

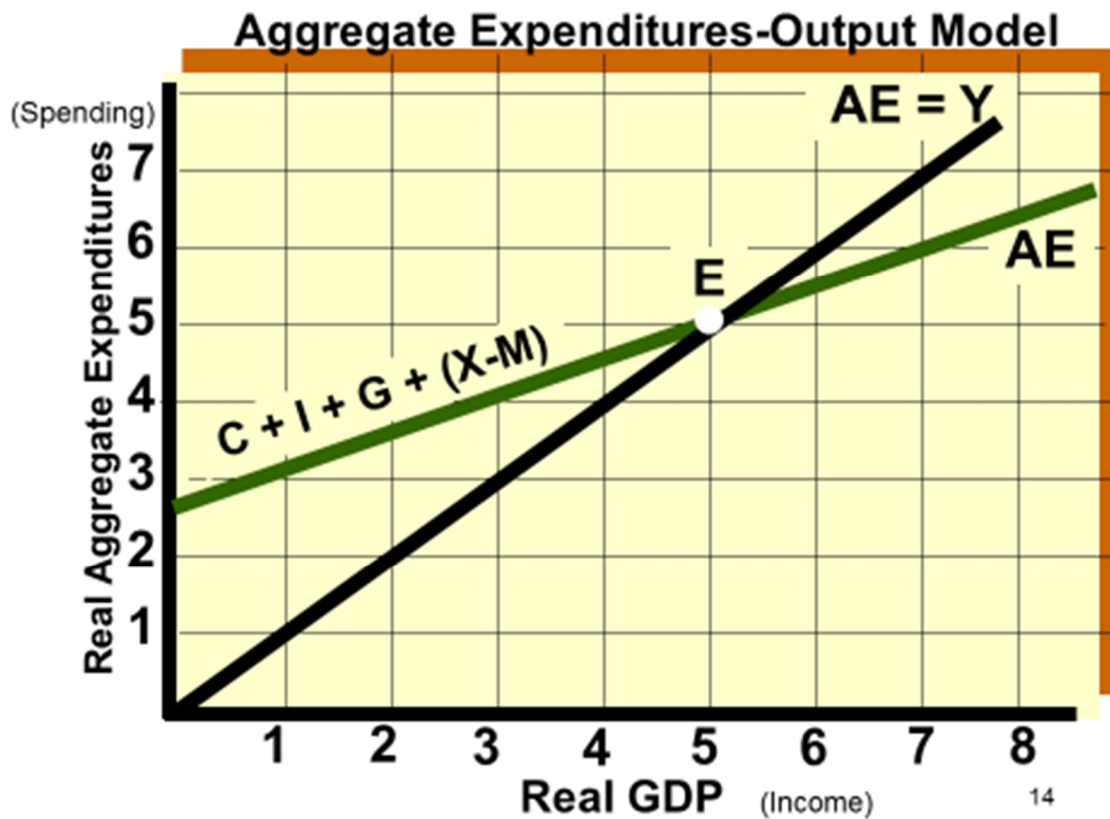
Chapter 9 – Keynesian Model in Action

What is the purpose of the chapter? - _____

Why is government spending (G) an autonomous expenditure? _____

Why is net exports (X-M) assumed to be negative? _____

The Aggregate Expenditures-Output Model



In the Keynesian Model, where is the equilibrium level of GDP? _____

What does Real GDP mean? _____

What does aggregate expenditures mean? _____

How do aggregate expenditures affect the economy? _____

Analysis of Keynesian Equilibrium

EXHIBIT 2

Equilibrium and Disequilibrium Levels of Employment, Output, and Income

(1) Aggregate Output and Income (real GDP) (Y)	(2) Consumption (C)	(3) Autonomous Consumption Investment (I) Government (G) Net Exports (X - M)			(6) Aggregate Expenditures (AE)	(7) Unplanned Inventory Depletion (-) or Accumulation (+)	(8) Direction of Real GDP and Employment
\$ 0	\$0.6	\$1	\$1	\$-0.1	\$2.5	\$-2.5	Increase
1.0	1.1	1	1	-0.1	3.0	-2.0	Increase
2.0	1.6	1	1	-0.1	3.5	-1.5	Increase
3.0	2.1	1	1	-0.1	4.0	-1.0	Increase
4.0	2.6	1	1	-0.1	4.5	-0.5	Increase
5.0	3.1	1	1	-0.1	5.0	0	Equilibrium
6.0	3.6	1	1	-0.1	5.5	+0.5	Decrease
7.0	4.1	1	1	-0.1	6.0	+1.0	Decrease
8.0	4.6	1	1	-0.1	6.5	+1.5	Decrease

NOTE: All amounts are in trillions of dollars per year. $AE = C+I+G+(X-M)$

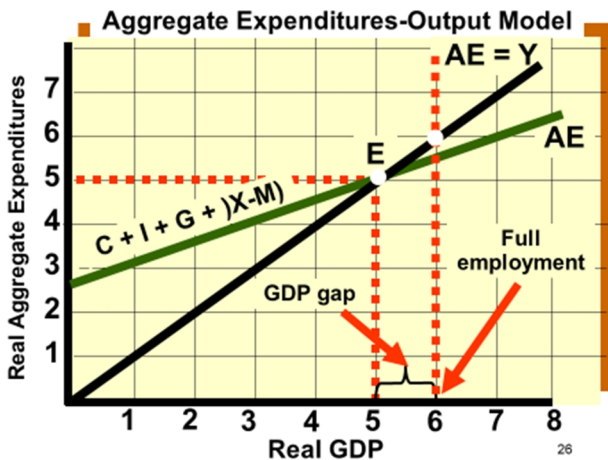
Unplanned Inventory Investment = $AO - AE$

- If aggregate output is less than aggregate expenditures (negative #), real GDP and employment will increase (expansion)
- If aggregate output is equal to aggregate expenditures then an equilibrium exists
- If aggregate output is more than aggregate expenditures (positive #), real GDP and employment will decrease (contraction)

What causes a decrease in real GDP and employment? Why? _____

What causes an increase in GDP and employment? Why? _____

What is the aggregate expenditures-output model? _____



How can the macroeconomic goal of full employment be reached on the graph?

