

Economics 302 (Sec. 001)
Intermediate Macroeconomic
Theory and Policy
(Spring 2010)

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Lecture 3

Wednesday, Jan. 27, 2010

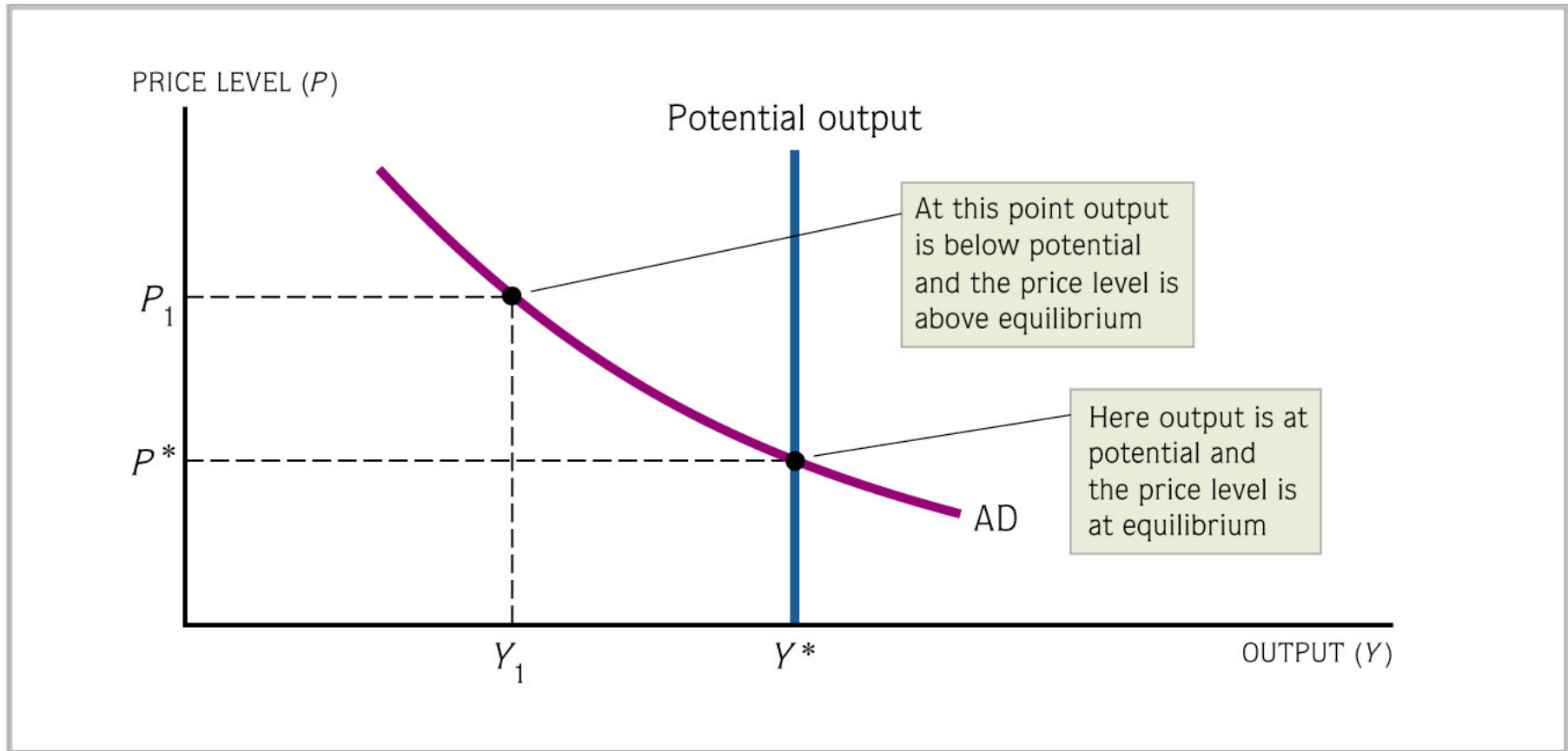


