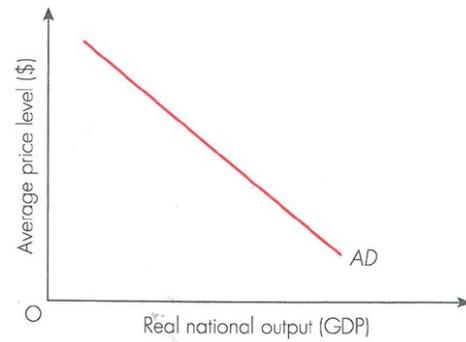
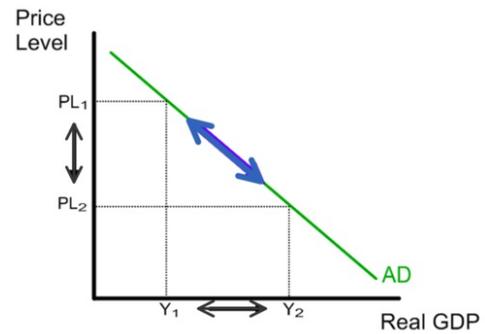


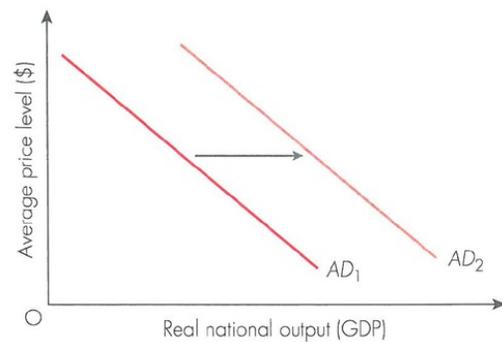
Aggregate Demand



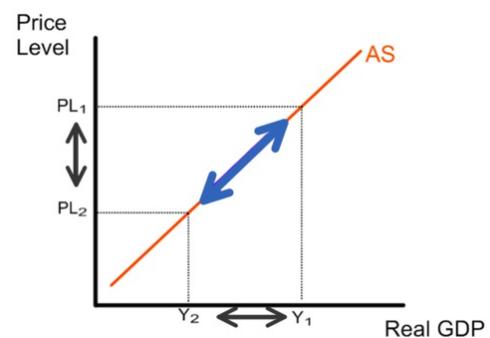
Aggregate Demand Change



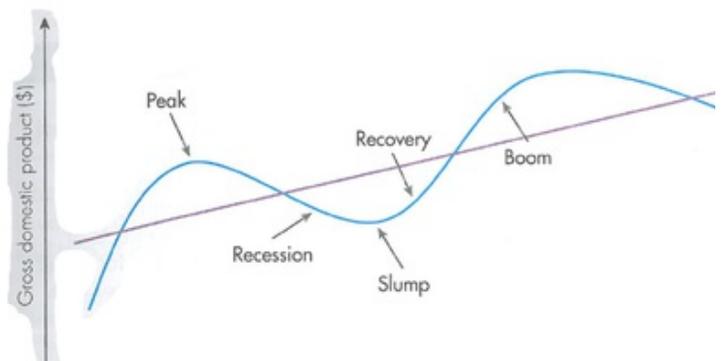
Aggregate Demand Outward Shift



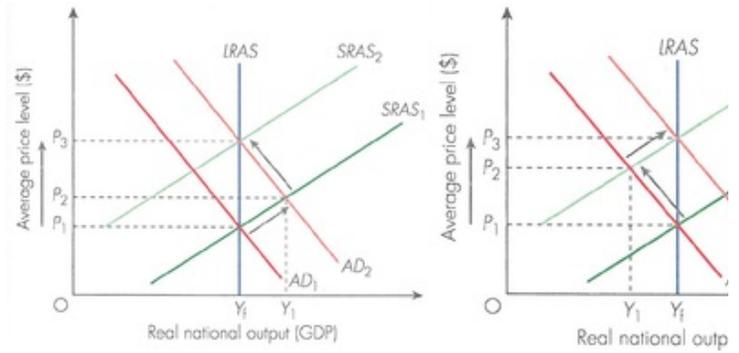
Aggregate Supply (SR)



