

4

5

AE₁



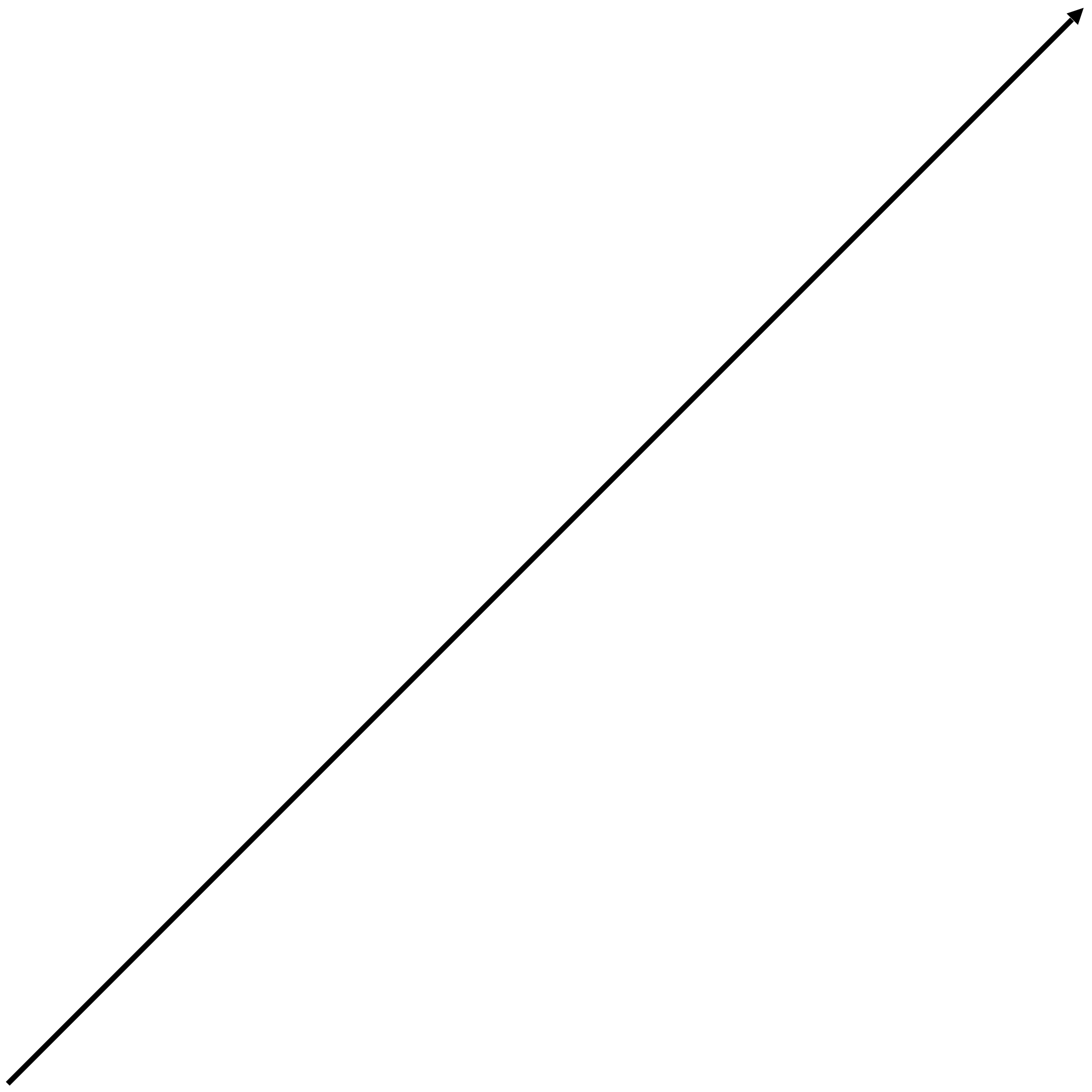
Y

O

Y

1





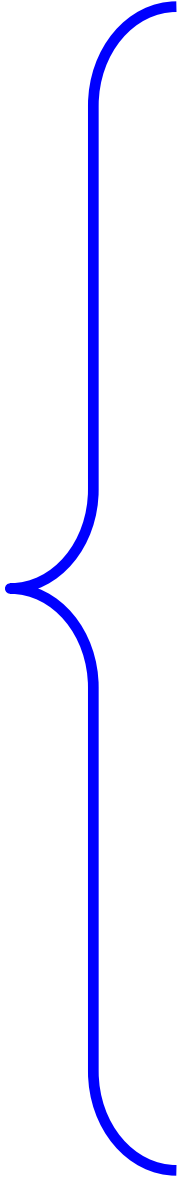


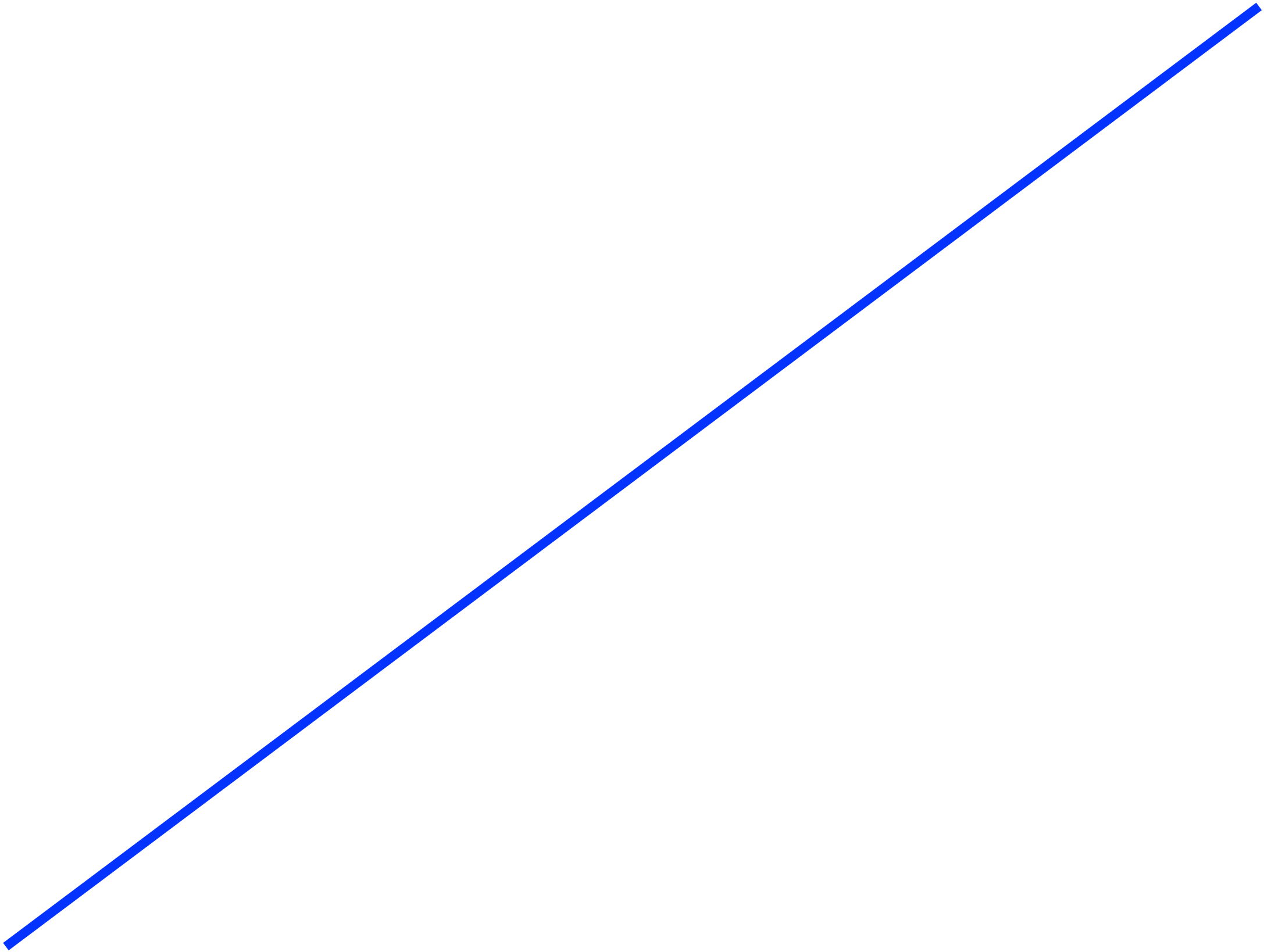
AE O

AE_1

A horizontal dashed line consisting of 25 short blue dashes.

$$\Delta A E = 210$$









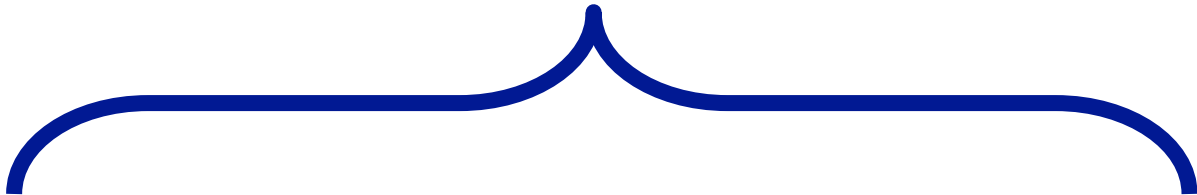




$$\Delta Y = 210$$

AEo

$$\Delta Y = \Delta T$$



A decrease in Taxes

$$\Delta T = -70$$

Δa



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

$\Delta AD = 210$

Po.

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GDP_o

P_1



AS

.....

