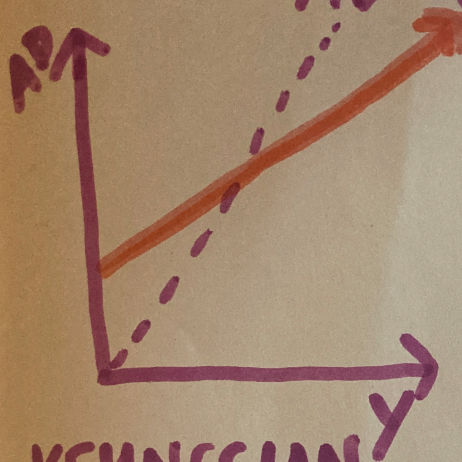


WEEK 11

Keynesian
Cross
and
Fiscal
Spending

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



KEYNESIAN
CROSS

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



KEYNESIAN
CROSS

↑
I
INTENDED
INVESTMENT

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



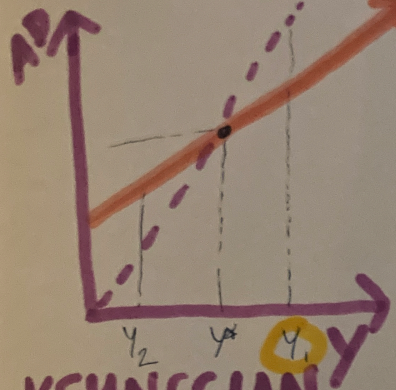
KEYNESIAN
CROSS

I INTENDED
INVESTMENT

↳ BUSINESSES MAKE PLANS
BUT SOMETIMES THEY
OVERESTIMATE OR UNDER
ESTIMATE EXPENDITURE

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



KEYNESIAN
CROSS

I INTENDED
INVESTMENT

↳ BUSINESSES MAKE PLANS
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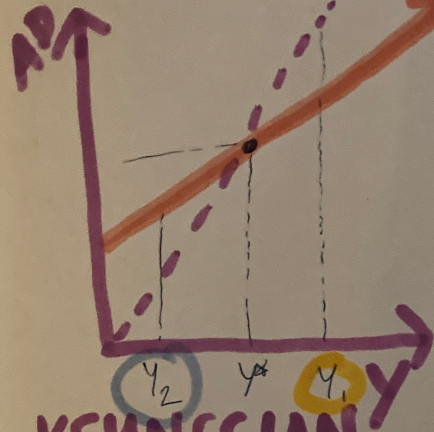
INSTEAD OF MEETING EQUILIBRIUM
WHERE $Y = AD$, BUSINESSES
MAY OVERESTIMATE (Y_1) OR
UNDERESTIMATE (Y_2)

Y_1 , $Y > AD$. INVENTORY
ACCUMULATION

AGGREGATE DEMAND

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



KEYNESIAN
CROSS

I_I INTENDED
INVESTMENT

↳ BUSINESSES MAKE PLANS
BUT SOMETIMES THEY
OVER ESTIMATE OR UNDER
ESTIMATE EXPENDITURE

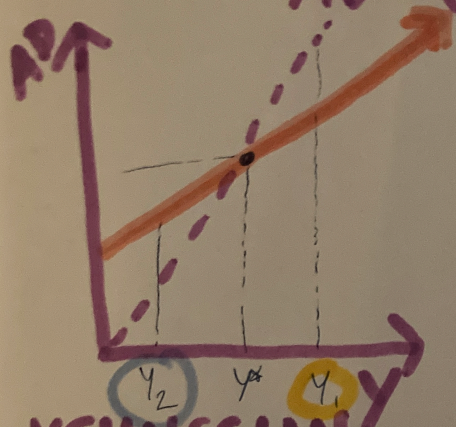
INSTEAD OF MEETING EQUILIBRIUM
WHERE $Y^* = AD$, BUSINESSES
MAY OVER ESTIMATE (Y_1) OR
UNDER ESTIMATE (Y_2)

$Y_1, Y > AD$, INVENTORY
ACCUMULATION

$Y_2, Y < AD$, INVENTORY
DEPLETION

AGGREGATE DEMAND

$$AD = C + I + G + NX$$



KEYNESIAN
CROSS

I_I INTENDED
INVESTMENT

↳ BUSINESSES MAKE PLANS
BUT SOMETIMES THEY
OVERESTIMATE OR UNDER
ESTIMATE EXPENDITURE

INSTEAD OF MEETING EQUILIBRIUM
WHERE $Y^* = AD$, BUSINESSES
MAY OVERESTIMATE (Y_1) OR
UNDERESTIMATE (Y_2)

$Y_1, Y > AD$, INVENTORY
ACCUMULATION

$Y_2, Y < AD$, INVENTORY
DEPLETION

THIS FEATURE OF THE KEYNESIAN CROSS MODEL
IS WHY THE KEYNESIAN MODEL SUGGESTS
GOVERNMENT SPENDING MAY BECOME NECESSARY
WHILE THE NEOCLASSICAL MODEL SUGGESTS
LAISSEZ-FAIRE POLICY