

45

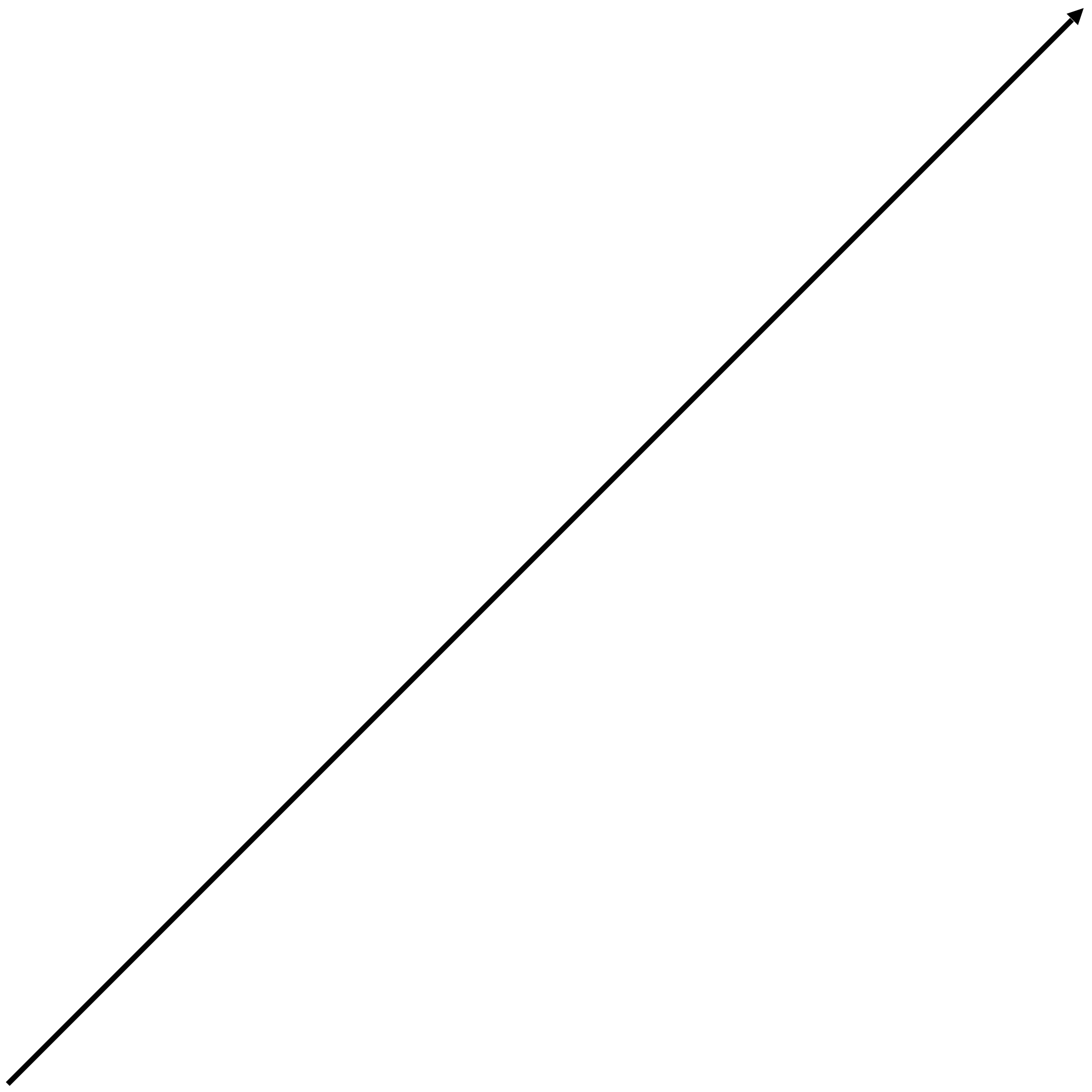
AE₁



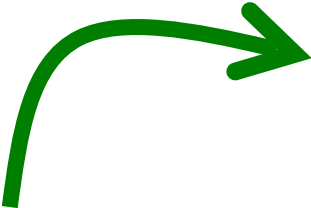
Y

O





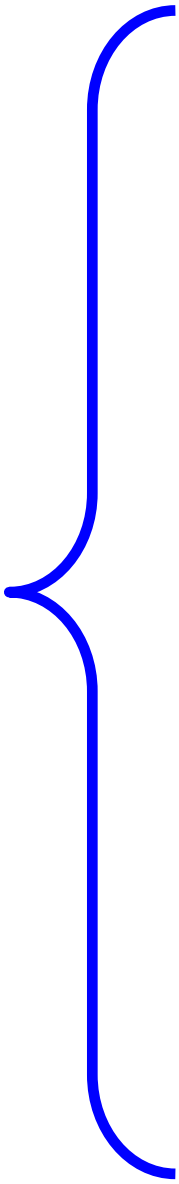


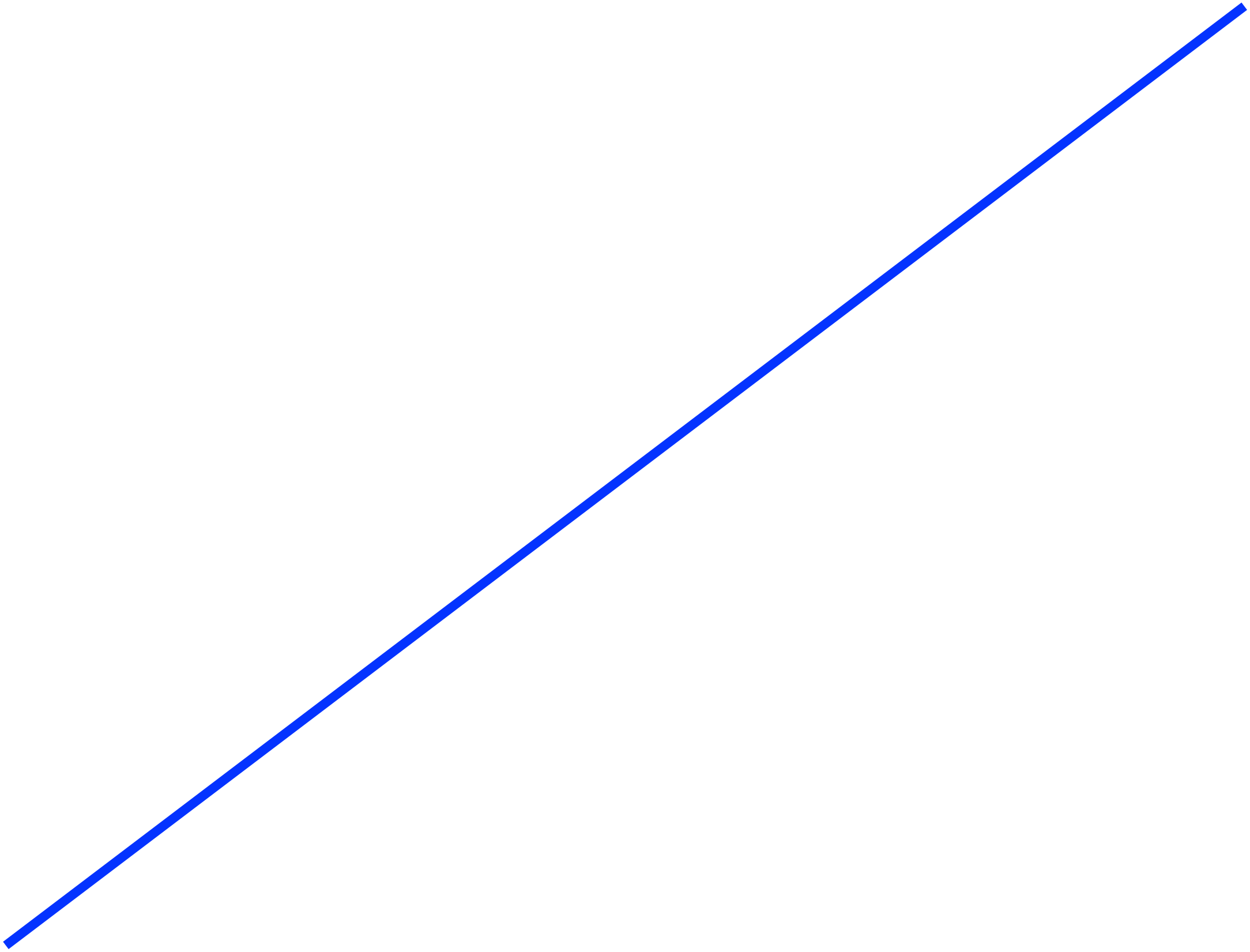


AEo

AE_1

$$\Delta A E = 280$$











