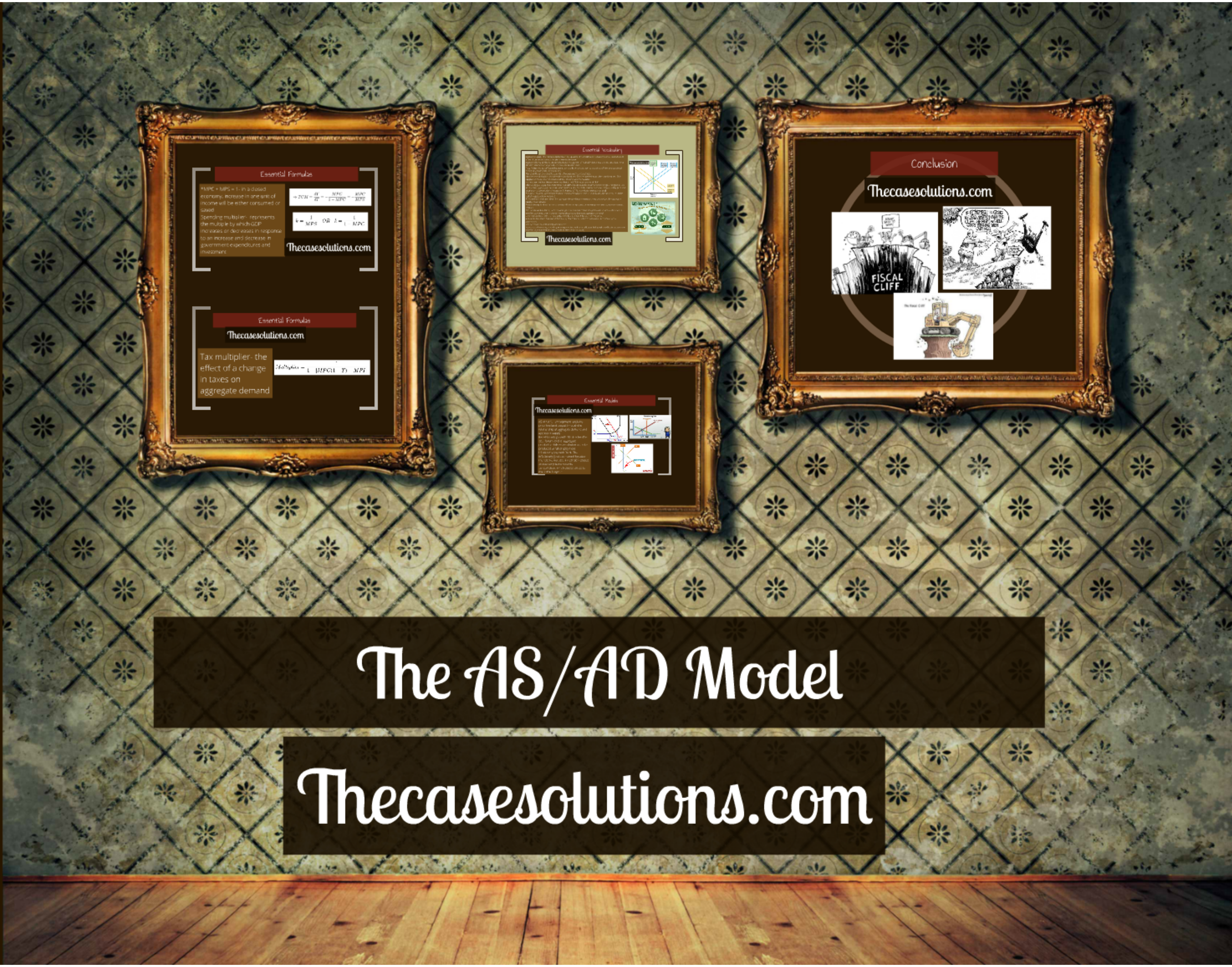
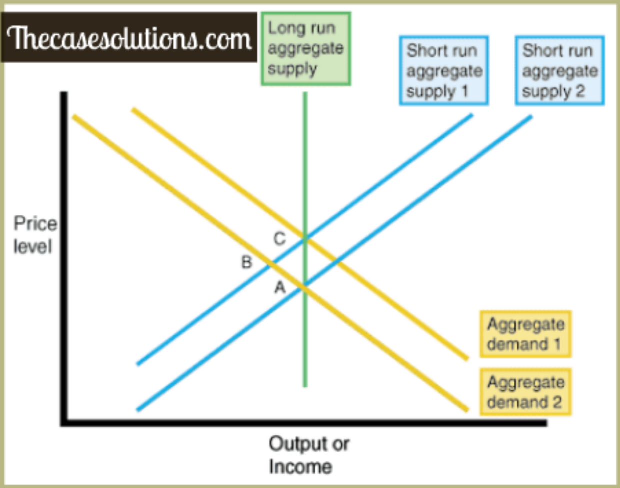


