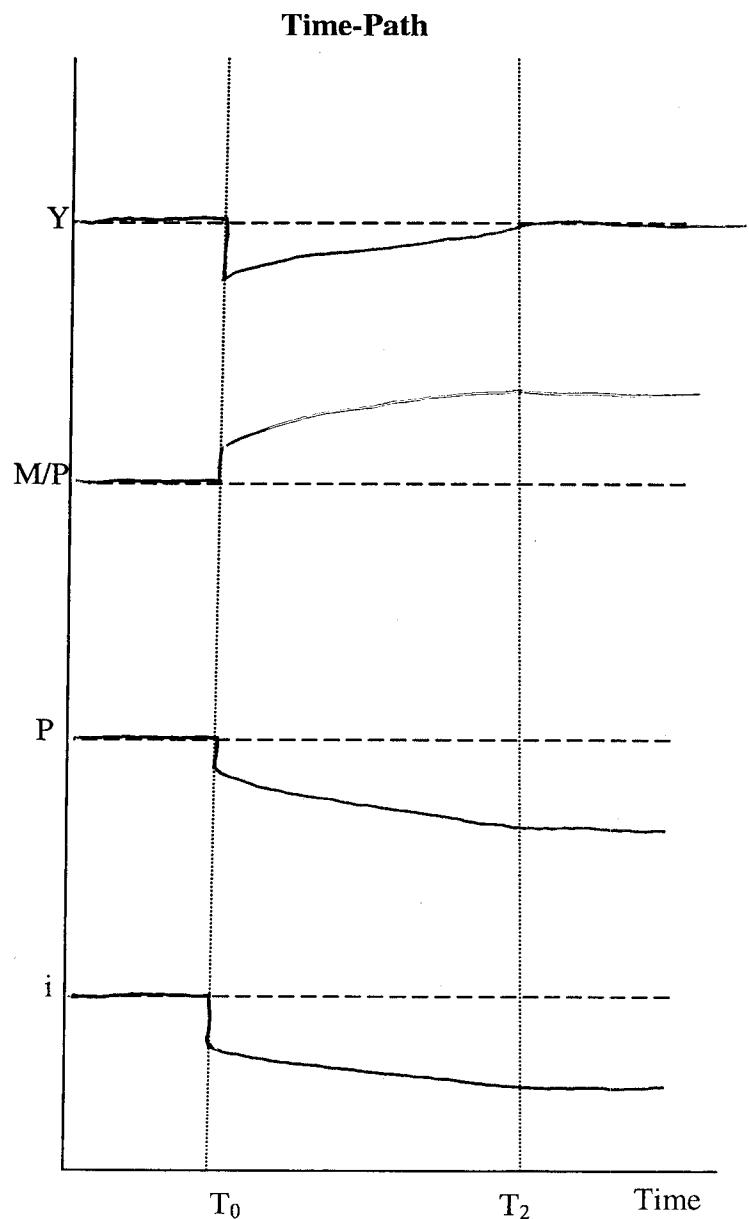
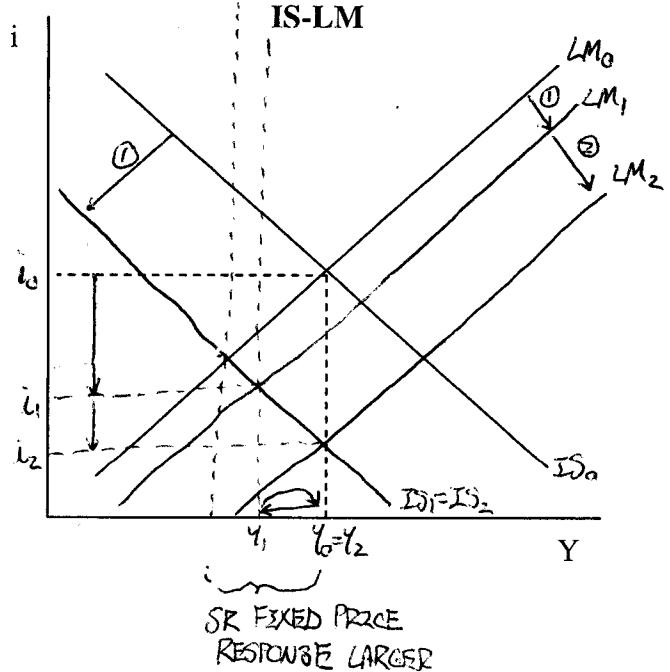
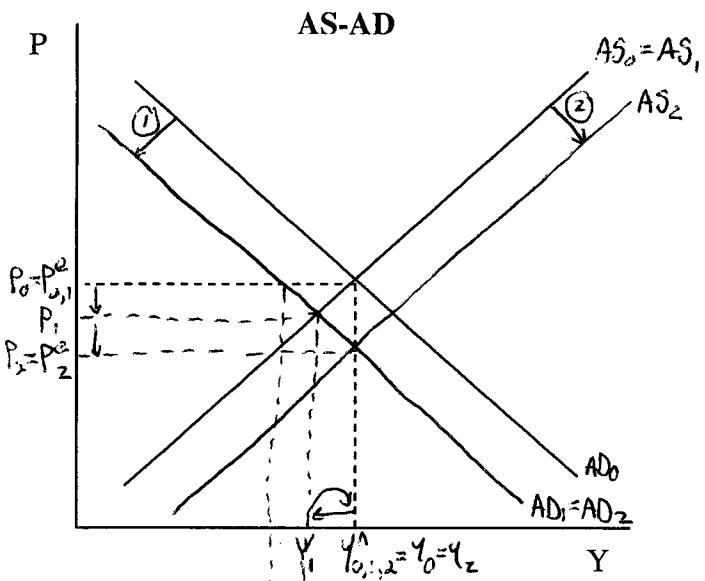


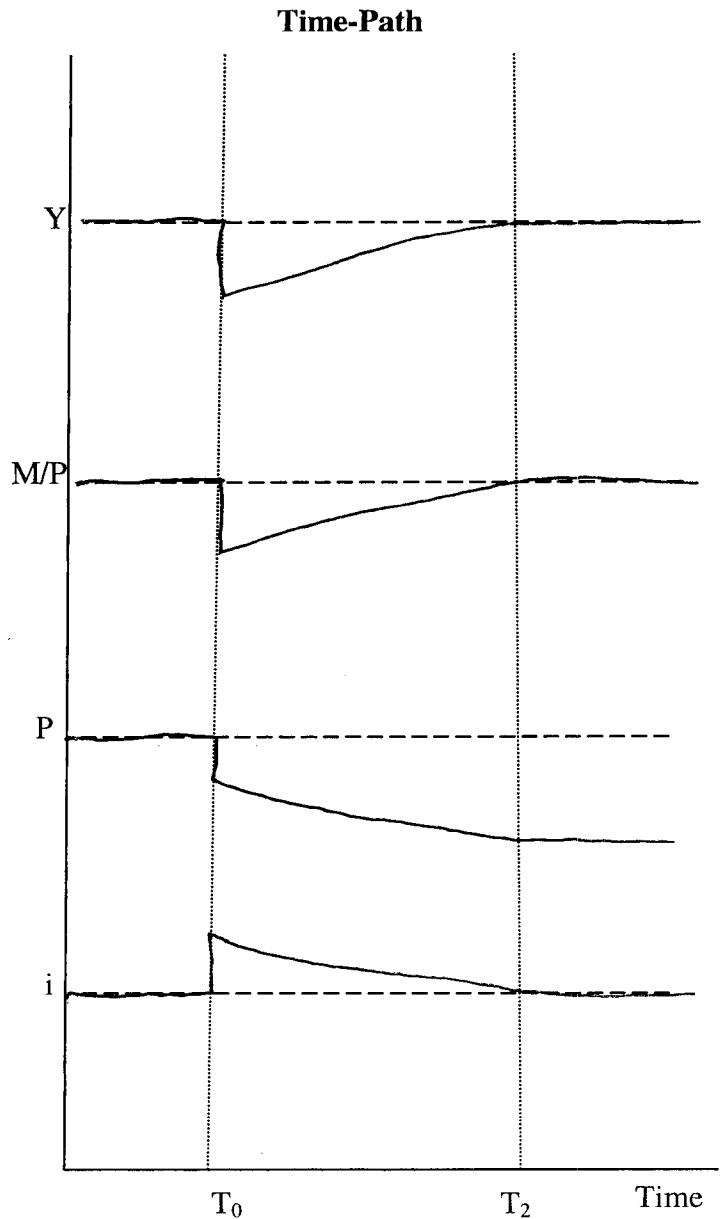