$\Delta G \uparrow$

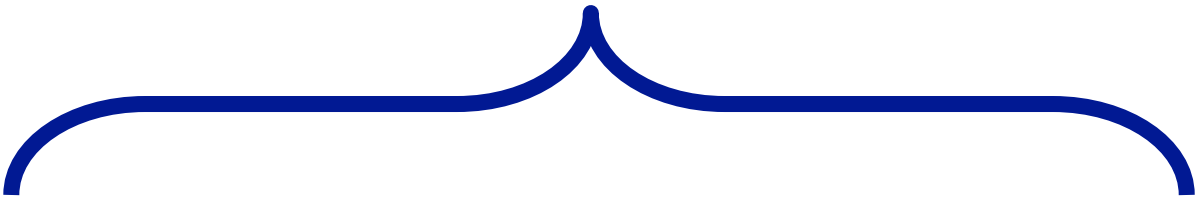
$$\Delta Y = 280$$

An increase in G

$$\Delta G = +70$$

AEo

$$\Delta Y = \Delta G$$





$MPC = 0.75$

Y₁

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

$\Delta AD = 280$

Po.

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GDP_o

$$P_1 =$$

.....

Aggregate Supply
when prices = P_o

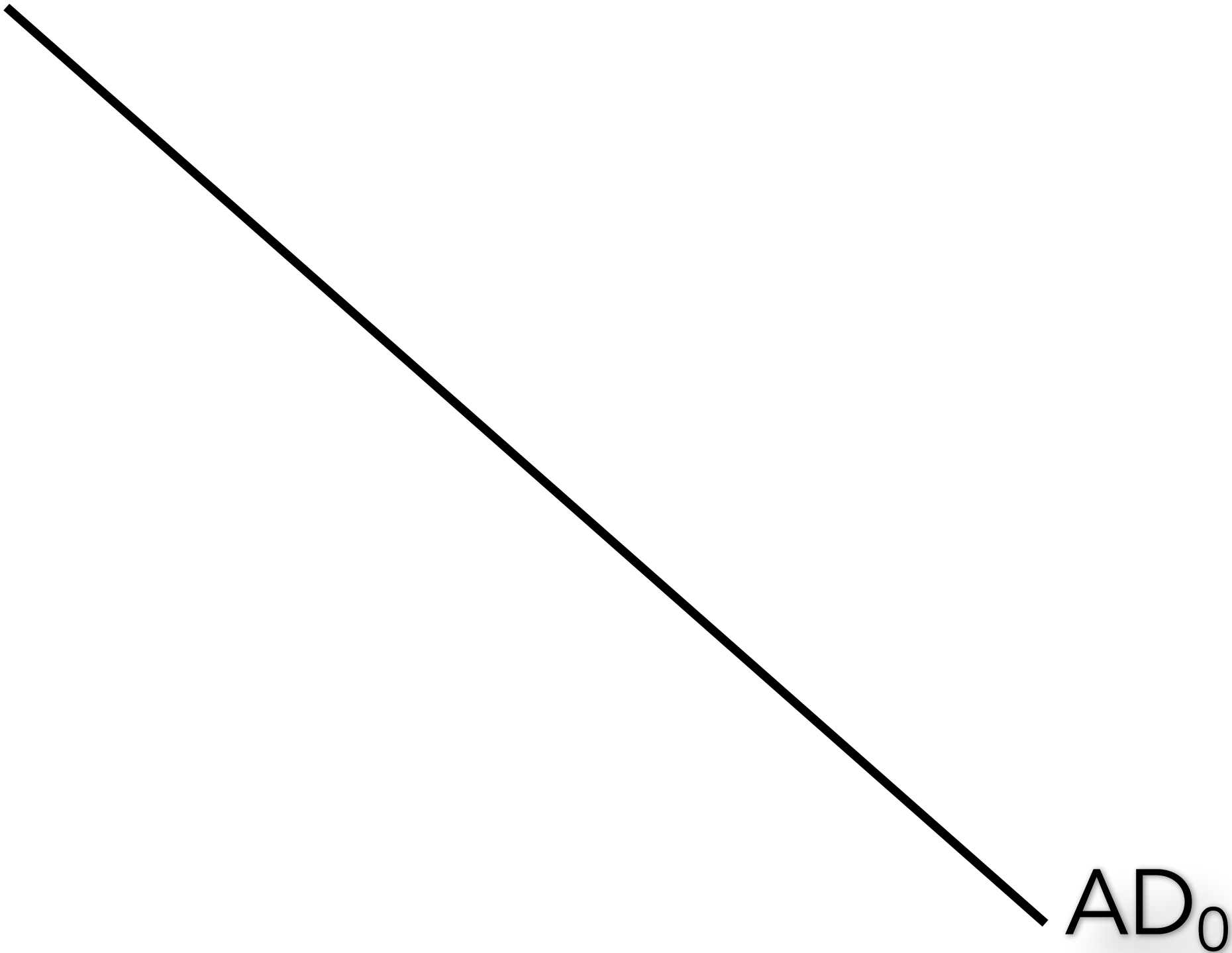
Price Level
(CPI)



