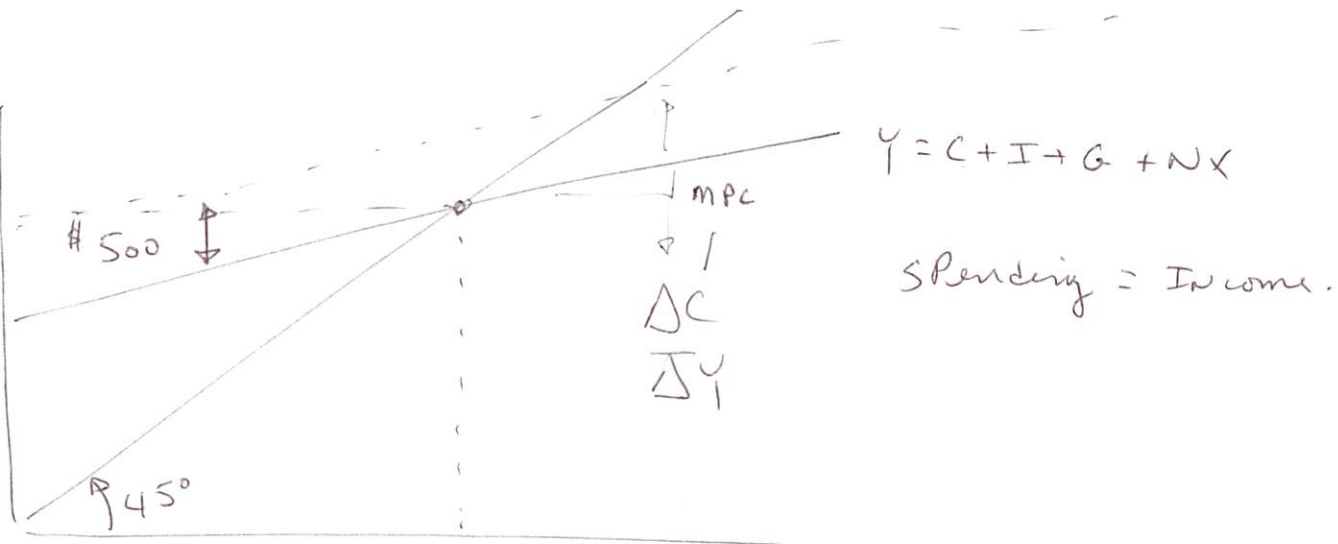


Spending



Deposit
exp
Multiplier

$$\frac{1}{\text{RR}} \times \text{Increase in Reserves}$$

Income = Real GDP

Pos. Slope since Spending on C depends on income Y.

