Pick any point on the Y curve. \( DY = SY \)

Pick any point on the M curve. \( DM = SM \)

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.

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

Printing Money

- Pick a point on the Y curve.
- $D_Y > S_Y$
- The Auctioneer must lower $D_Y$.
Spending and Printing Foolishly

Printing Money

- Pick a point on the M curve.
- \( D_M < S_M \)
  - New money printed

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

Printing Money

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

Printing Money

- Pick a point on the M curve.
- \( D_M = S_M \)

Printing Money

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

Printing Money

- Pick a point on the M curve.
- \( D_M > S_M \)
- The Auctioneer must raise \( D_M \)
Spending and Printing Foolishly

Printing Money

- 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

Printing Money

- The Y curve shifts up and to the right.
- The M curve shifts up and to the left

Printing Money

- 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

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