FIGURE 7.1 The Aggregate Demand (AD) Curve

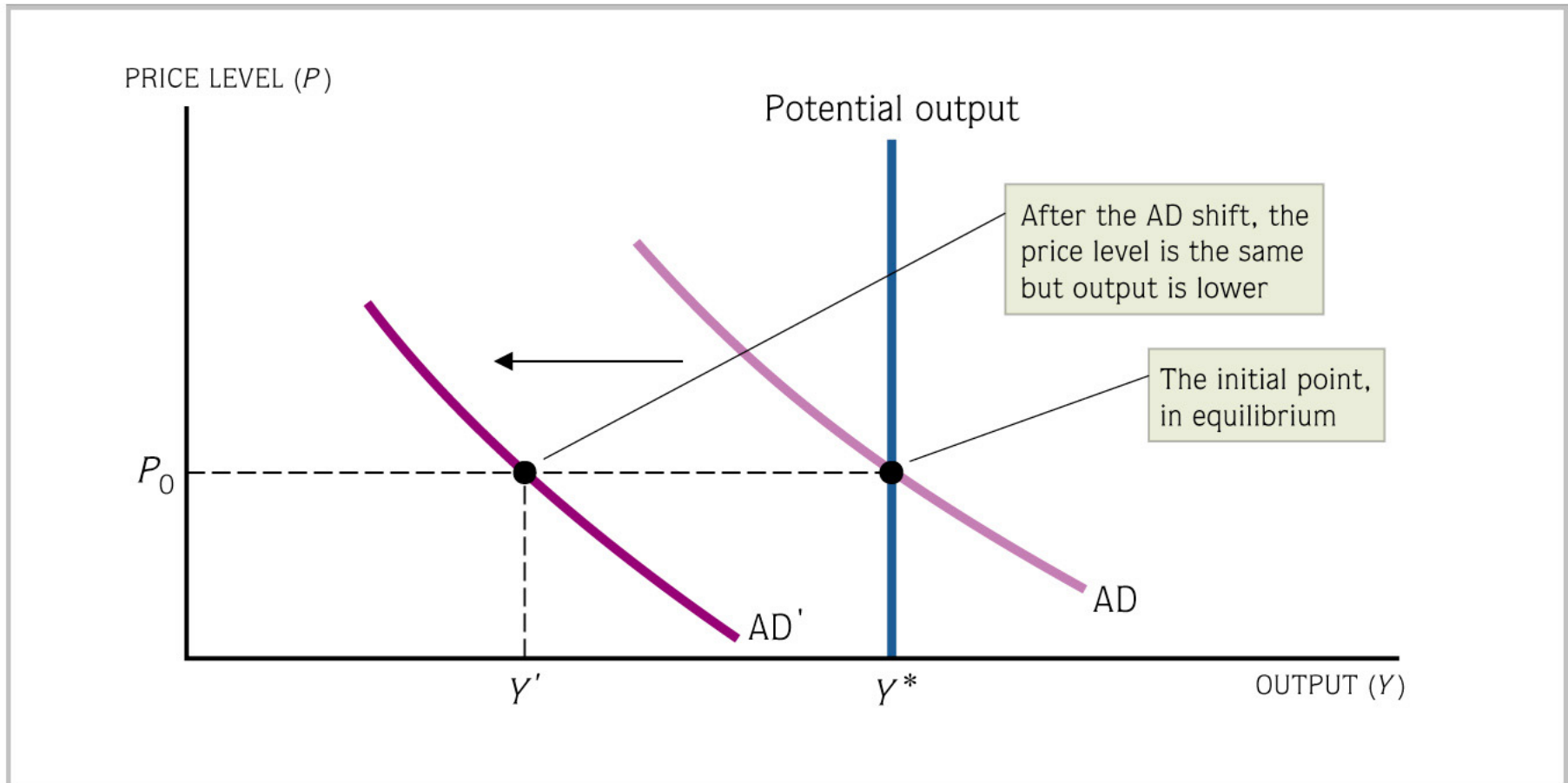


FIGURE 7.2 Output Declines When AD Shifts Inward

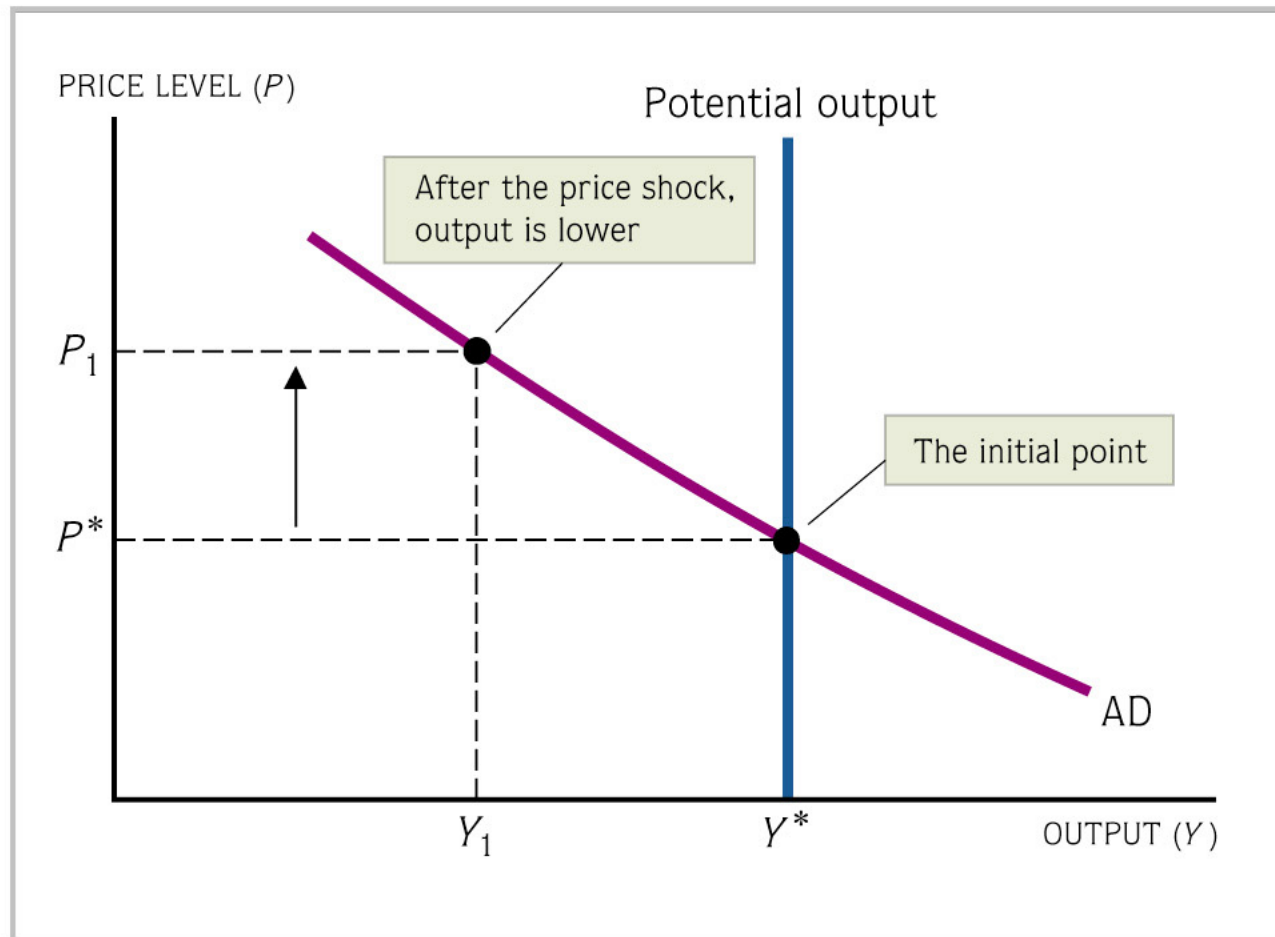


