Keynesian Adjustment Process:

1. If Aggregate Demand is insufficient or Leakages ___ Injections, then producers will ______ output and __________workers.

2. If Incomes _____, then Consumer spending will ______.

3. If Consumer Spending ______, then producers will further ____________output and ______________workers.

WHY? ____________________________________________

Applying Multiplier Effects to Macro Failure

“The first cut is NOT the deepest.”

With consumption function:  \( C=a +bY_D \)
Where the MPC=0.80 and \( Y_D \) is $1,000

What impact will a $100 decline in Investment have?

Use multiplier:  \( 1/(1-MPC) \)

Total Reduction in AD? ______________

Graph the 1st and 2nd shifts:

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The Multiplier in Context

Multiplier’s overall scope is reduced by ________________

Why?

Recall: Recessionary Gap= ________________ - ________________

Impact of Upward Aggregate Supply Curve on Multiplier

To close the Recessionary Gap….

Tradeoff: ____________________ for ____________________

Connection to Full Employment?