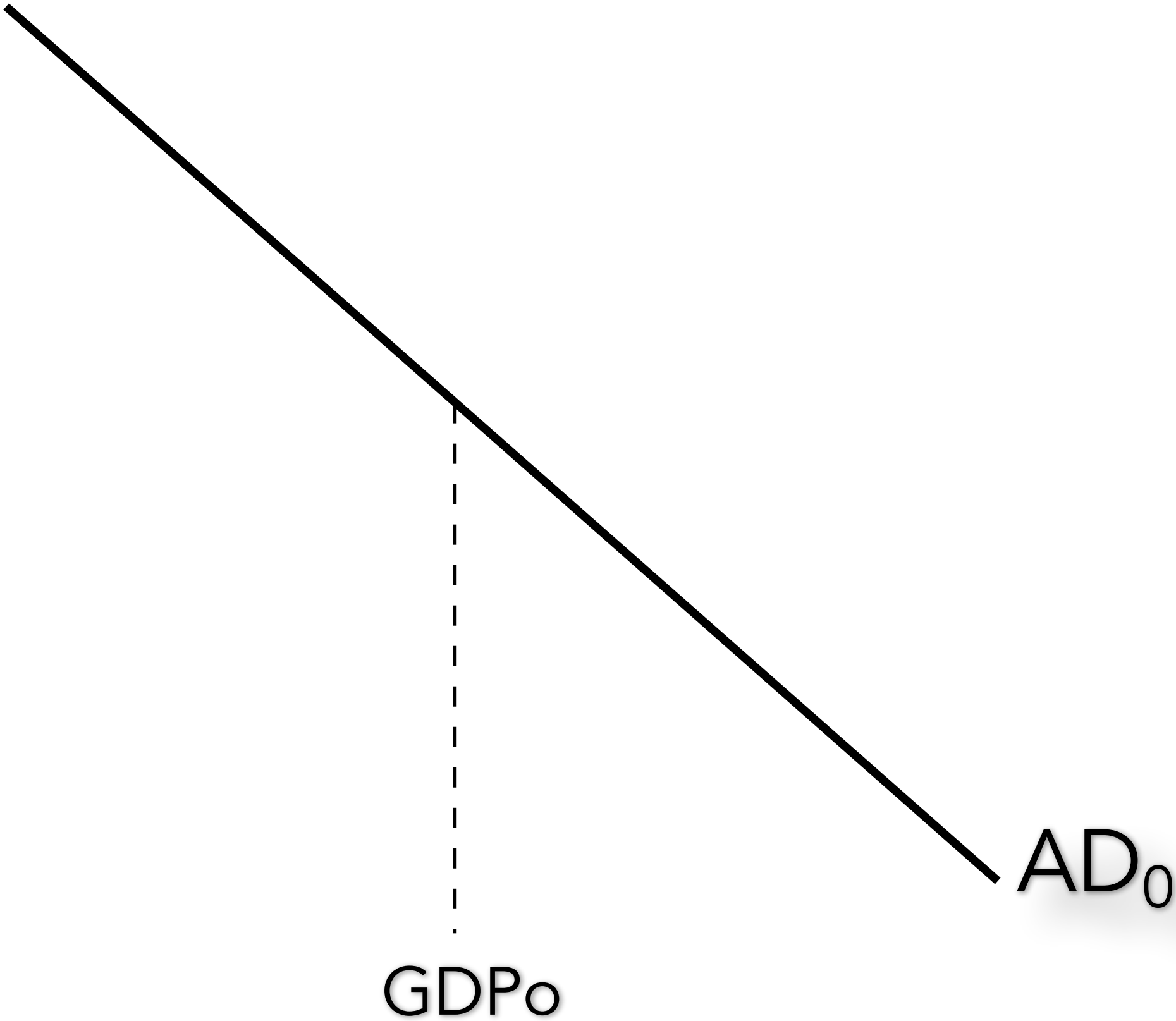




Aggregate Demand  
when prices =  $P_o$

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GDP<sub>1</sub>





280

increase in  
Demand



Increase in  
GDP = 280

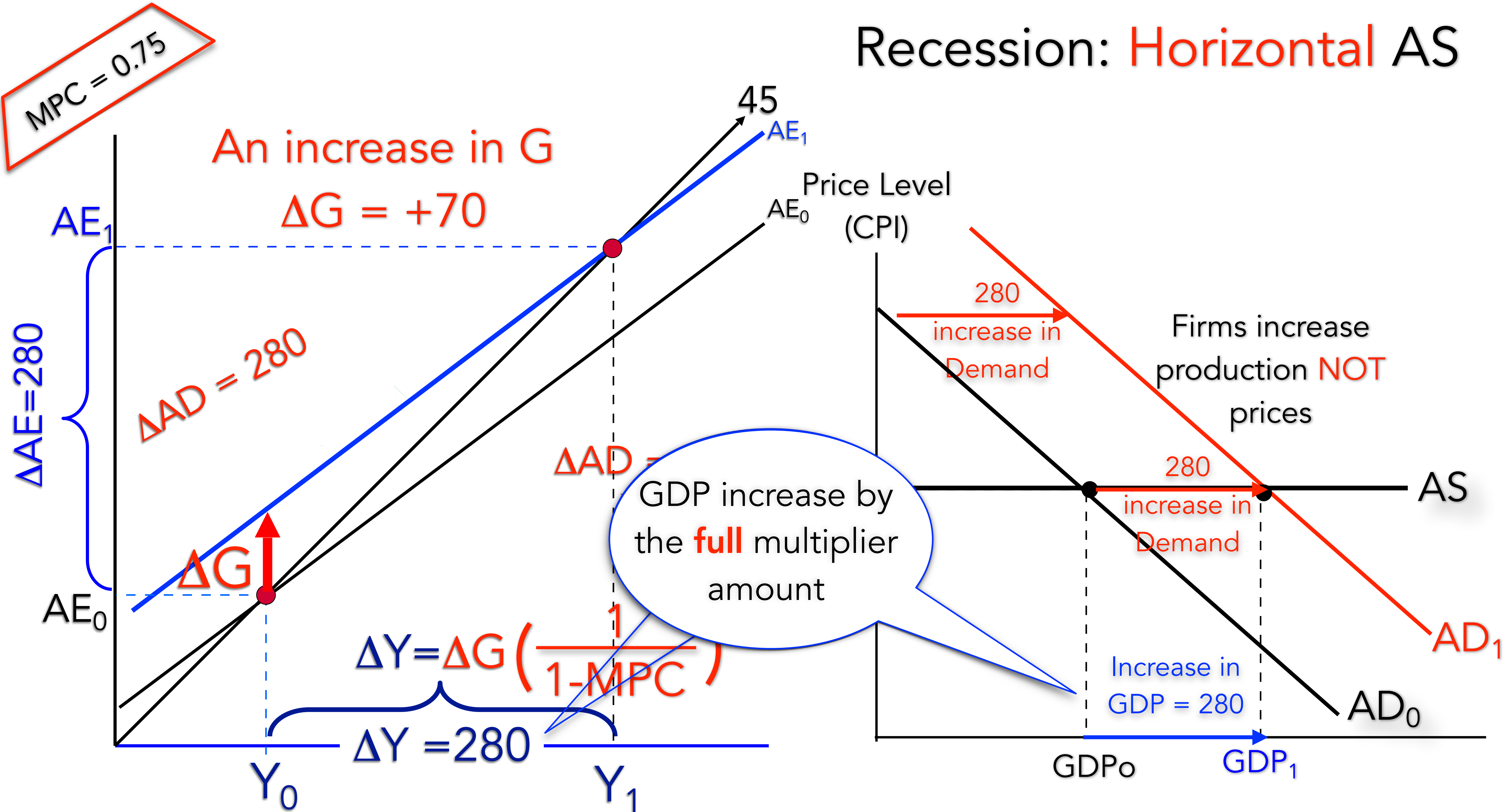


Residence: Horizontal AS



GDP increase by  
the **full** multiplier  
amount

# Recession: Horizontal AS



MPC = 0.75

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

$\Delta AE = 280$

$\Delta AD = 280$

$\Delta G$

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

$\Delta Y = 280$

$Y_0$

$Y_1$

Price Level  
(CPI)

$P_0$

$GDP_0$

$AD_0$