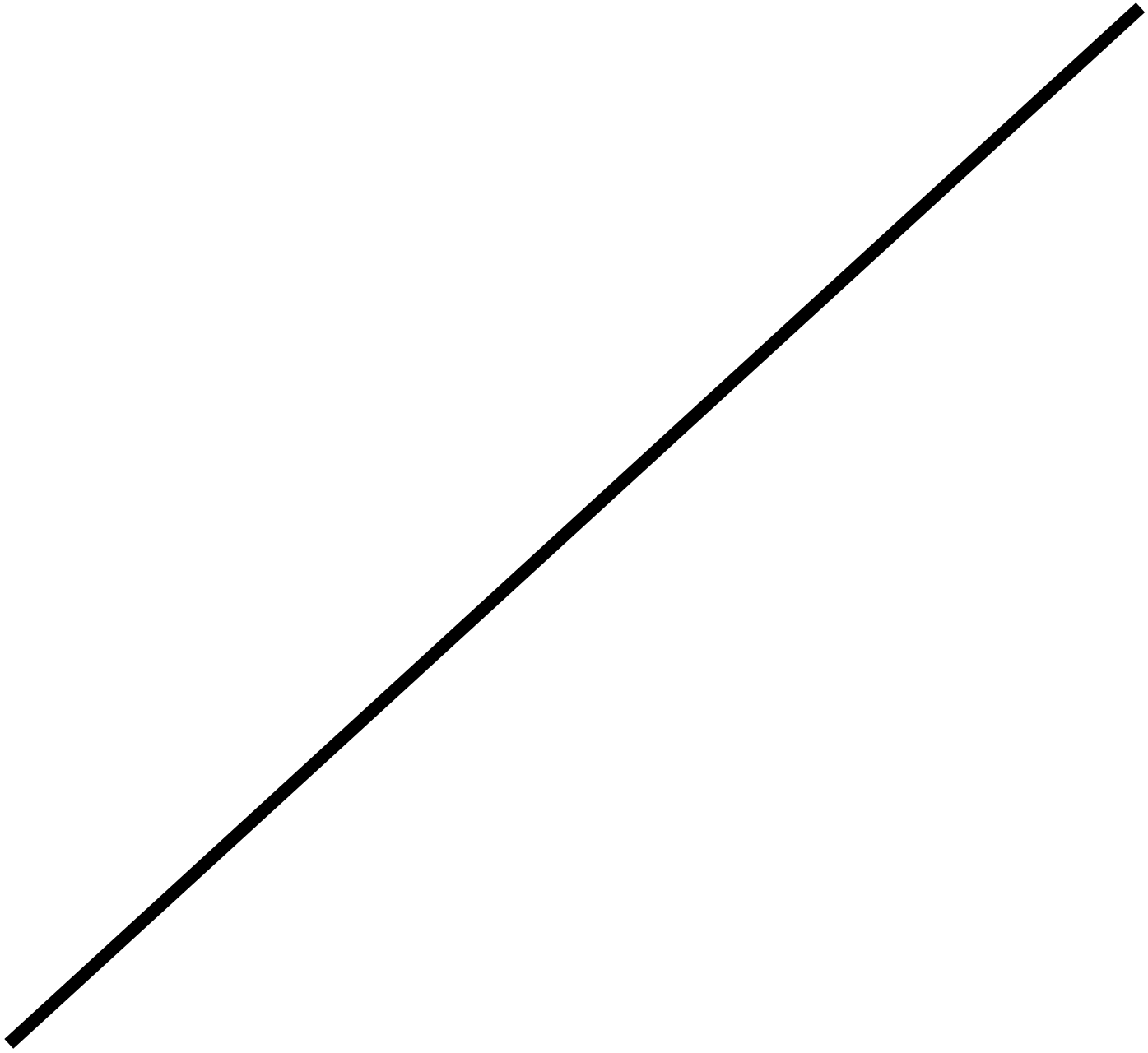
Aggregate Supply
when prices = P_o

