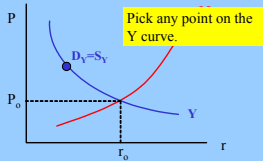
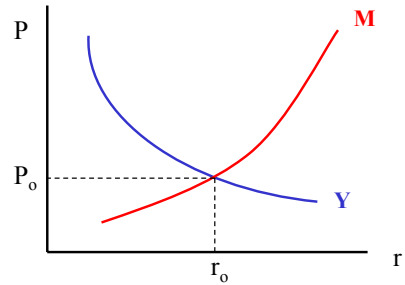


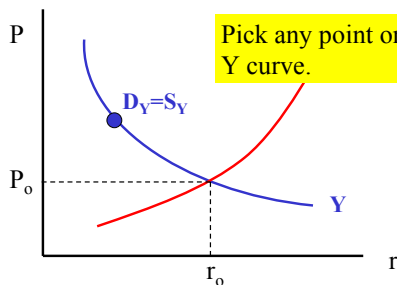
## Spending Foolishly



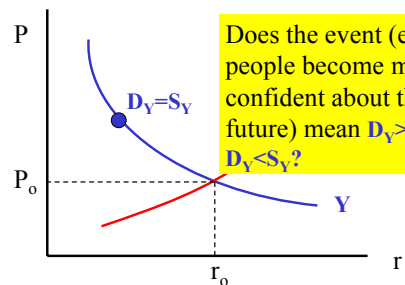
## The Y and M Curves



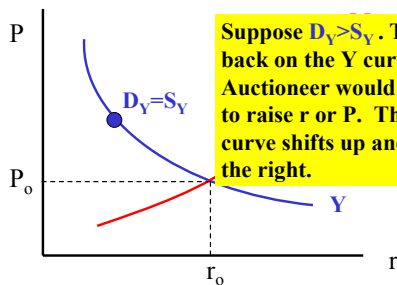
## The Y Curve



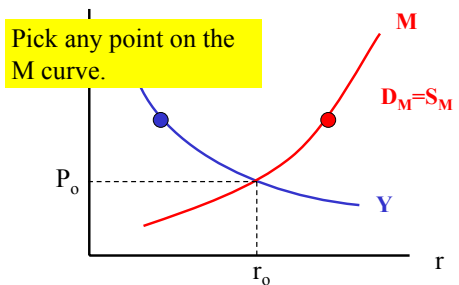
## The Y Curve



## The Y Curve

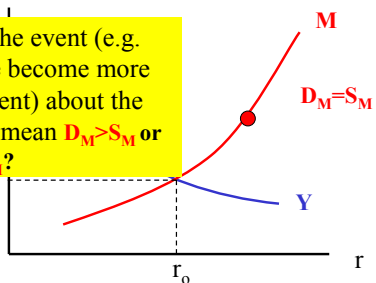


## The M Curve



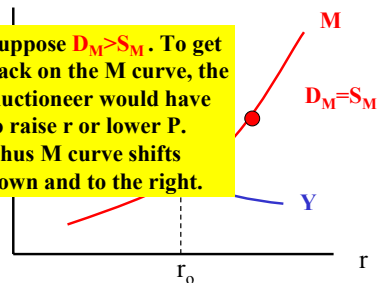
## The M Curve

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.

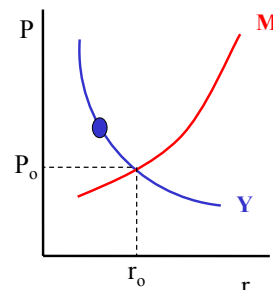


## Some Problems

- 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

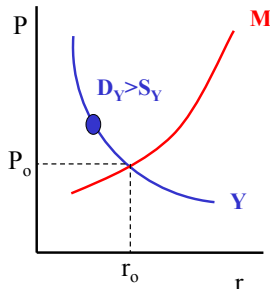
## The Foolish Expenditure

- Pick a point on the Y curve.



