

4

5

A

E

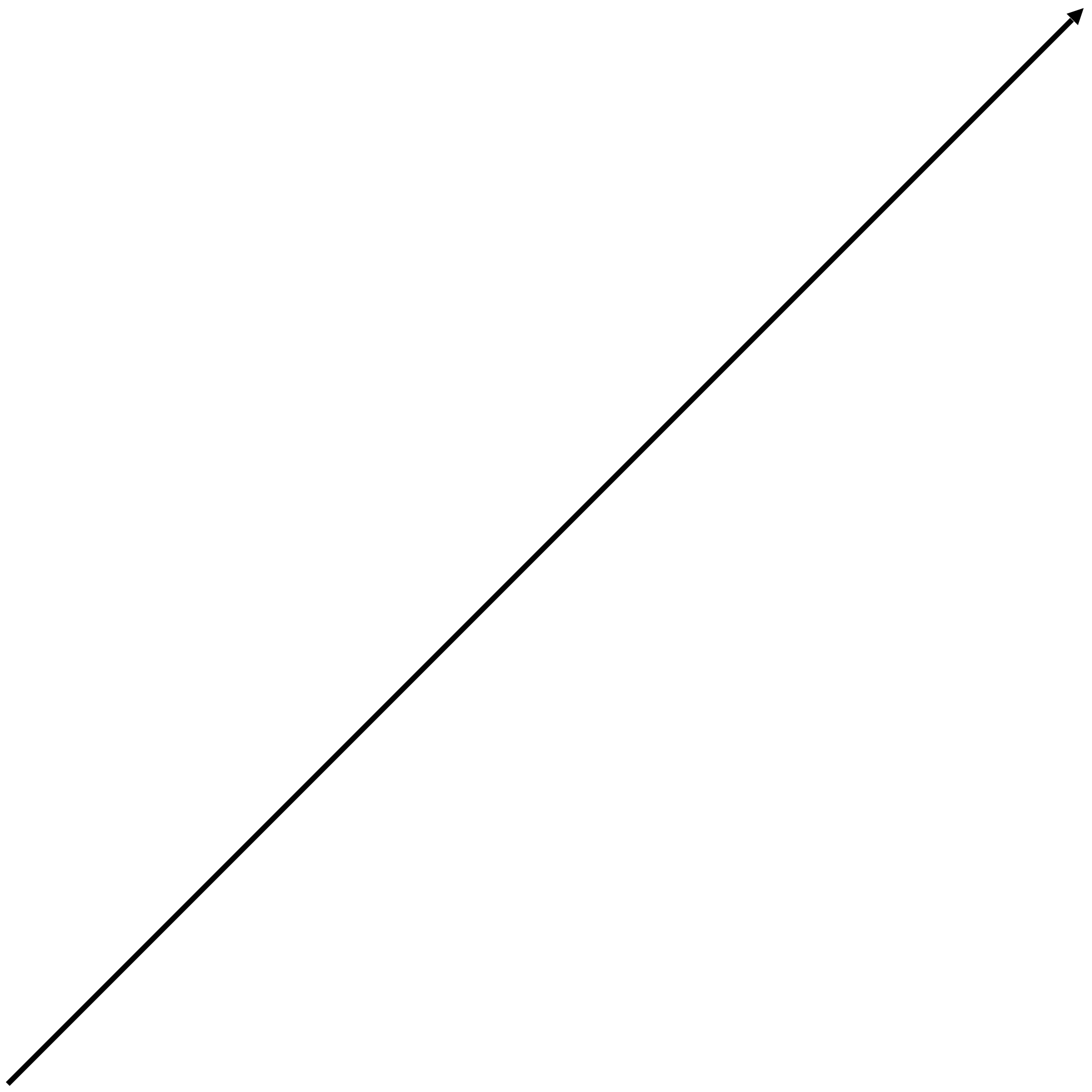
↑



Y

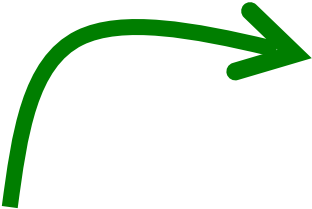
O









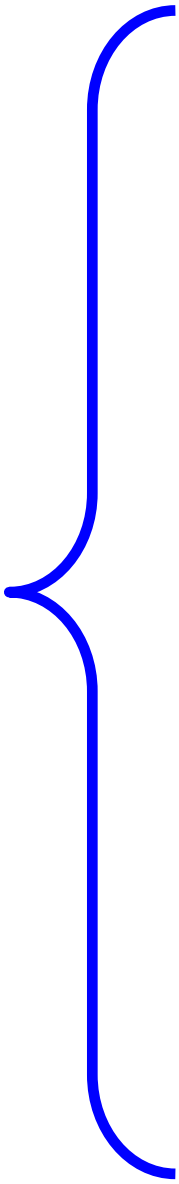


AE O

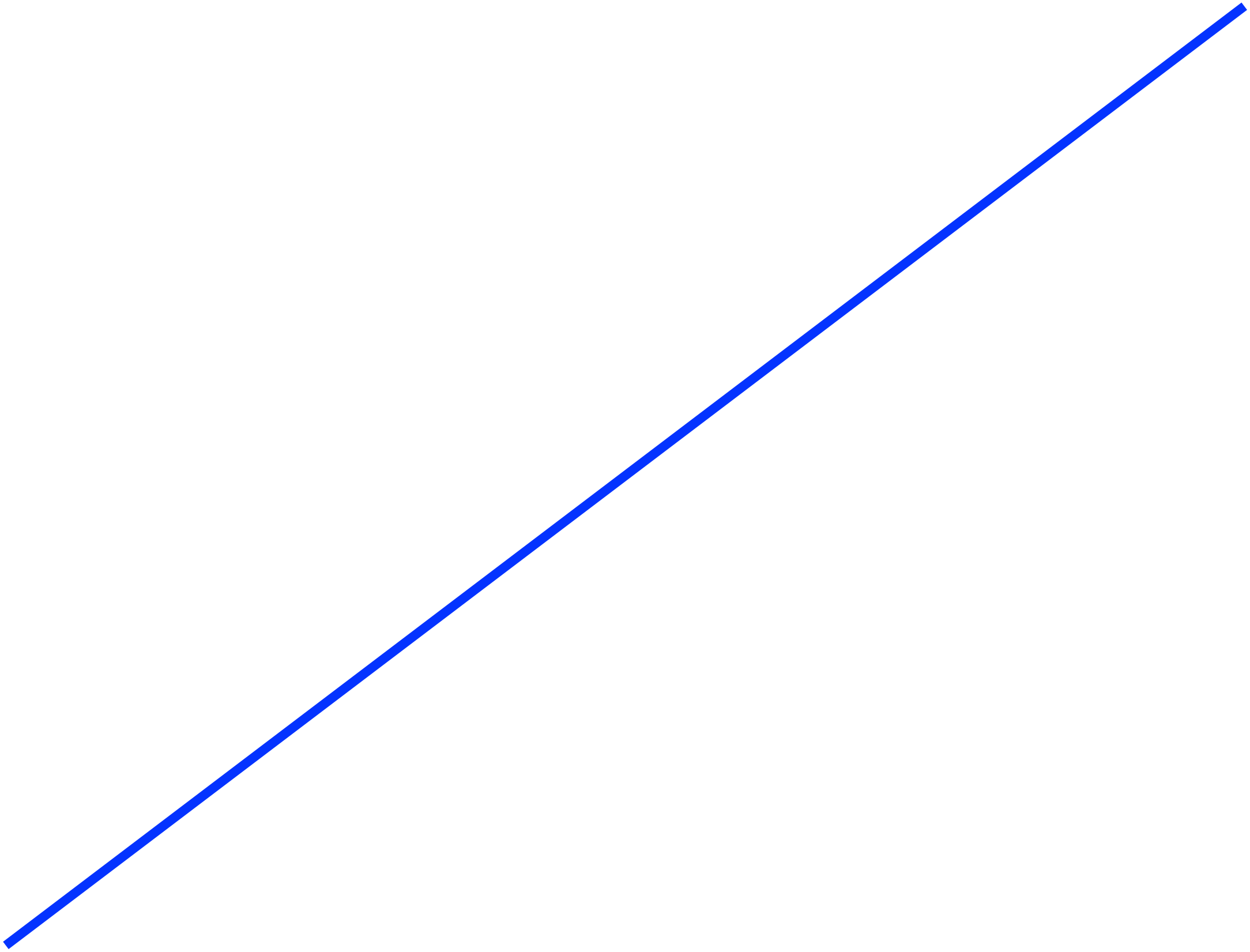
$AE_1$