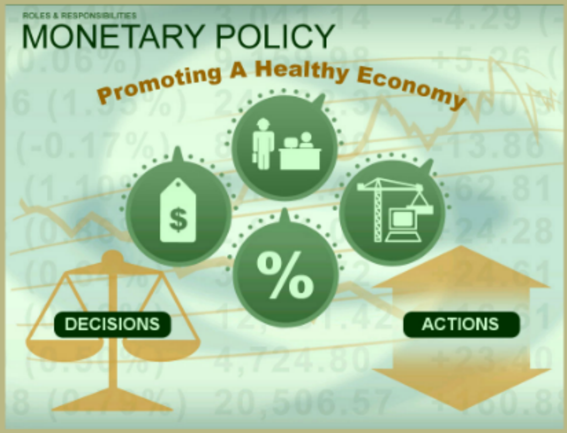
Essential Formulas
Thecasesolutions.com
Essential Formulas
Thecasesolutions.com
Tax multiplier- the effect of a change in taxes on aggregate demand
Essential Vocabulary
Thecasesolutions.com
Essential Models
Thecasesolutions.com
Conclusion
Thecasesolutions.com
FISCAL CLIFF
The AS/AD Model
Thecasesolutions.com

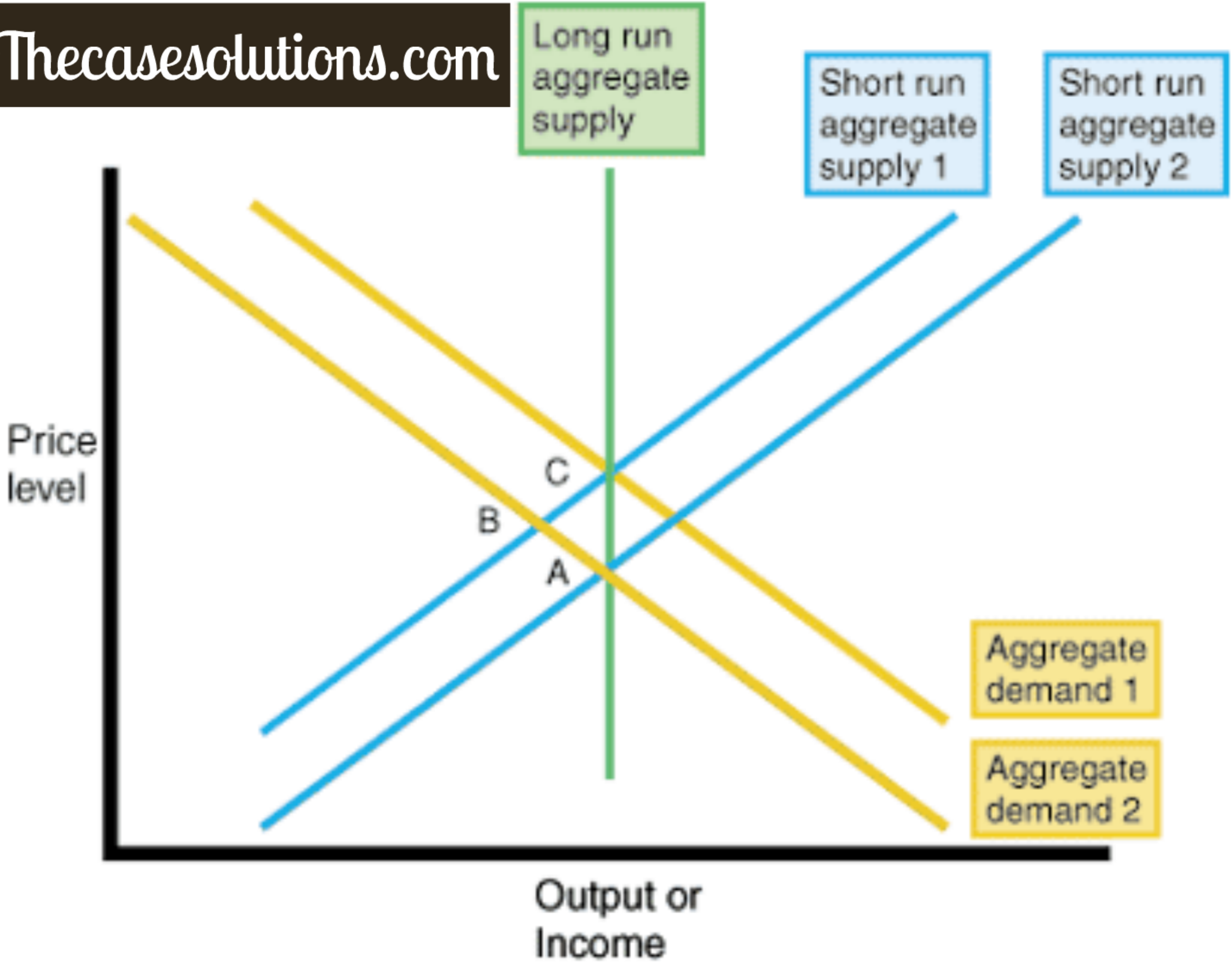
Essential Formulas
*MPC + MPS = 1 - in a closed economy, increase in one unit of income will be either consumed or saved
Spending multiplier - represents the multiple by which GDP increases or decreases in response to an increase and decrease in government expenditures and investment
Thecasesolutions.com
Essential Formulas
Thecasesolutions.com
Tax multiplier- the effect of a change in taxes on aggregate demand
Essential Vocabulary
Thecasesolutions.com
Essential Models
Thecasesolutions.com
Conclusion
Thecasesolutions.com
FISCAL CLIFF
The AS/AD Model
Thecasesolutions.com

Essential Vocabulary

Aggregate Supply- the relationship between the quantity of real GDP supplied and the price level when all other influences on production plans remain the same
Aggregate Demand- the relationship between the quantity of real GDP demanded and the price level when all other influences on expenditure plans remain the same
Fiscal Policy- the use of federal budget to achieve the macroeconomics objectives of high and sustained economic growth and full employment
Monetary Policy- changing the quantity of money and the interest rate