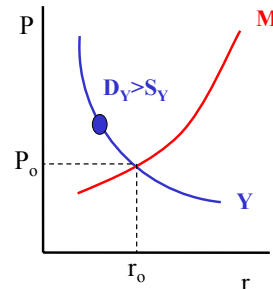
## The Foolish Expenditure

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



## The Foolish Expenditure

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



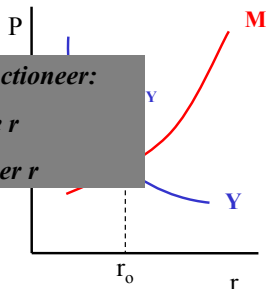
## The Foolish Expenditure

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

*Memo to the auctioneer:*

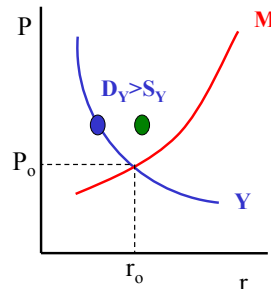
*To cut  $D_Y$ , raise  $r$*

*To raise  $D_Y$  lower  $r$*



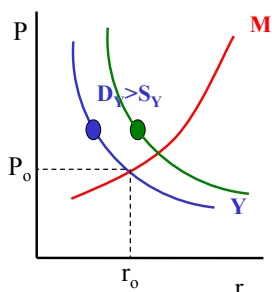
## The Foolish Expenditure

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



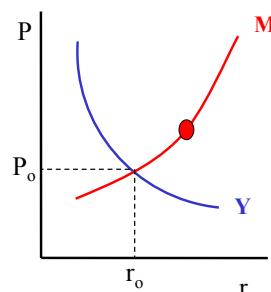
## The Foolish Expenditure

- 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



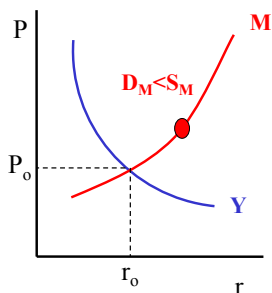
## The Foolish Expenditure

- Pick a point on the M curve.



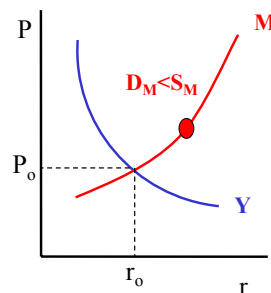
## The Foolish Expenditure

- Pick a point on the M curve.
- $D_M < S_M$



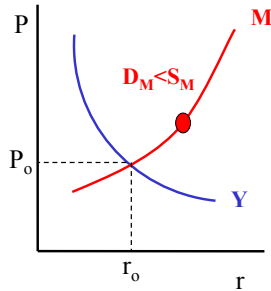
## The Foolish Expenditure

- 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  $D_M$



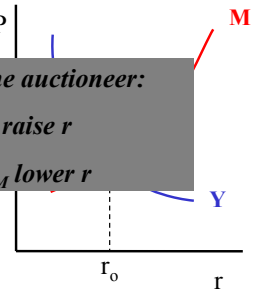
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Spending Foolishly

## 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  $r$

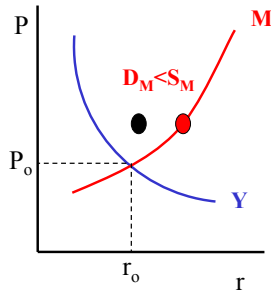


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## The Foolish Expenditure

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

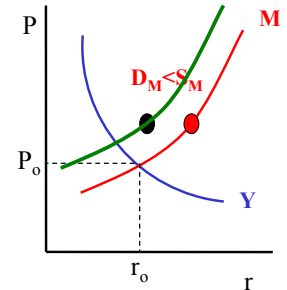


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## The Foolish Expenditure

- 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

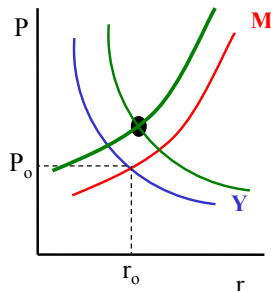


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## The Foolish Expenditure

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

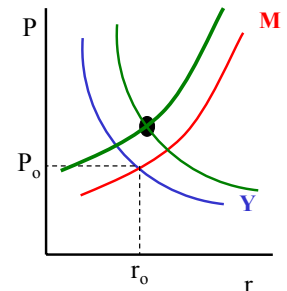


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## The Foolish Expenditure

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



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End

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