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$$\Delta A E = 280$$















$\Delta G \uparrow$

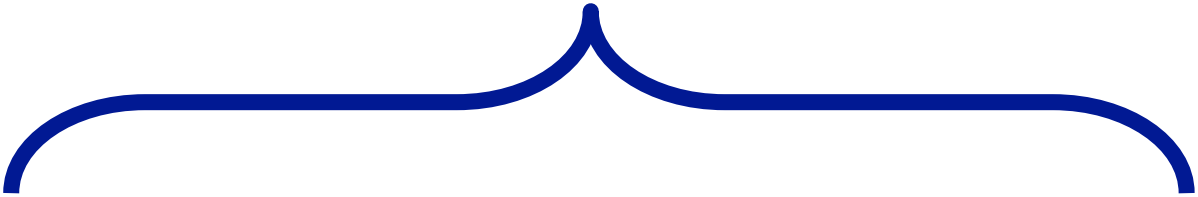
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$



Y<sub>1</sub>

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











2







Po.

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# GDPo

$P_1$



AS

# Aggregate Supply when prices = $P_o$

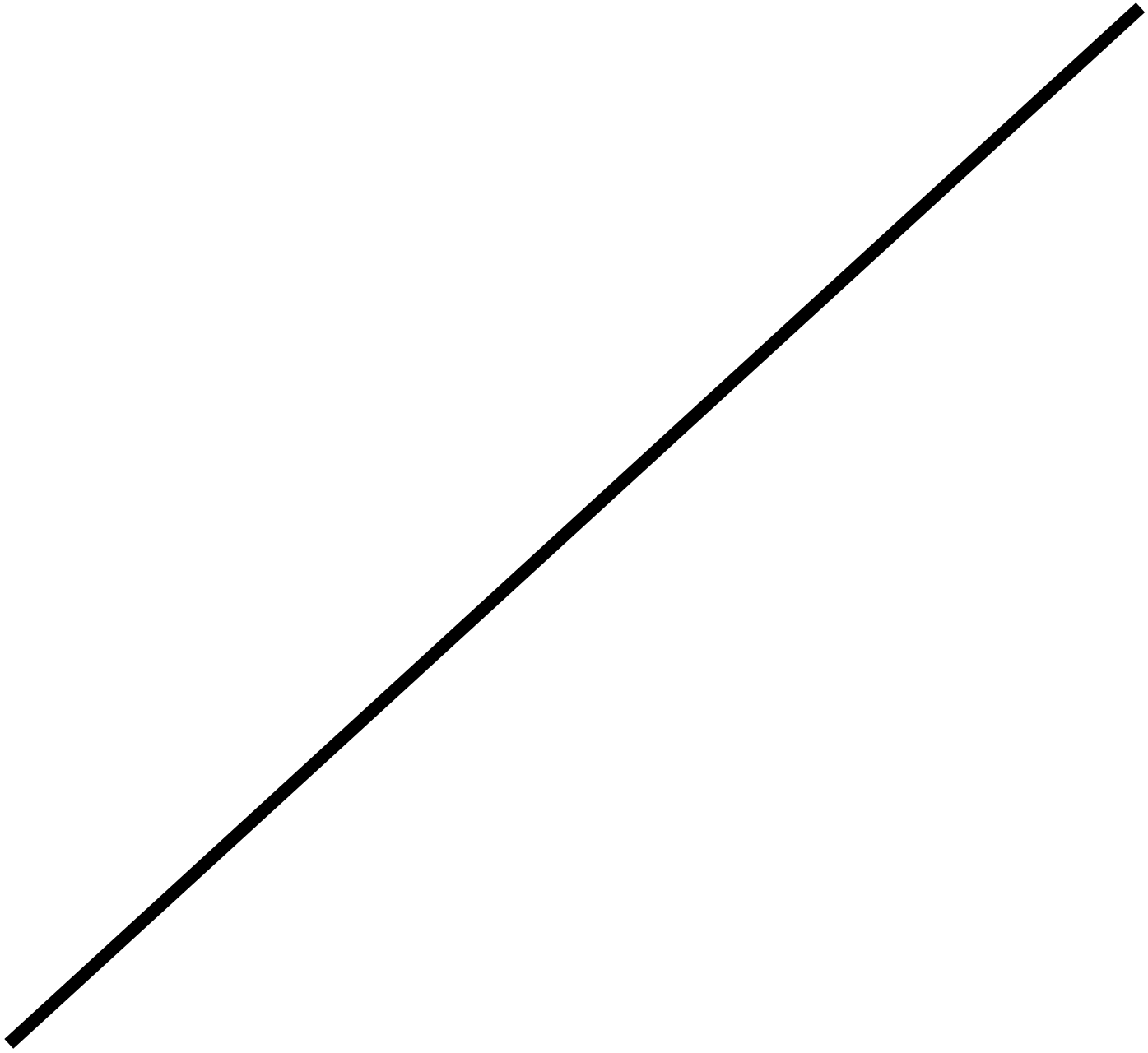
Price Level  
(CPI)