$\Delta C, \Delta I, \Delta G, \Delta NX$ shifts Spending line up or down

Appendix to
Chapt 11. p. 3 of Appendix

P. 621
M.

$$\frac{1}{1 - .6} = \frac{1}{1 - \text{MPC}}$$

$$\frac{1}{.4} = \frac{2.5}{.4} = \frac{500}{125} = 4$$

Suppose

$G \uparrow \$500$ and $\text{MPC} = .6$

$$Y = C + I + G + NX$$

$G \uparrow 500 \Rightarrow$

$Y \uparrow \$500$

@ $Y \uparrow 500 \rightarrow C \uparrow .6(500) = \300

$Y \uparrow \$300$

$Y \uparrow 300 \rightarrow C \uparrow .6(300) = \180

$Y \uparrow 180$

$Y \uparrow 180 \rightarrow C \uparrow .6(180) =$

$Y \uparrow$

$\$ \text{ Multiplier } 1250$

$$rrr = .20$$

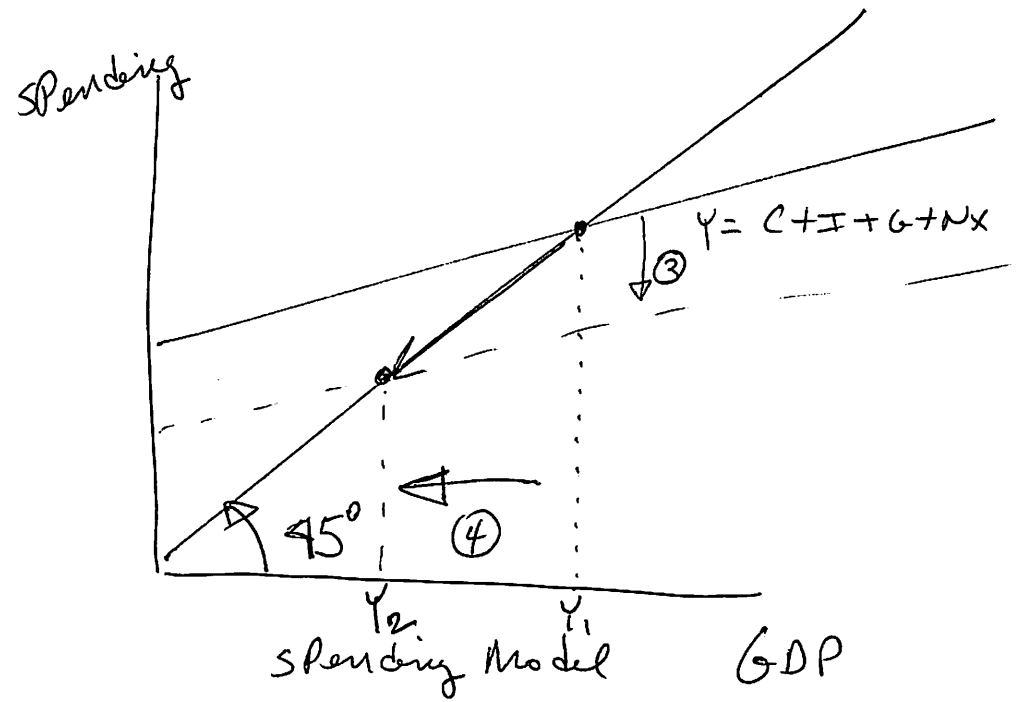
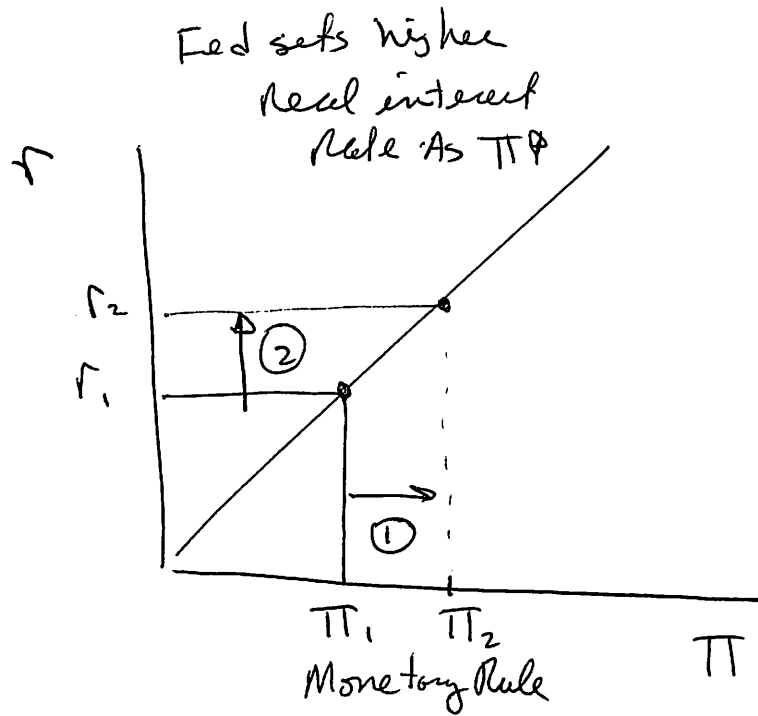
Banks must hold a
minimum of 20% of
deposits as reserves.

