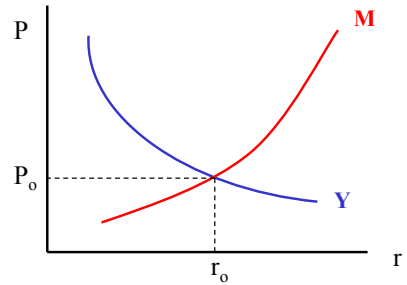


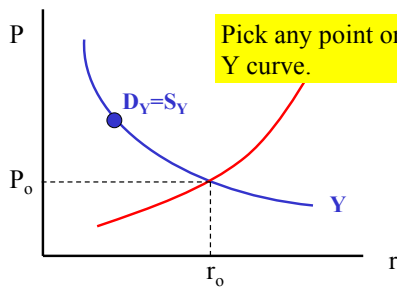
Five Easy Exercises

An Introduction and Overview

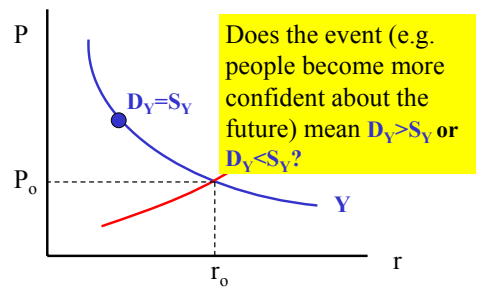
The Y and M Curves



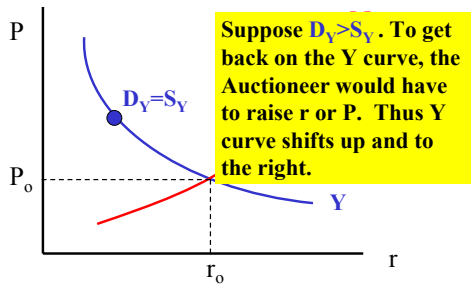
The Y Curve



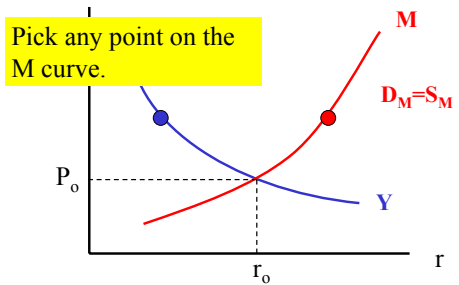
The Y Curve



The Y Curve

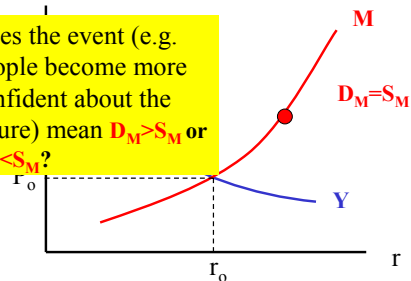


The M Curve



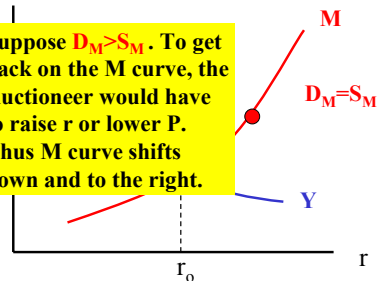
The M Curve

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



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.



Problem 1

- 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

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Spending Foolishly

What Happens

- The Y Curve
 - Shifts up and to the right
 - Shifts down and to the left
 - Remains Unchanged
- The M curve
 - Shifts up and to the left
 - Shifts down and to the right
 - Remains Unchanged

What Happens

- The Y Curve
 - Shifts up and to the right
 - Shifts down and to the left
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P

- Increases
- Decreases
- Uncertain

What Happens

- The Y Curve
 - Shifts up and to the right
 - Shifts down and to the left
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r

- Increases
- Decreases
- Uncertain

Problem 2

- The government decides to spend $\$X$ this year on a foolish project.
- The government pays for the project by printing additional money.

Spending and Printing Foolishly

Problem 3

- The government gives everyone a $\$300$ tax rebate this year, adding to the national debt.

A Tax Cut

Problem 4

- Credit cards are outlawed
 - An increase in ξ
- Drugs are legalized
 - A decrease in ξ

A Change in T_{si}

Problem 5

- A sudden one time burst in productivity this year. (An increase in S_Y).

An Increase in Productivity

What Happens

- The Y Curve
 - Shifts up and to the right
 - Shifts down and to the left
 - Remains Unchanged
- The M curve
 - Shifts up and to the left
 - Shifts down and to the right
 - Remains Unchanged

P, r

- Increases
- Decreases
- Uncertain

End

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