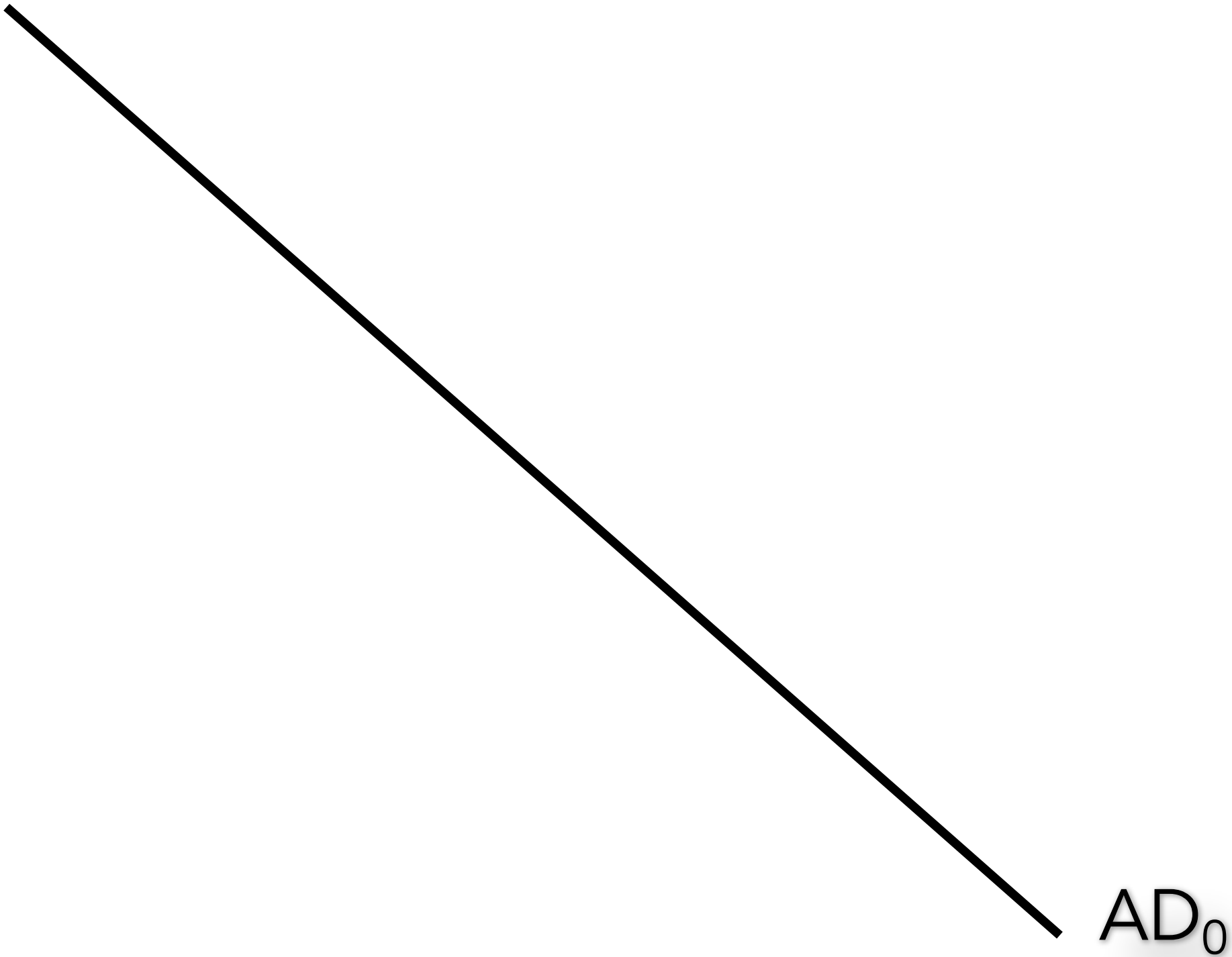




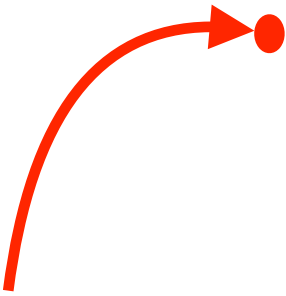


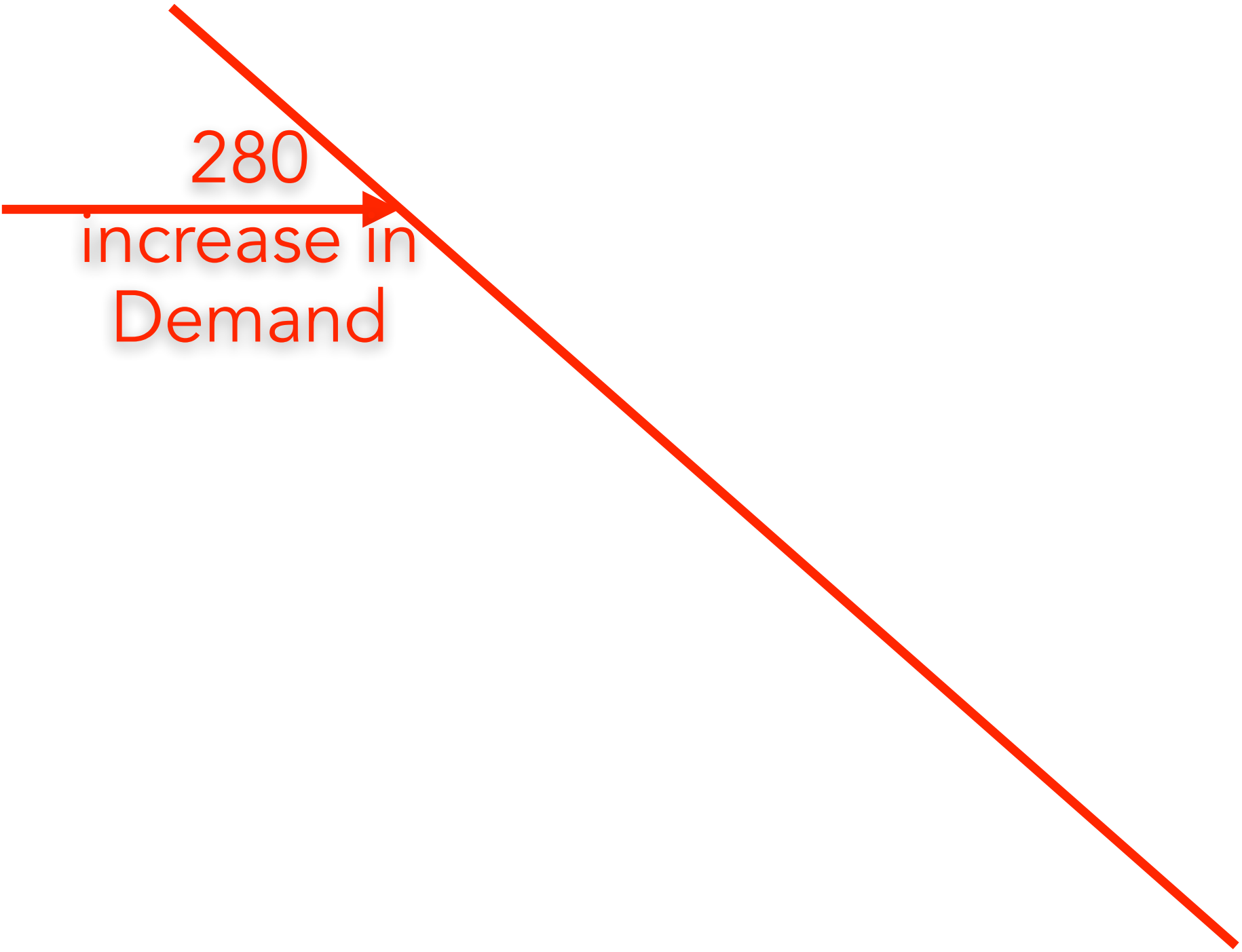
Firms increase  
