A Productivity Boost

Pick any point on the Y curve.

DY = SY

The Y Curve

Pick any point on the Y curve.

Does the event mean \( D_Y > S_Y \) or \( D_Y < S_Y \)?

Suppose \( D_Y > S_Y \). To get back on the Y curve, the Auctioneer would have to raise \( r \) or \( P \). Thus Y curve shifts up and to the right.

The M Curve

Pick any point on the M curve.

\( D_M = S_M \)
A Productivity Boost

The M Curve

- Does the event mean $D_M > S_M$ or $D_M < S_M$?

The M Curve

- Suppose $D_M > S_M$. To get back on the M curve, the Auctioneer would have to raise $r$ or lower $P$. Thus M curve shifts down and to the right.

The Productivity Surge

- Pick a point on the Y curve.

The Productivity Surge

- Pick a point on the Y curve.
- $D_Y < S_Y$
  - GDP is up
  - Consumption rises by a fraction of the increase

The Productivity Surge

- Pick a point on the Y curve.
- $D_Y < S_Y$
- The Auctioneer must raise $D_Y$

The Productivity Surge

- Memo to the Auctioneer: To cut $D_Y$, raise $r$
- To raise $D_Y$, lower $r$
The Productivity Surge

- Pick a point on the Y curve.
- \( D_Y < S_Y \)
- The Auctioneer must raise \( D_y \)

The Productivity Surge

- Pick a point on the Y curve.
- \( D_Y < S_Y \)
- The Auctioneer must raise \( D_y \)
- The Y curve shifts down and to the left.

The Productivity Surge

- Pick a point on the M curve.

The Productivity Surge

- Pick a point on the M curve.
- \( D_M > S_M \)
- Money demand Up

The Productivity Surge

- Pick a point on the M curve.
- \( D_M > S_M \)
- The Auctioneer must lower \( D_m \)
The Productivity Surge

• Pick a point on the M curve.
• $D_M > S_M$
• The Auctioneer must lower $D_M$

Memo to the auctioneer:
To cut $D_M$, raise $r$
To raise $D_M$, lower $r$

The Productivity Surge

• Pick a point on the M curve.
• $D_M > S_M$
• The Auctioneer must lower $D_M$
• The M curve shifts down and to the right

The Productivity Surge

• Pick a point on the M curve.
• $D_M > S_M$
• The Auctioneer must lower $D_M$
• The M curve shifts down and to the right
• $P$ down
• Interest rate is uncertain.

The Productivity Surge

• The Y curve shifts down and to the left.
• The M curve shifts down and to right
End