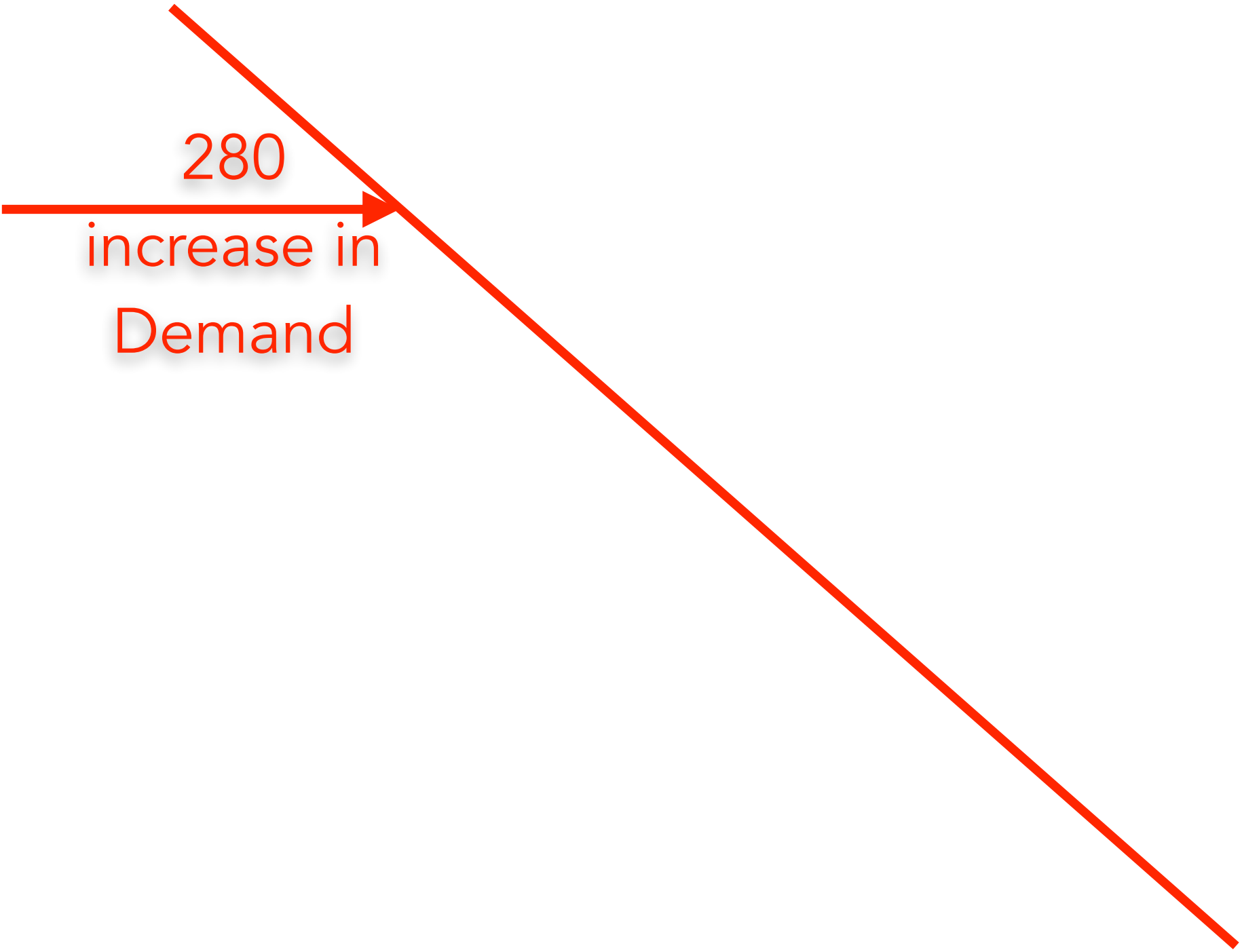


Firms increase
production **NOT**
prices

AS







$$\Delta AD = 280$$



AD₁

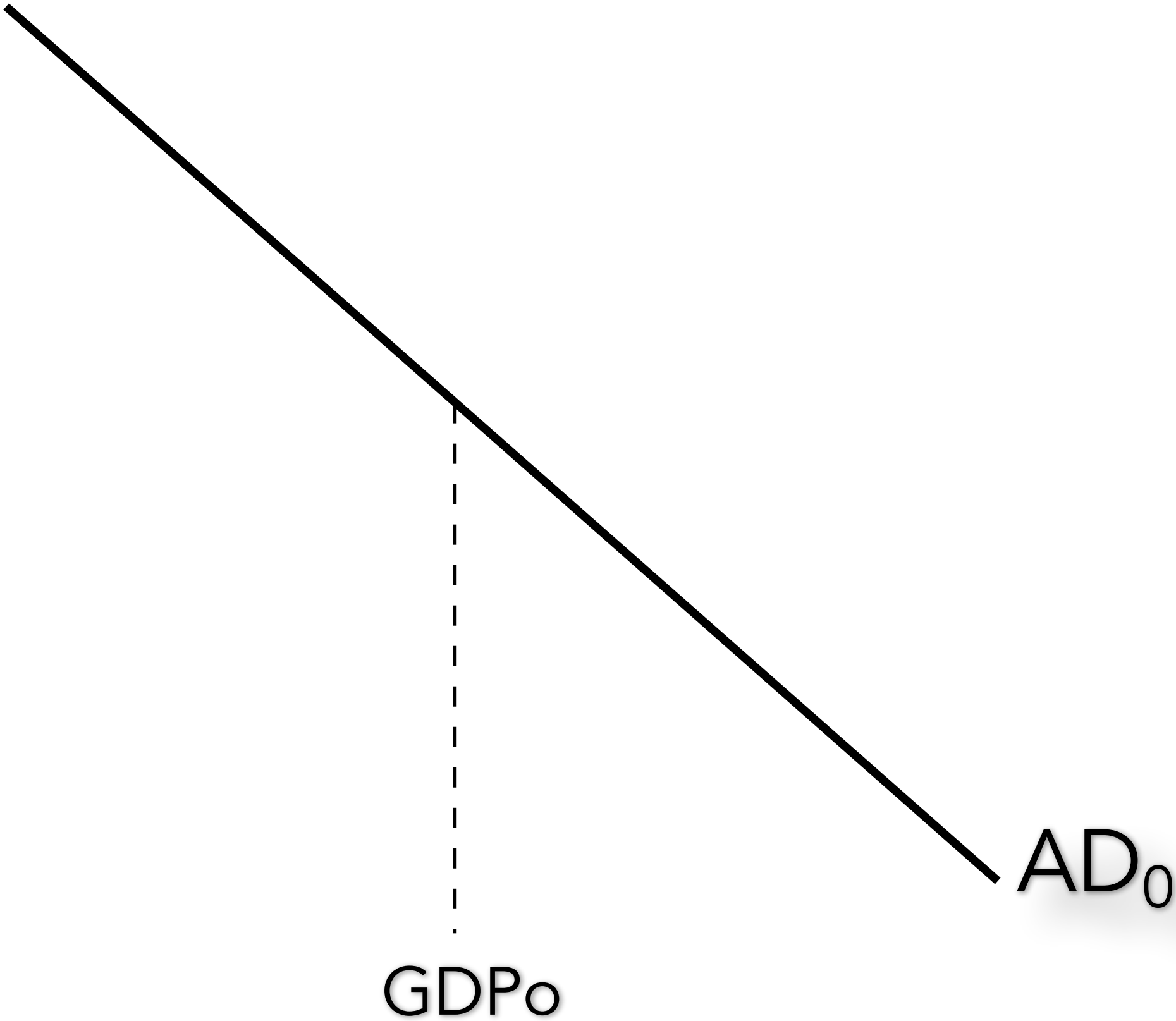




Aggregate Demand
when prices = P_o



GDP₁