production and prices











$$\Delta AD = 280$$





AD<sub>1</sub>

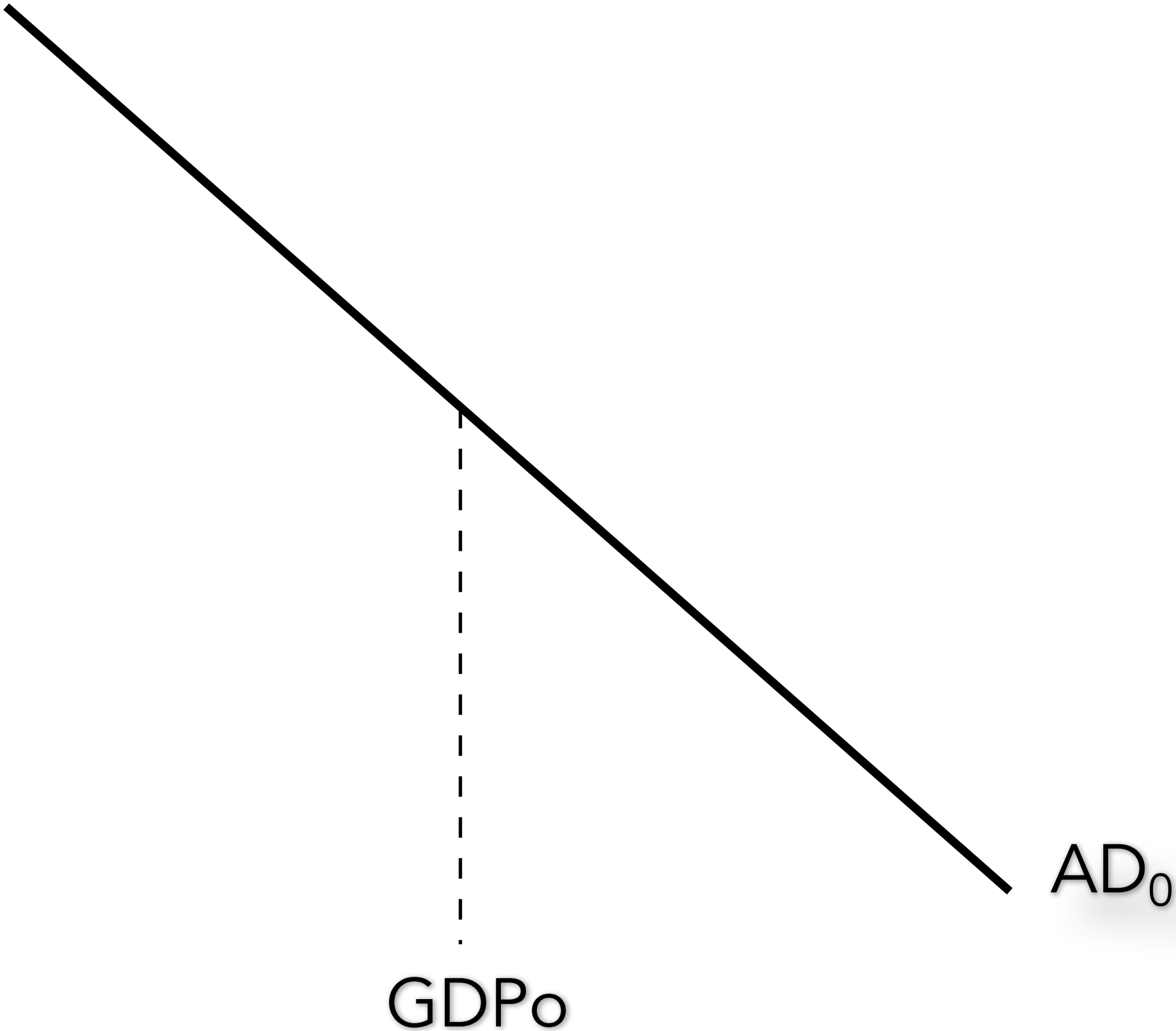




Aggregate Demand  
when prices =  $P_o$