FIGURE 7.3 A Price Shock

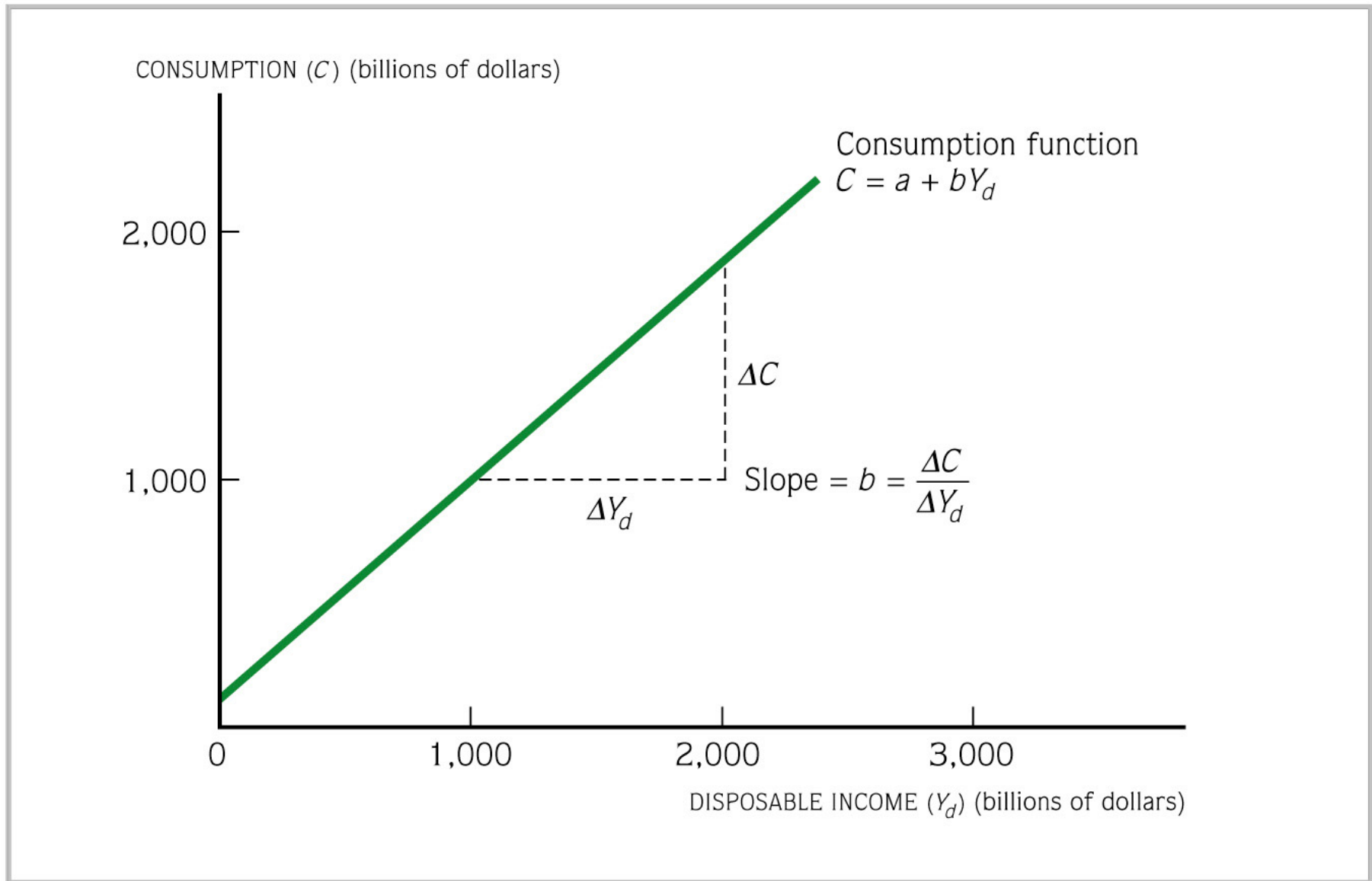


FIGURE 7.4 The Consumption Function

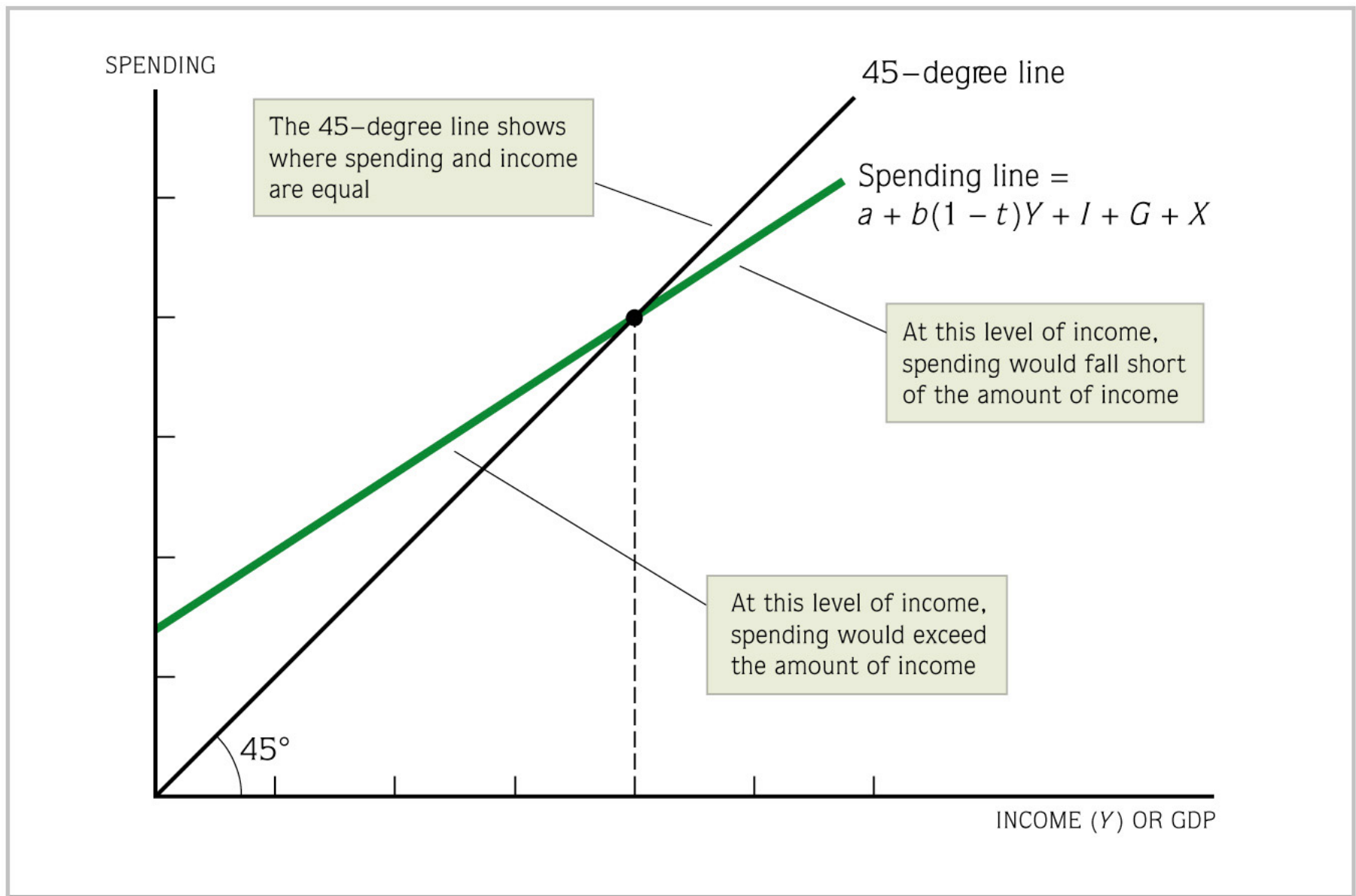


FIGURE 7.5 Spending Balance

**TABLE 7.1 EXAMPLE OF THE MULTIPLIER PROCESS
(BILLIONS OF DOLLARS)**

	REDUCTION IN GDP		CALCULATION
	THIS ROUND	SUM TO DATE	
Round 1	10.000	10.000	Exogenous drop in investment
Round 2	6.300	16.300	$b(1 - t)(10) = (0.6300)(10)$
Round 3	3.969	20.269	$[b(1 - t)]^2(10) = (0.3969)(10)$
Round 4	2.500	22.769	$[b(1 - t)]^3(10) = (0.2500)(10)$
Round 5	1.575	24.344	$[b(1 - t)]^4(10) = (0.1575)(10)$
Round 6	0.992	25.336	$[b(1 - t)]^5(10) = (0.0992)(10)$