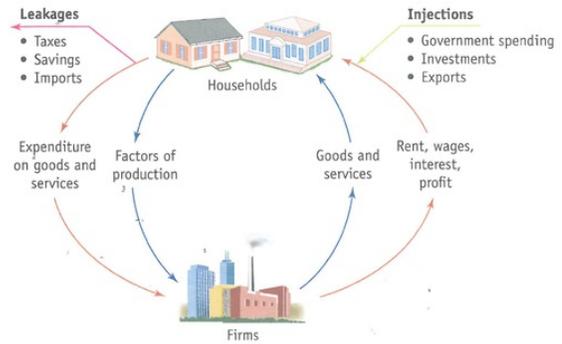
Business Cycle



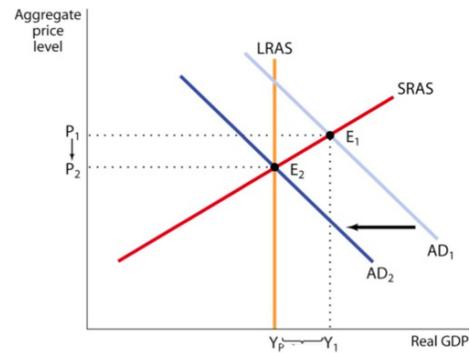
Changes in Keynesian Short Run Equilibrium



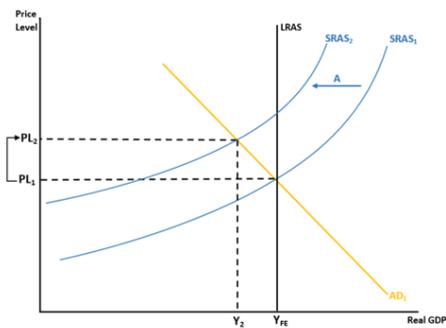
Circular Flow of Income



Contractionary Fiscal Policy



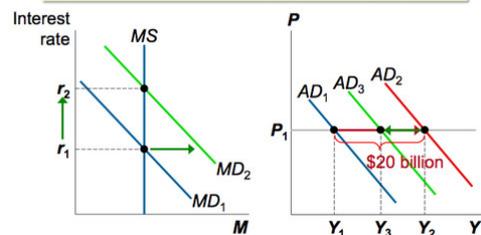
Cost/Push Inflation



Crowding Out

How the Crowding-Out Effect Works

A \$20b increase in G initially shifts AD right by \$20b



But higher Y increases MD and r , which reduces AD .

Cyclical Unemployment

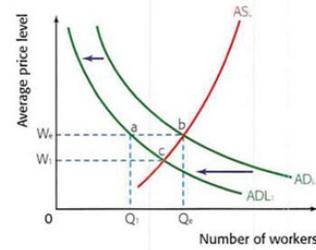
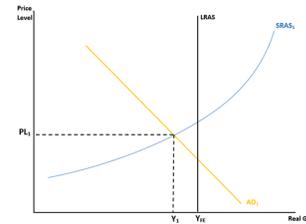


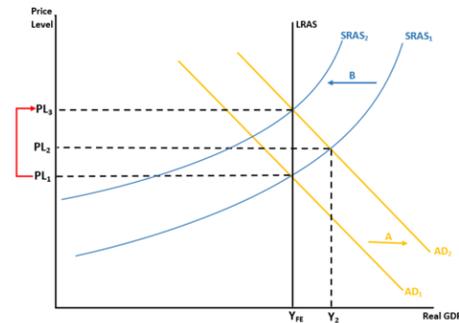
Figure 17.4 (b) Demand-deficient unemployment

Deflationary Gap

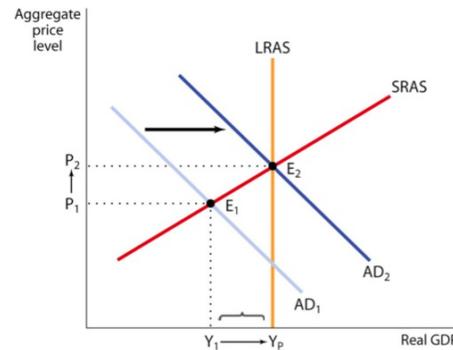


When output is smaller than Y_c as a result of decreased AD

Demand/Pull Inflation



Expansionary Fiscal Policy



Growth of Actual Output

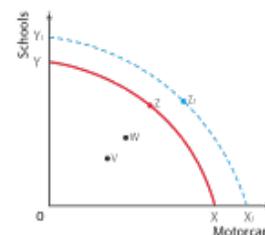
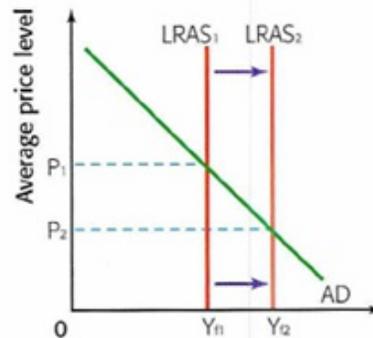
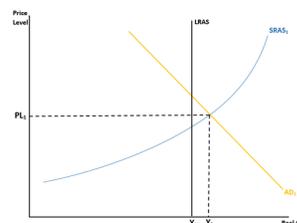