GDP<sub>1</sub>







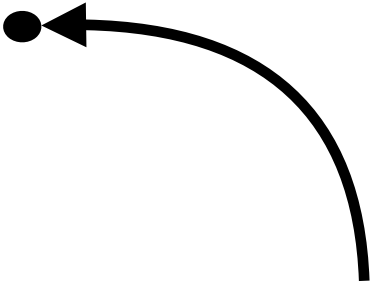
280

increase in  
Demand





Increase in  
GDP less  
than 280



As prices rise

AD decrease

Inflation Decreases the Multiplier



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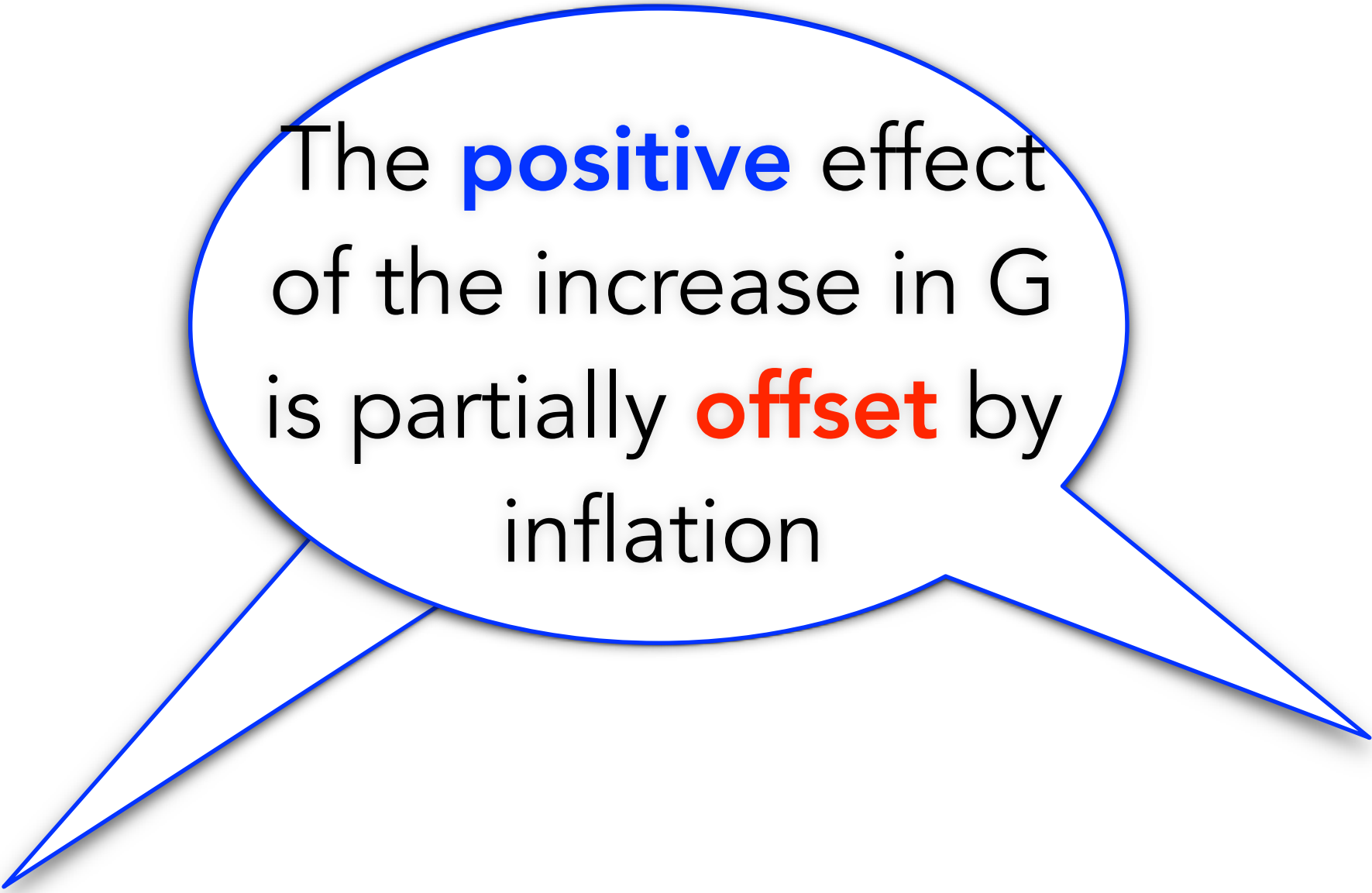
i