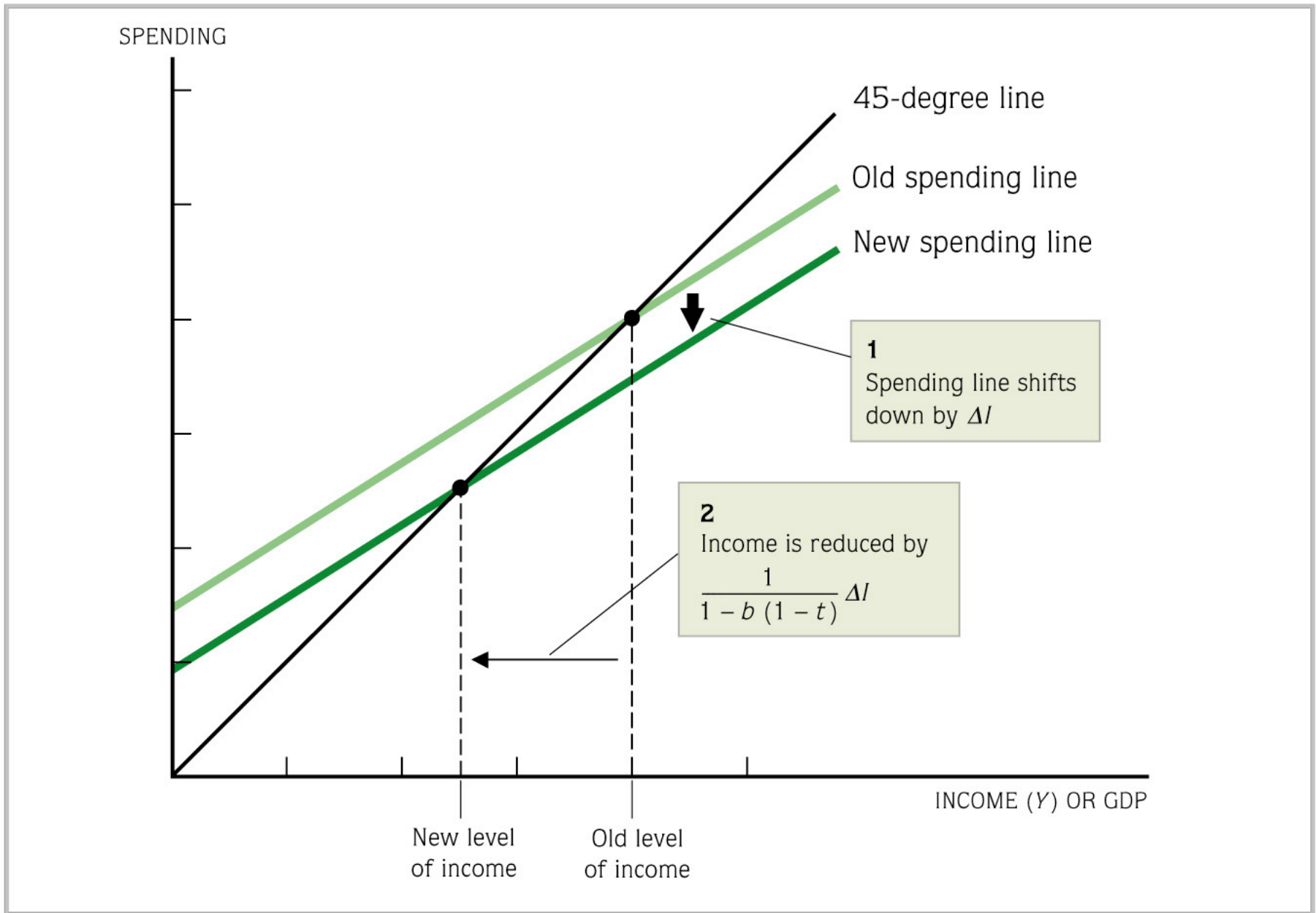


FIGURE 7.6 The Multiplier