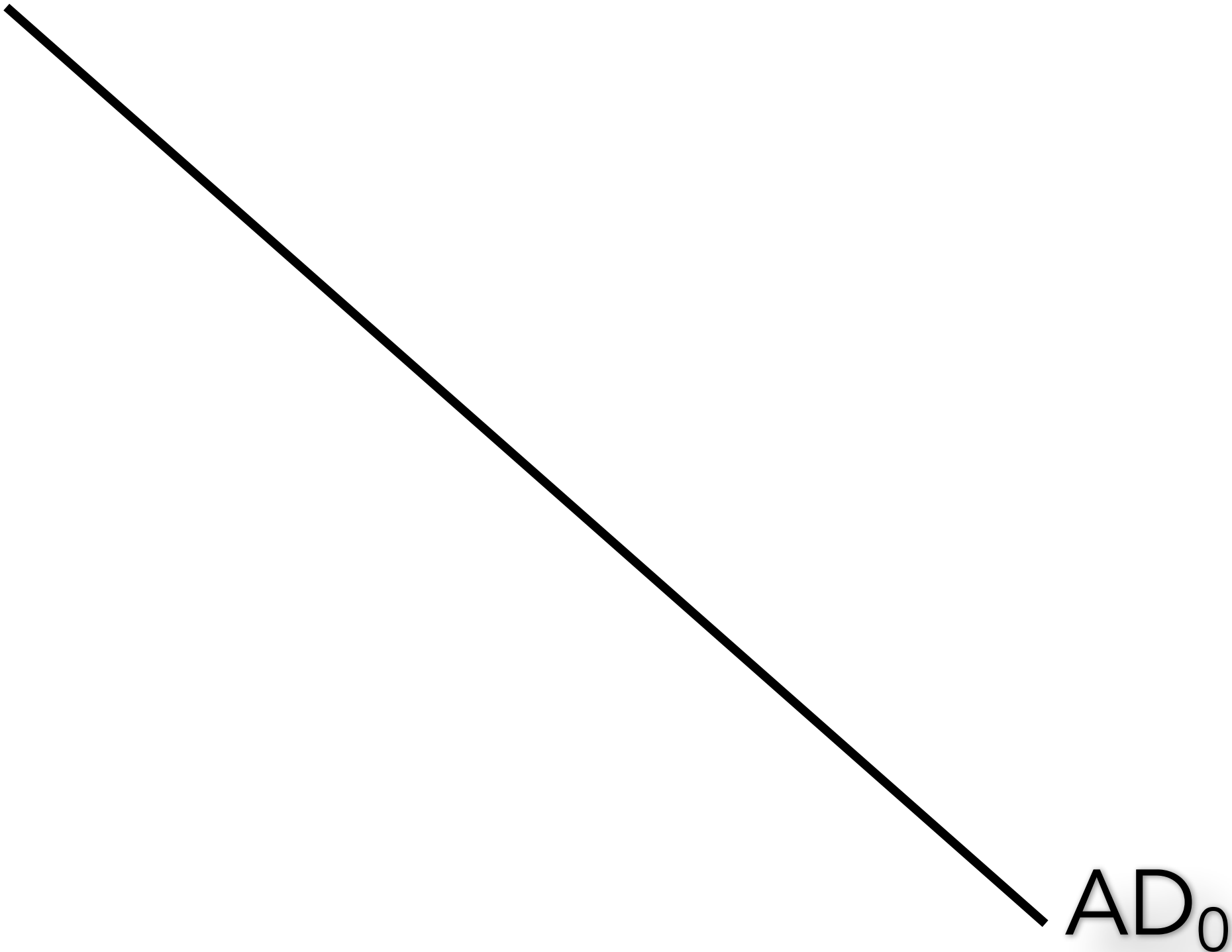
Price Level
(CPI)