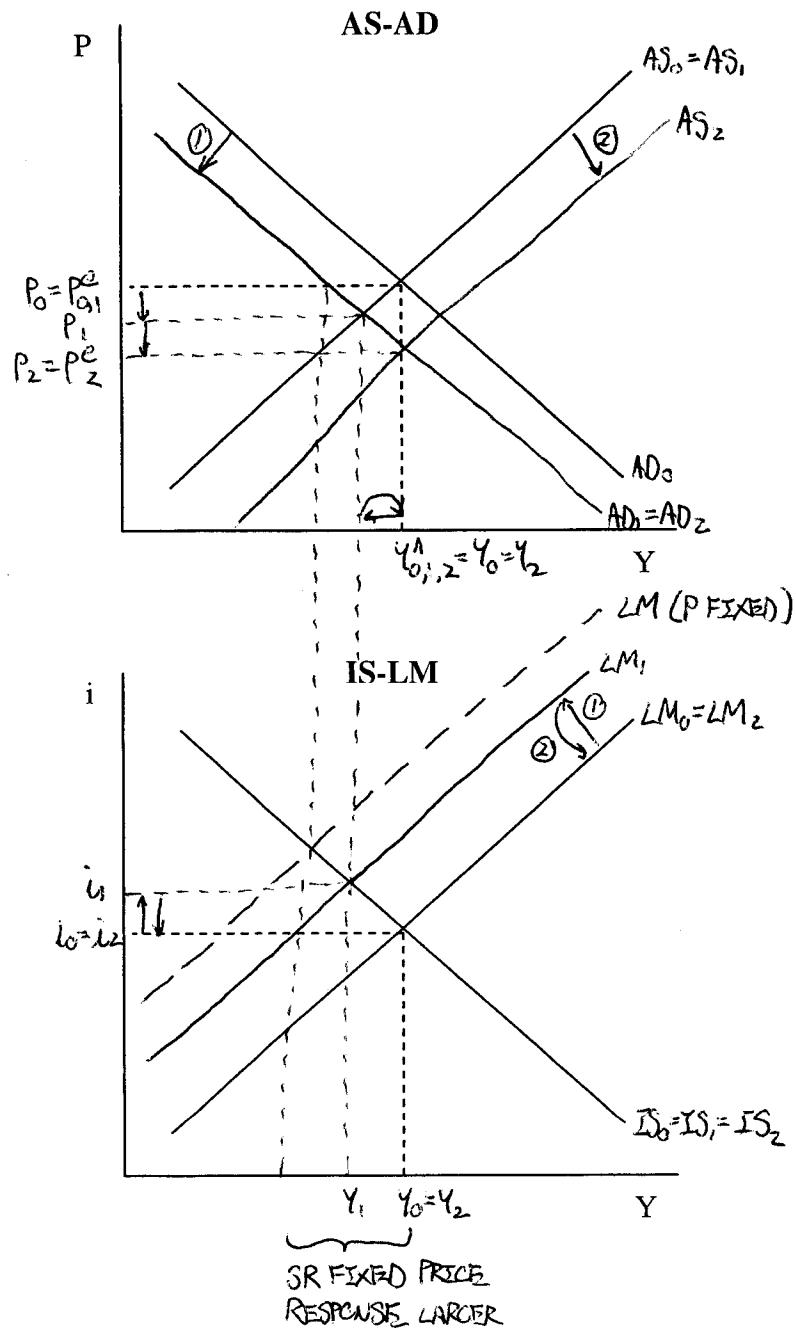
The government cuts defense spending.



How does the new medium-run investment level compare to the initial level?

