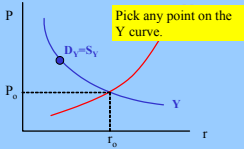
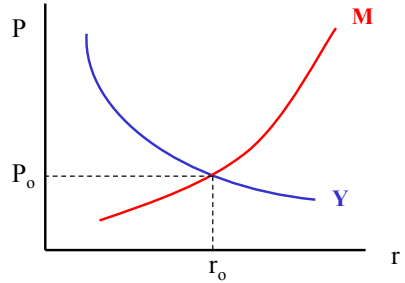


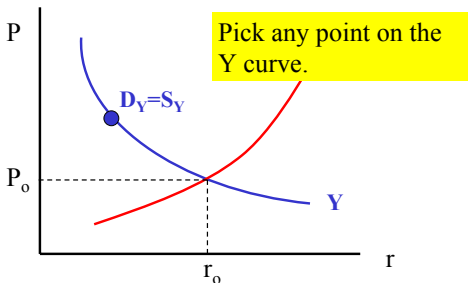
Spending and Printing Foolishly



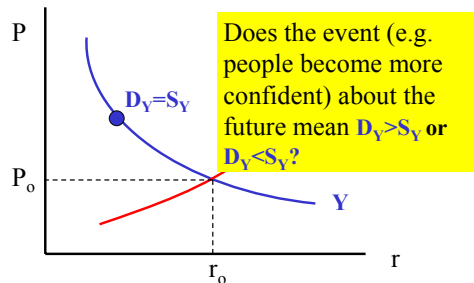
The Y and M Curves



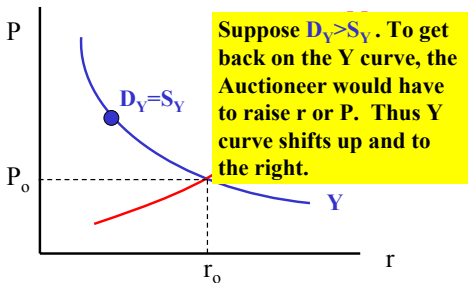
The Y Curve



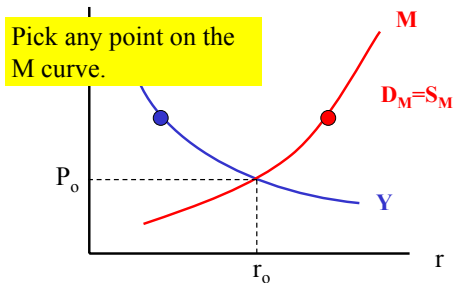
The Y Curve



The Y Curve

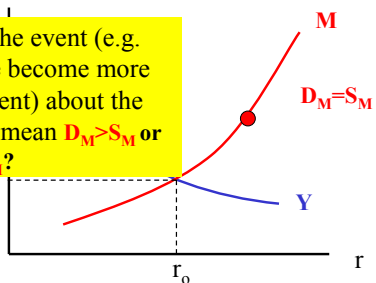


The M Curve



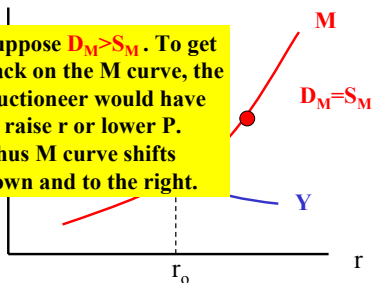
The M Curve

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



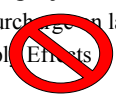
The M Curve

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

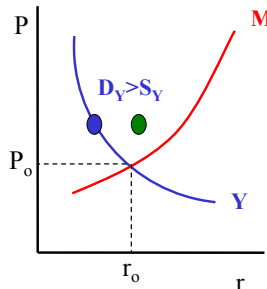


Some Problems

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

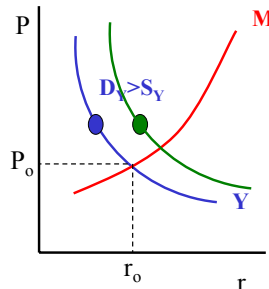
Printing Money

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



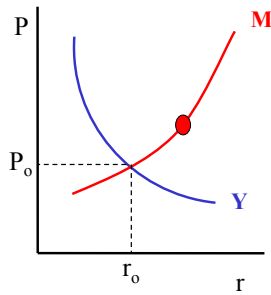
Printing Money

- 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



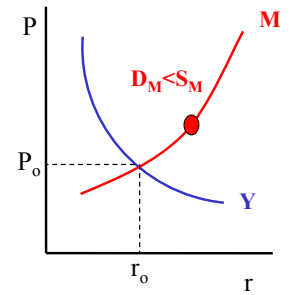
Printing Money

- Pick a point on the M curve.



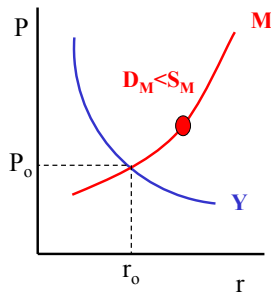
Printing Money

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



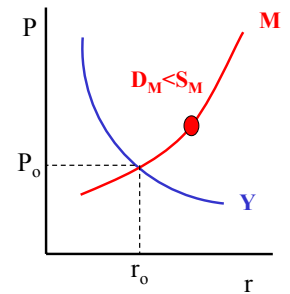
Printing Money

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



Printing Money

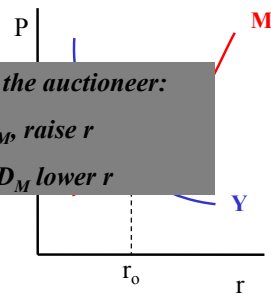
- Pick a point on the M curve.
- $D_M < S_M$
- The Auctioneer must raise D_M



Printing Money

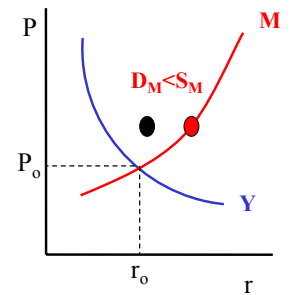
- Pick a point on the M curve.
- $D_M < S_M$
- The Auctioneer must raise D_M

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



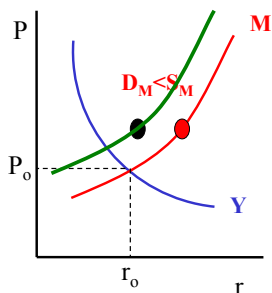
Printing Money

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



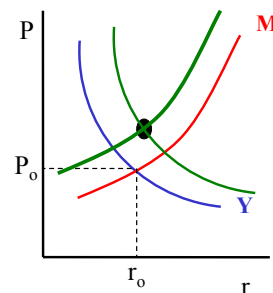
Printing Money

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



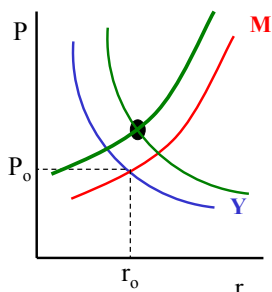
Printing Money

- 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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