Figure 1.1 A production possibilities curve

Growth of Potential Output

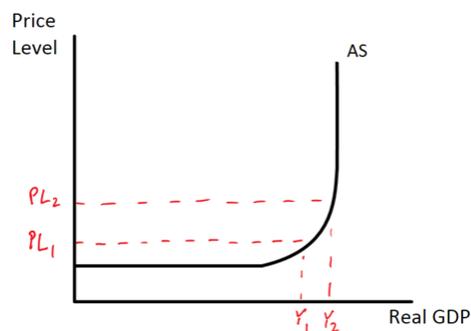


Inflationary Gap

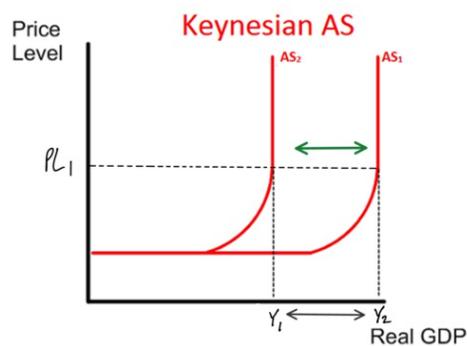


When output is greater than Y_{fe} as a result of increased AD

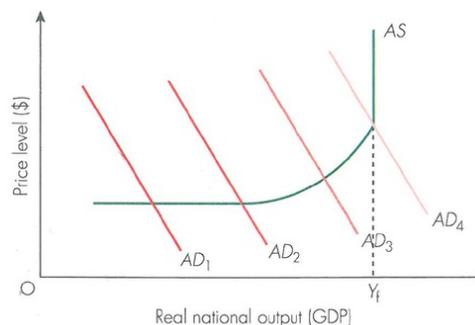
Keynesian Aggregate Supply



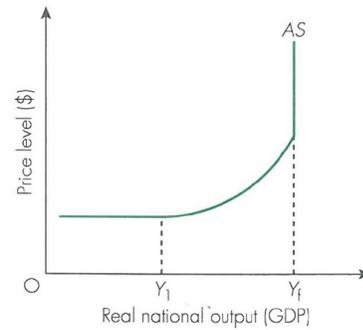
Keynesian AS shifts



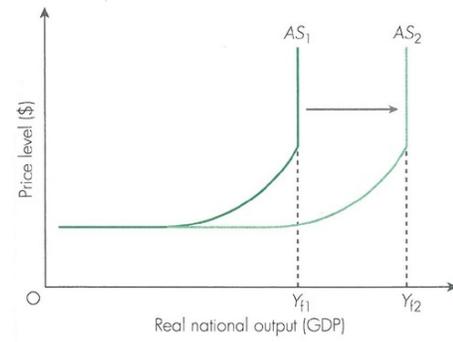
Keynesian Equilibrium



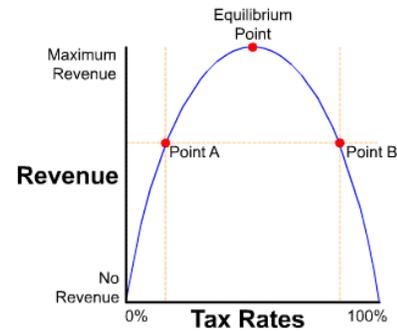
Keynesian LRAS Curve



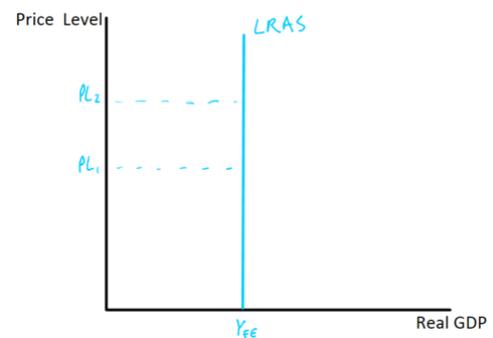
Keynesian LRAS Shift