Macroeconomic Equilibrium- when the quantity of real GDP demanded equals the quantity of real GDP supplied at the point of intersection of the AD curve and the AS curve
Full Employment Equilibrium- when equilibrium real GDP equals potential GDP
Inflationary gap- a gap that exists when real GDP exceeds potentials GDP and that brings a rising price level
Recessionary gap- a gap that exists when potential GDP exceeds real GDP and that brings a falling price level
Stagflation- a combination of recession (falling real GDP) and inflation (rising price level)
*cost-pull inflation- a phenomenon in which the general price levels rise (inflation) due to increases in the cost of wages and raw materials
*demand-push inflation- when the aggregate demand in an economy strongly outweighs the aggregate supply, price increase
*expansionary fiscal policy- seeks to expand the money supply to encourage economic growth or combat inflation
Contractionary fiscal policy- a decrease in government expenditure on goods and services, a decrease in transfer payments, or an increase in taxes designed to decrease aggregate demand
Discretionary fiscal policy- a fiscal poly action that is initiated by an act of Congress
Automatic stabilizers- features of fiscal policy that stabilize reals GDP without explicit action by the government
Induced taxes- taxes that vary with real GDP
Needs-tested spending- spending on programs that entitle suitably qualified people and business to receive transfer payments that vary with need the state of the economy






