Chapter 10 Review
AD in the Short-Run

Readings
Chap. 10: pp 256 – 258 (end before section 10-1)
pp 266 – end (don’t sweat the “Keynesian Cross”)

Outline

I. Keynes on Aggregate Demand
   A. Basic Premises
   B. Short-run (Keynesian) equilibrium

II. The Keynesian Cross

III. The Keynesian Spending Multipliers
   A. Overview
   B. K: the simple Keynesian Spending Multiplier (i.e. the Govt. Purchases multiplier)
   C. The Keynesian Cross and AD
   D. K_tax: the Tax multiplier

IV. The IS Curve
   A. What is it?
   B. Deriving it from I = S graph, i.e. Market for loanable funds
   C. Deriving from the Keynesian Cross (do me graphically)
   D. Shifts of the IS curve
   E. Something’s missing: We need more info to determine r

V. The LM Curve
   A. What is it?
   B. Graphically deriving it
   C. Shifts of the LM Curve

Problems to Study (Not Graded)

2. p 280: Questions For Review # 3.
4. p 280: Problems and Applications # 5.
5. In the long-run, an increase in government spending (as a % of GDP) leads to either lower investment and/or lower net exports. What is the short-run effect of an increase in government spending?

6. Assume that the economy is in a severe recession and Congress and the President are worried about inflationary pressures. It is decided to use Keynesian fiscal policy to combat this recession. List the fiscal policy instruments one could change and the direction they should be changed.