280

increase in
Demand



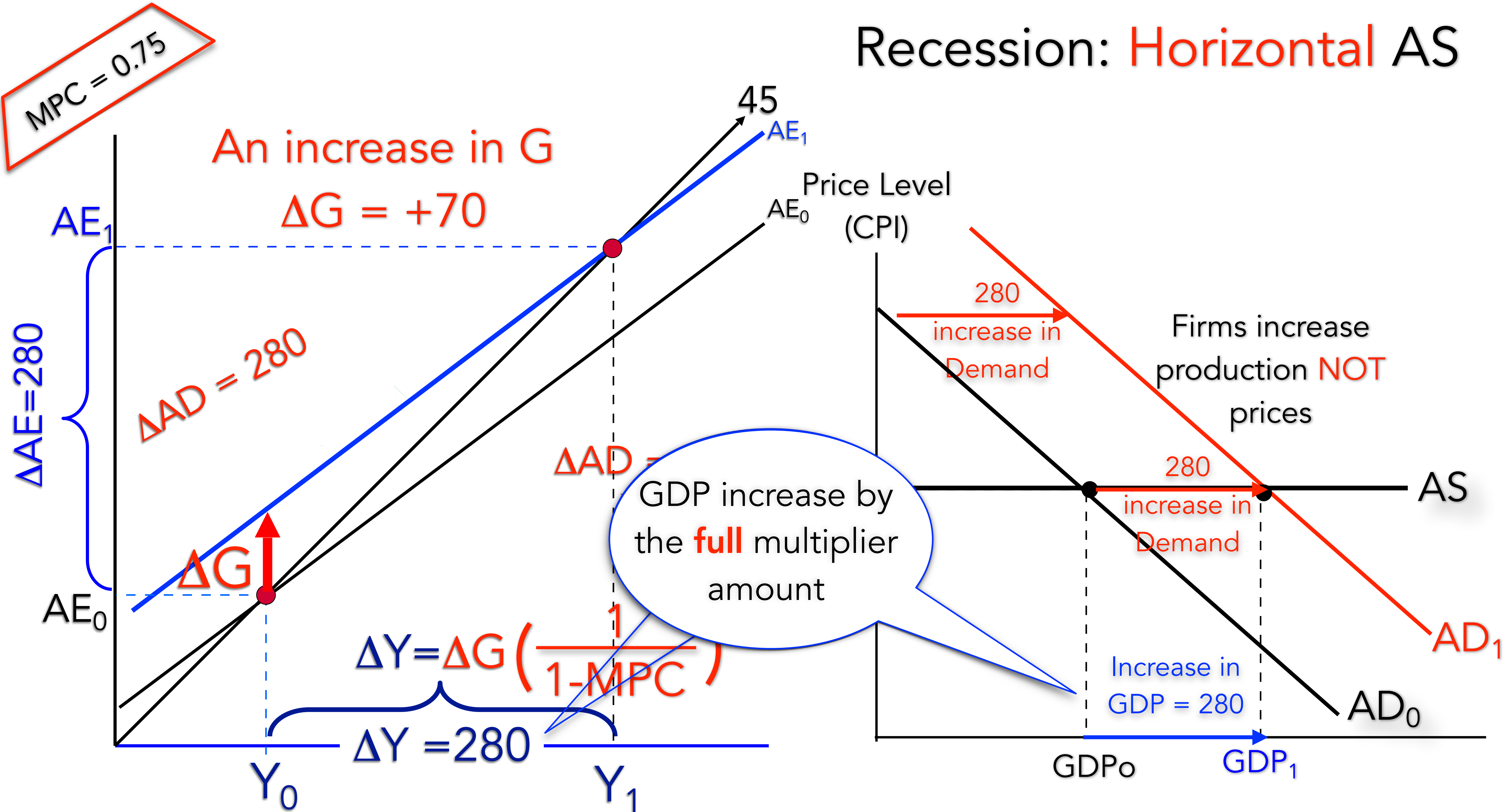
Increase in
GDP = 280

Residence: Horizontal AS



GDP increase by
the **full** multiplier
amount

Recession: Horizontal AS



MPC = 0.75

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

$\Delta AE = 280$

$\Delta AD = 280$

ΔG

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

$\Delta Y = 280$

Y_0

Y_1

Price Level
(CPI)

P_0

GDP_0

AD_0