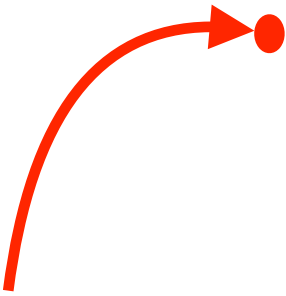


Firms increase
production and prices











210

increase in
Demand

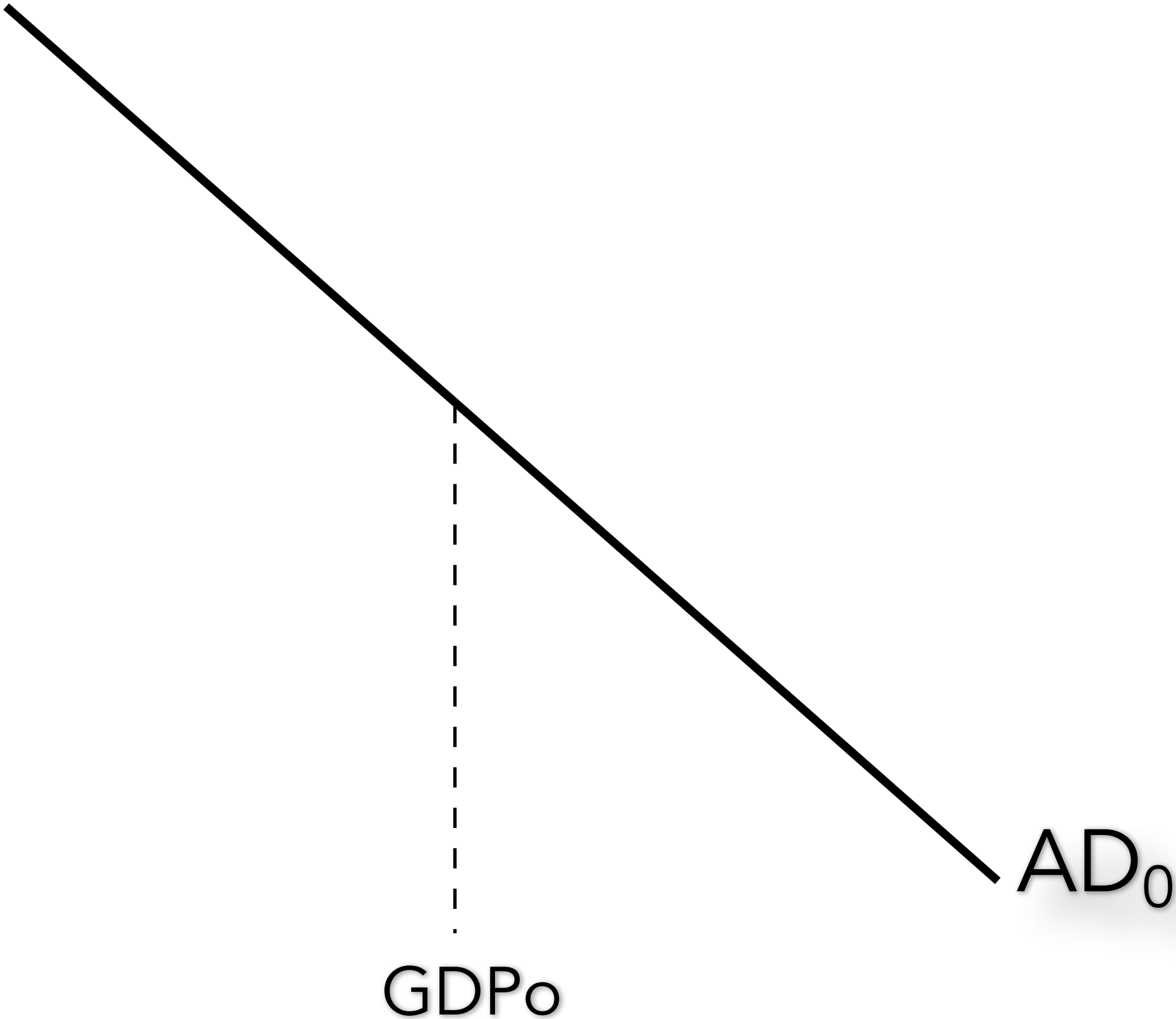
AD₁





Aggregate Demand
when prices = P_o

GDP₁

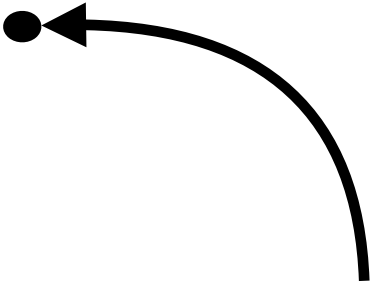


210

·  increase in
Demand



Increase in
GDP less
than 210



As **prices rise**


AD decrease



$MPC = 0.75$

$$\Delta AD = 210$$





GDP does NOT
increase by the full
multiplier amount

Inflation Decreases the Multiplier



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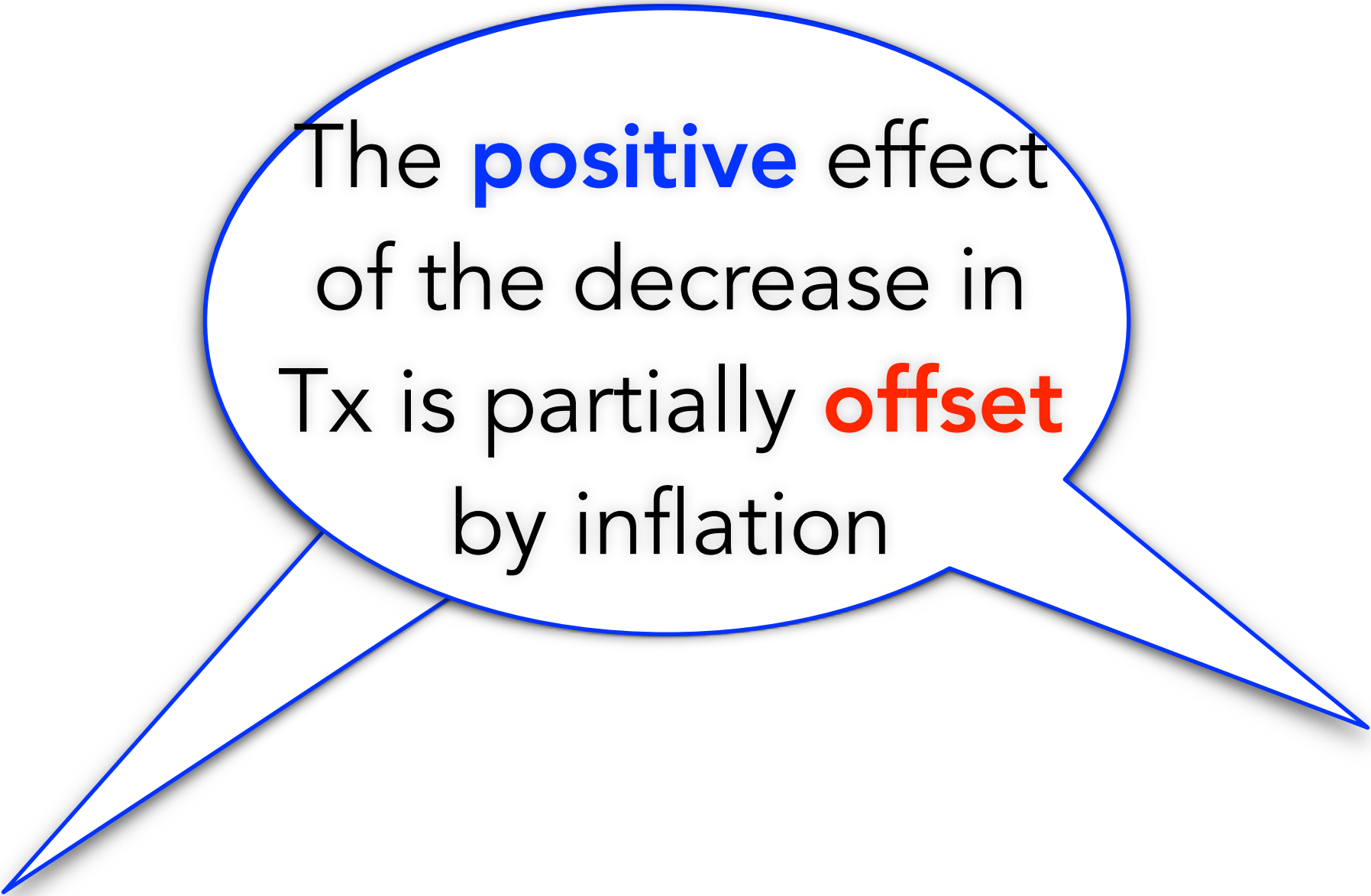
p



i

e

r



The **positive** effect
of the decrease in
Tx is partially **offset**
by inflation

Inflation **Decreases** the Multiplier

Inflation **Decreases** the Multiplier

$MPC = 0.75$

A decrease in Taxes

$$\Delta T = -70$$

$$\Delta AE = 210$$

$$\Delta AD = 210$$

Δa

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

$$\Delta Y = 210$$

Y_0

Y_1

Price Level
(CPI)

Firms increase
production **and** prices

210

increase in
Demand

The **positive** effect
of the decrease in
Tx is partially **offset**
by inflation

As **prices rise**
AD decrease

210

increase in
Demand

Increase in
GDP less
than 210

GDP_0 GDP_1

AS

AD_1

AD_0