\$100 of Total Bank Reserves (OMO)

$$\frac{1}{rrr} =$$

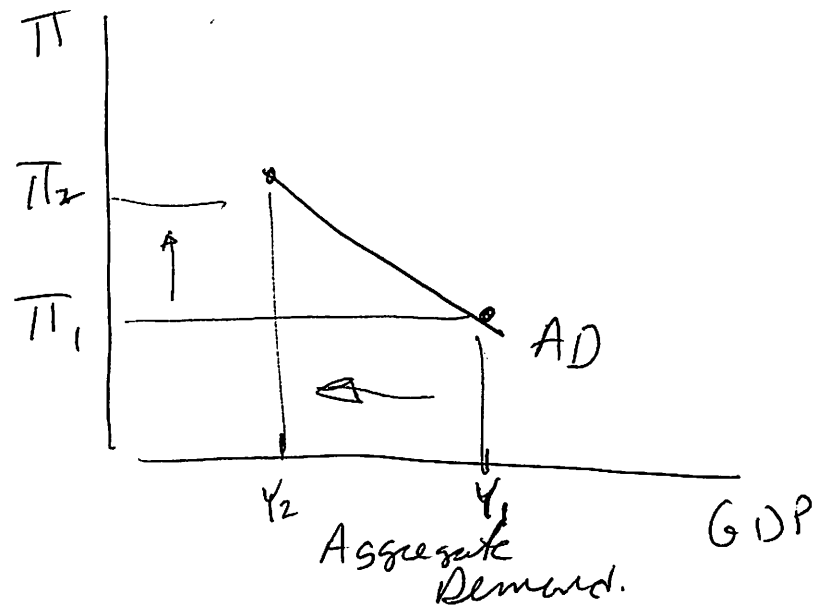
Deposits can increase

$$\frac{1}{.20} = \frac{1}{.2} \times 100 = 500$$

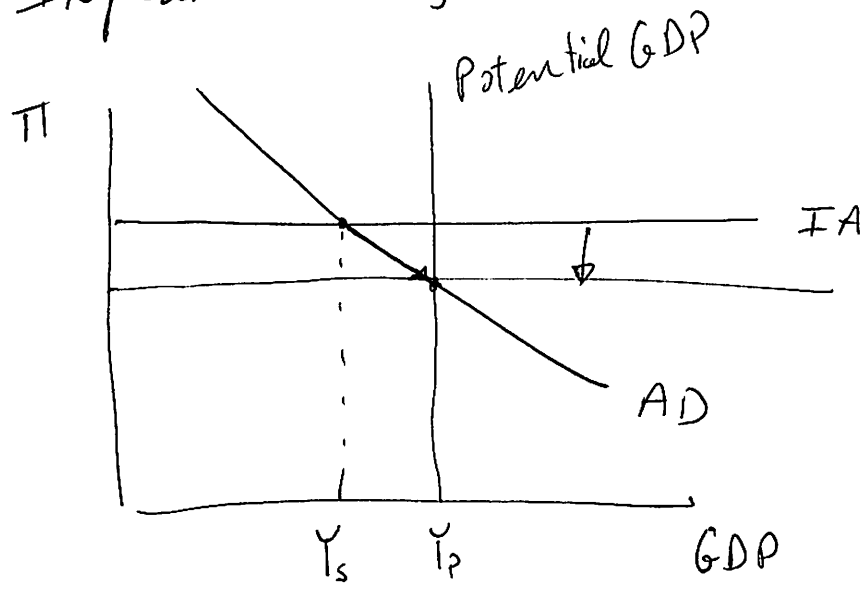


r : Real interest rate

- suppose ① π_1 increases to π_2
- ② Real interest rises
- ③ Spending falls
- ④ Real GDP falls
as Spending falls.



Inflation adjustment



$Y_s < \text{Potential}$
Recession and
inflation will
adjust downwards
Real interest rates
fall and spending
rises and
 Y_s increases to Y_p .