e

**r**



GDP does NOT  
increase by the full  
multiplier amount



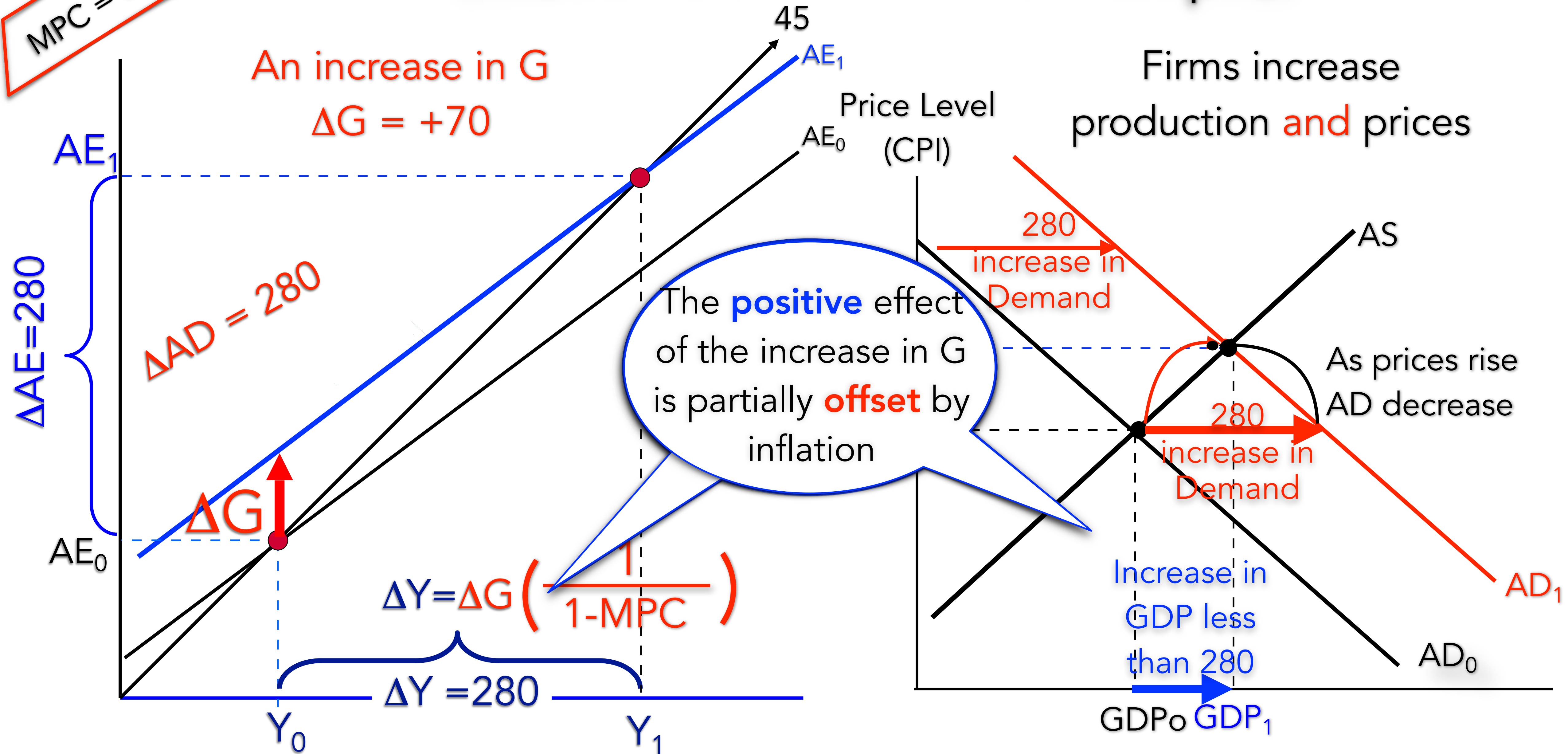
The **positive** effect  
of the increase in  $G$   
is partially **offset** by  
inflation

$\Delta AD = 280$

Inflation **Decreases** the Multiplier

# Inflation **Decreases** the Multiplier

$MPC = 0.75$





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