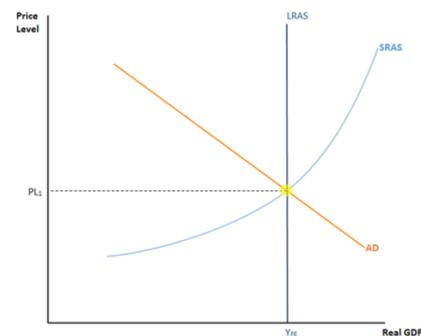
Laffer Curve



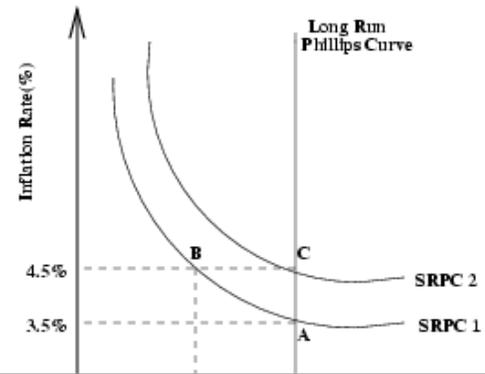
Long Run Aggregate Supply



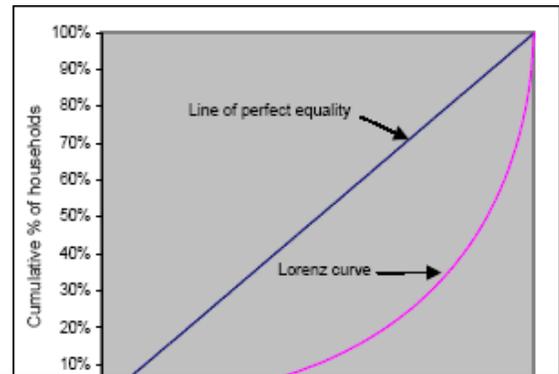
Long Run Equilibrium



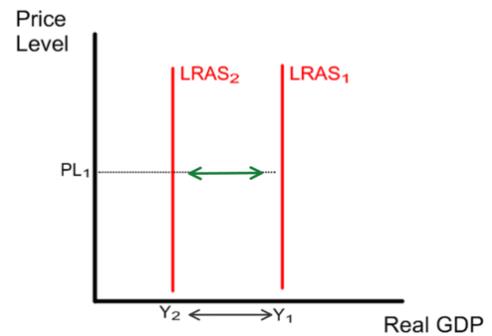
Long Run Phillips Curve



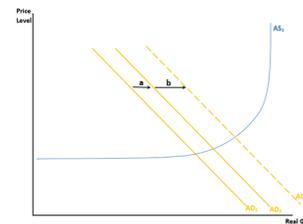
Lorenz Curve



LRAS shifts

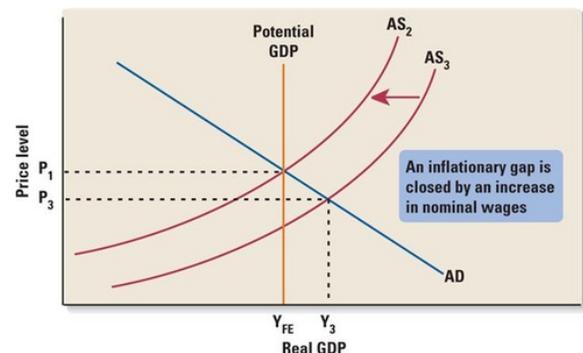


Multiplier Effect

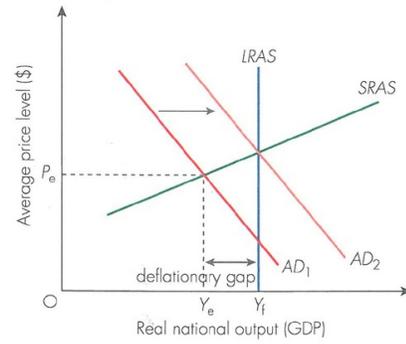


An injection causes an initial shift of AD (a), followed by a further shift (b) as the injection circulates in the economy.