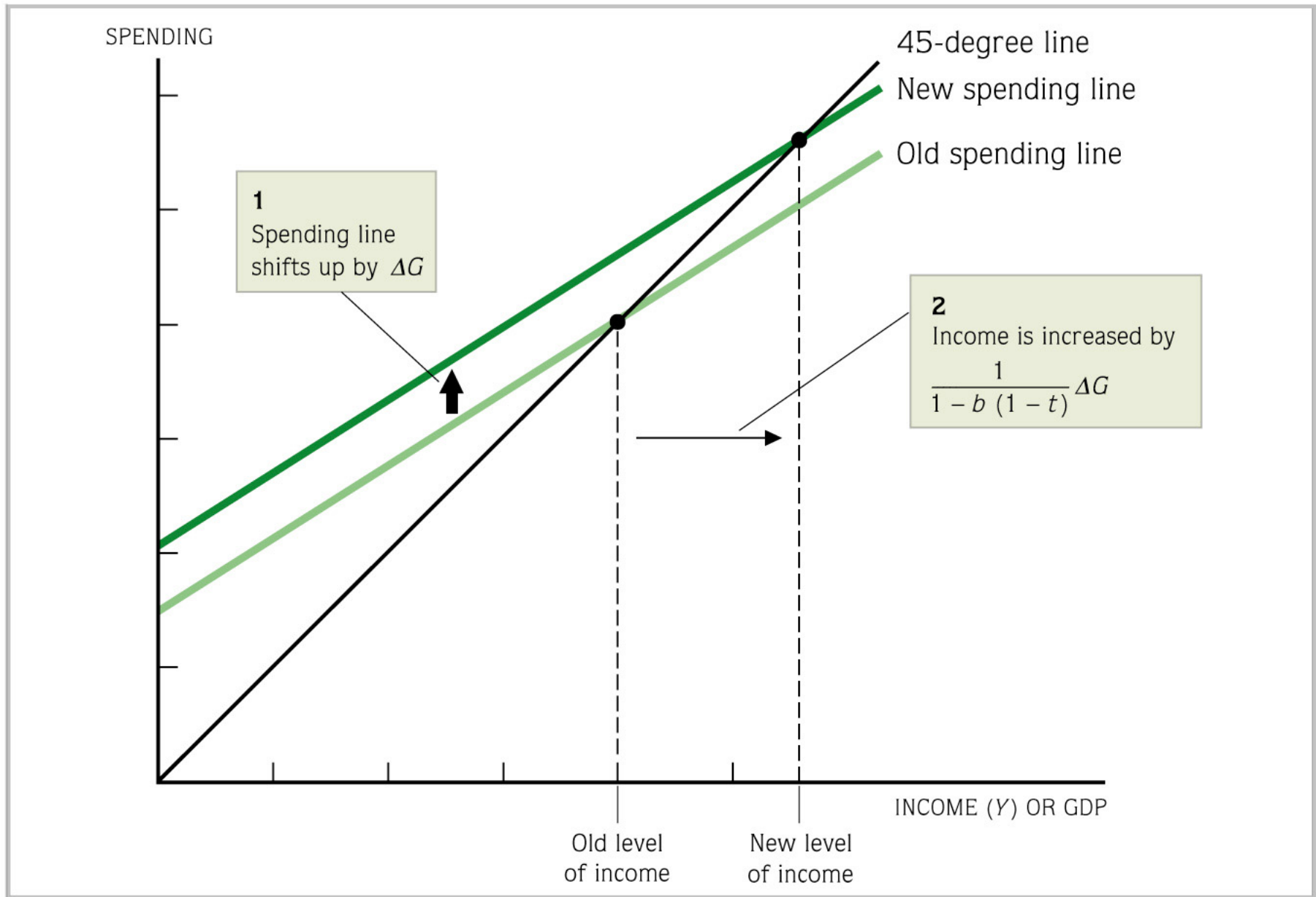


FIGURE 7.7 The Government Spending Multiplier