Outline

1. Keynesian Cross Model (Goods Markets)
   - Setup of Model
     - Disequilibrium, Dynamic Disequilibrium, Exogenous Variable
     - Multipliers, Household Pessimism, Other Shocks
     - Financial Markets
       - Tax Multiplier, Paradox of Thrift
       - Motivation, Demand for Money
2. Best Grades of Two Midterms
\[ Z = c_d + J_d + G_d \]

Actual numbers in statistical tables.

\[ I > 0 \]

\[ C_d = C_d = 6 \]

\[ I_d + I_d + 6d \]

\[ Z > Y_{low} \]

\[ C \]

\[ z \]

\[ -1 \]

\[ \text{H} \]

\[ T \]

\[ Y_{low} \]

\[ Y_{high} \]

\[ y \]

\[ z \]

\[ z \]

\[ \text{plot of graph} \]

\[ \text{diagram of angles} \]
People + Yf.
Stock: high more
Suppliers + order more
Input = co. firm call

Economic behavior dynamic.

If lay off workers, Yf.
Then suppliers, thing
Suppose firm order goes
Inventory pile up.
In yo (business excess)
Then actual output
desired spending less

Z > Y

Z < Y
August 1990: Gulf war starts.

Belief that war would lead to recession & impact on households.

One possibility: A decrease in Co.
Paradox of thrift.

At household level: more saving leads to go things happening when whole economy "tried" saving, just bad things happen.

\[ Y' = C + I + G + T \]

In equilibrium, public saving does not change.

\[ H = (T - G) \]

\[ Y = T - C = H + \text{Private saving} + \Delta c \]

What happens to saving in new equilibrium?

\[ \frac{\Delta c}{ACo} \]

1990 Q3: trigger a recession big enough that saving in the end is no change in saving.
Tax multiplier: $-\frac{1}{1-\phi} \cdot \frac{1-\phi}{\phi}$

$\mu_{\text{new}} = \mu_{\text{old}} \times \frac{1-\phi}{\phi}$

Text below the diagram appears to be: "Tax basics? T > 1 $\phi < 1$"
Why do people hold

And M?