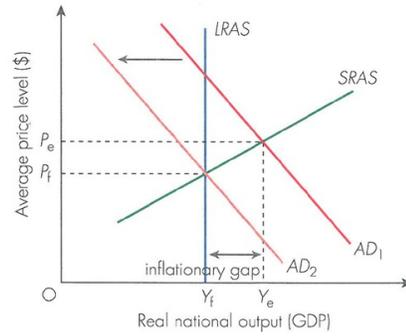
Natural Rate of Unemployment



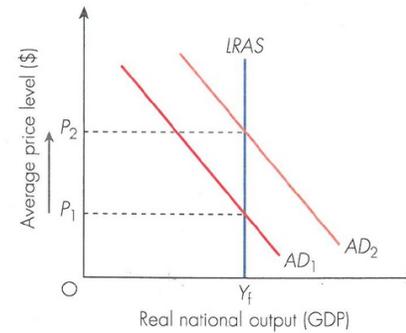
Neo-Classical Deflationary Gap



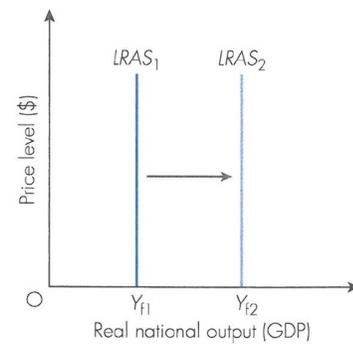
Neo-Classical Inflationary Gap



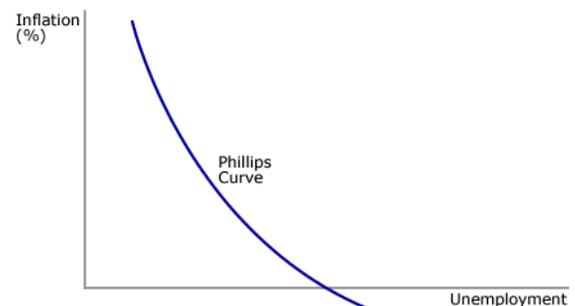
Neo-Classical Long Run Equilibrium



Neo-Classical LRAS Curve



Phillips Curve - Short Run



PPC

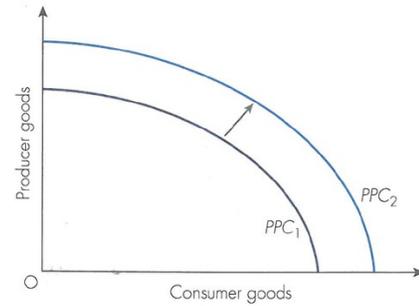
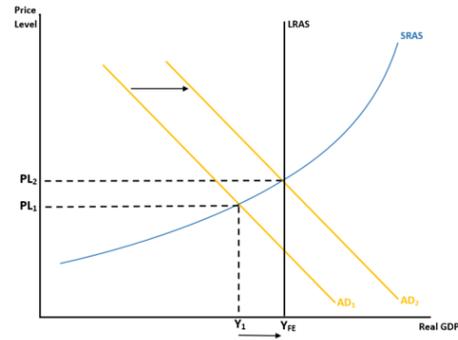
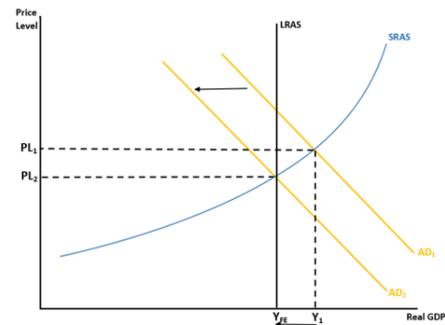


Figure 2.3 Economic growth

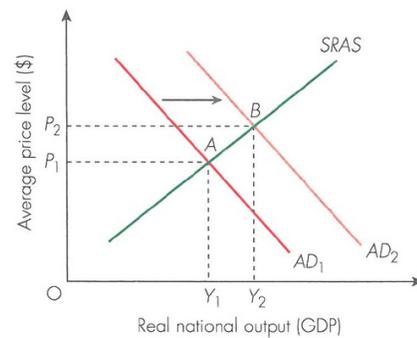
Return to Equilibrium if
 $GDP < \text{Full Employment level of GDP}$



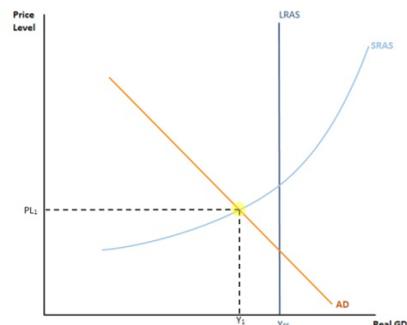
Return to Equilibrium if
 $GDP > \text{Full Employment level of GDP}$



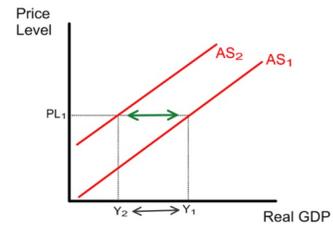
Short Run Diagram



Short Run Equilibrium



SRAS shifts



Short Run Aggregate Supply Shift



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