Spending Multiplier Effect

What is the Keynesian multiplier? _____

How does it work? _____

What is the MPC? _____

What is the MPS? _____

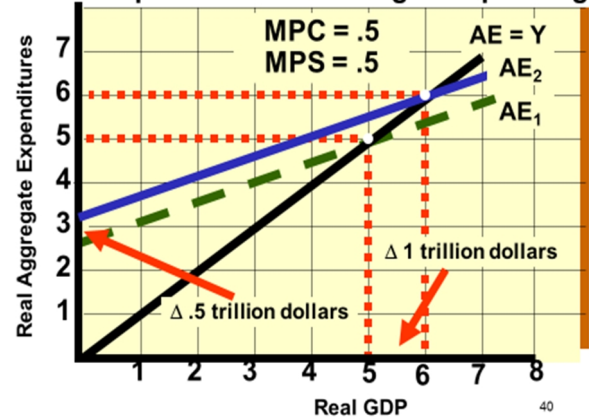
What is the formula for the multiplier? _____

Relationship between MPC, MPS, and the Spending Multiplier

MPC	MPS	Spending Multiplier
.90	.10	10
.80	.20	5
.75	.25	4
.67	.33	3
.50	.50	2
.33	.67	1.5

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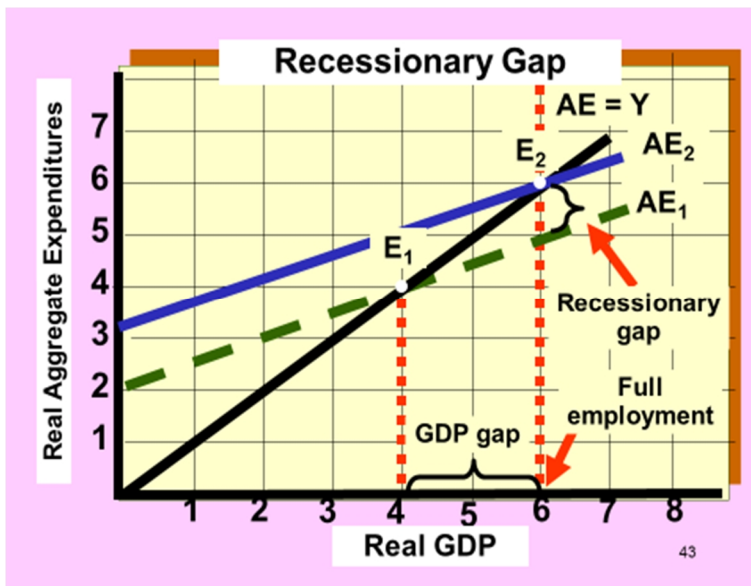
The Multiple Effect of a Change in Spending



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Recessionary and Inflationary Gaps

What is the GDP gap? _____

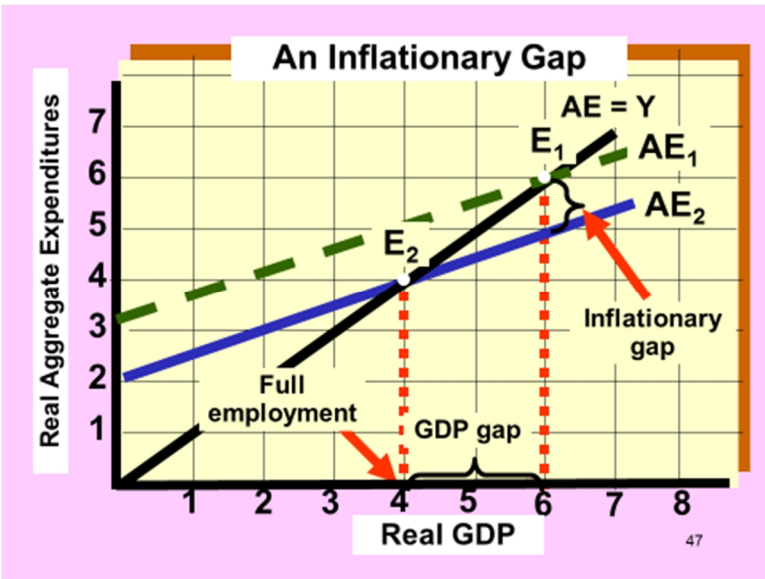


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What is the recessionary gap? _____

What is the Keynesian remedy for a recessionary gap?

What can the gov't do to close the recessionary gap?



What is the inflationary gap? _____

What is the Keynesian remedy for an inflationary gap?

What can the gov't do to close an inflationary gap?

What is the tax multiplier? _____

What is the formula to determine the tax multiplier? _____