Pick any point on the Y curve.

**DY = SY**

Does the event (e.g., people become more confident about the future) mean $DY > SY$ or $DY < SY$?

Suppose $DY > SY$. 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.

Pick any point on the M curve.

$DM = SM$
Spending Foolishly

The M Curve

Does the event (e.g. people become more confident) about the future mean \(D_M > S_M\) or \(D_M = S_M\)?

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.

Some Problems

- The government decides to spend $X this year on a foolish project.
  - People pay a surcharge on last year’s tax return.
  - No Labor Supply Effects

The Foolish Expenditure

- Pick a point on the Y curve.
- \(D_Y > S_Y\)
  - Govt Spending up by $X
  - Wealth down by $X; consumption down by (say) 0.04X

- Pick a point on the Y curve.
- \(D_Y > S_Y\)
- The Auctioneer must lower \(D_Y\)
The Foolish Expenditure

- Pick a point on the Y curve.
- \( D_Y > S_Y \)
- The Auctioneer must lower \( D_Y \)
- To raise \( D_Y \) lower \( r \)

Memo to the auctioneer:
To cut \( D_Y \), raise \( r \)
To raise \( D_Y \) lower \( r \)

The Foolish Expenditure

- Pick a point on the Y curve.
- \( D_Y > S_Y \)
- The Auctioneer must lower \( D_Y \)
- The Y curve shifts up and to the right

The Foolish Expenditure

- Pick a point on the M curve.
- \( D_M < S_M \)
- The Y curve shifts up and to the right

The Foolish Expenditure

- Pick a point on the M curve.
- \( D_M < S_M \)
  - Wealth down
  - Consumption Down
  - Money Demand Down
The Foolish Expenditure

- Pick a point on the $M$ curve.
- $D_M < S_M$
- The Auctioneer must raise $D_M$

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

The Foolish Expenditure

- Pick a point on the $M$ curve.
- $D_M < S_M$
- The Auctioneer must raise $D_M$
- The $M$ curve shifts up and to the left
- The $Y$ curve shifts up and to the right.

- The $Y$ curve shifts up and to the right.
- The $M$ curve shifts up and to the left
- Price level up
- Interest rate uncertain.
End