Long run aggregate supply
Short run aggregate supply 1
Short run aggregate supply 2
Price level
C
B
A
Aggregate demand 1
Aggregate demand 2
Output or Income

Essential Formulas

*MPC + MPS = 1- in a closed economy, increase in one unit of income will be either consumed or saved

Spending multiplier- represents the multiple by which GDP increases or decreases in response to an increase and decrease in government expenditures and investment

$$\Rightarrow TCM = \frac{dY}{dT} = -\frac{MPC}{1-MPC} = -\frac{MPC}{MPS}$$

$$k = \frac{1}{MPS} \quad OR \quad k = \frac{1}{1-MPC}$$

Essential Formulas

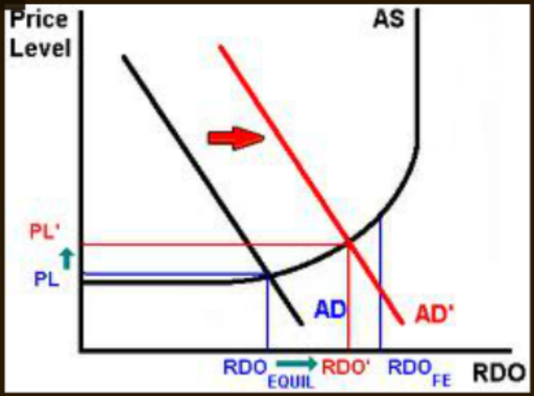
Thecasesolutions.com

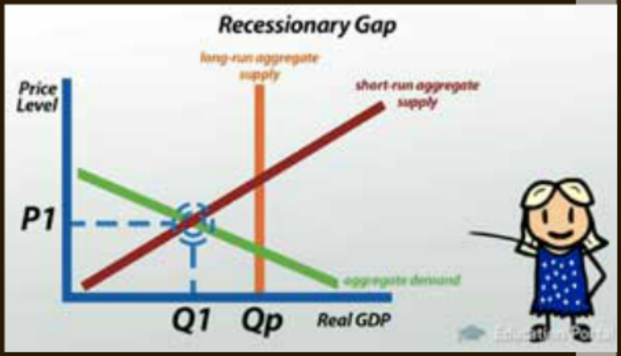
Tax multiplier- the effect of a change in taxes on aggregate demand

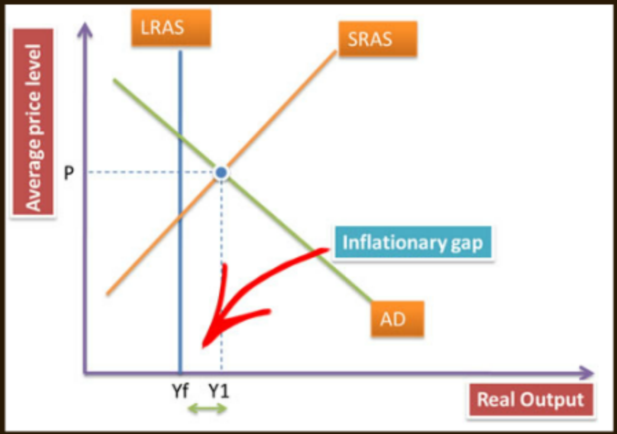
$$Multiplier = \frac{1}{1-[MPC(1-T)-MPI]}$$

Essential Models

AS-AD at full employment- explains price level and output through the relationship of aggregate demand and aggregate supply
Recessionary gap with fiscal- when the equilibrium level of aggregate production falls short of what could be produced at full employment
Inflationary gap with fiscal- The inflationary gap is so named because the relative increase in real GDP causes an economy to increase its consumption, which causes prices to rise in the long run







Conclusion

Thecasesolutions.com

Essential Formulas
Thecasesolutions.com
Essential Formulas
Thecasesolutions.com
Tax multiplier- the effect of a change in taxes on aggregate demand
Thecasesolutions.com
Thecasesolutions.com
Conclusion
Thecasesolutions.com
FISCAL CLIFF
The AS/AD Model
Thecasesolutions.com