$$\left. \begin{array}{l} Y_0 = Y_2 \\ i_0 > i_2 \end{array} \right\} \Delta^+ I = \Delta^- G$$

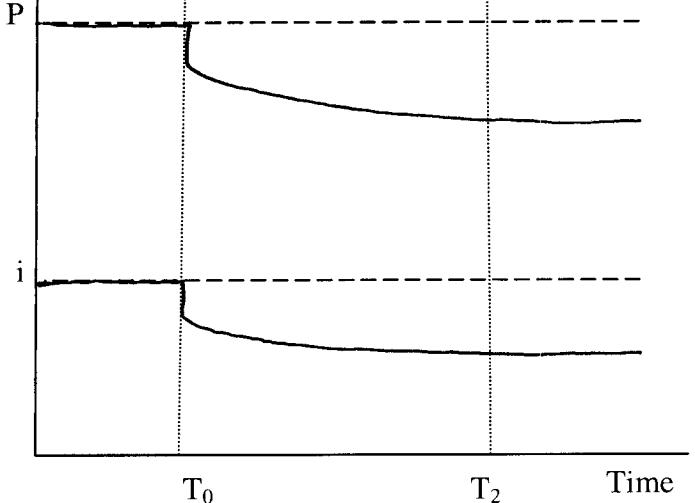
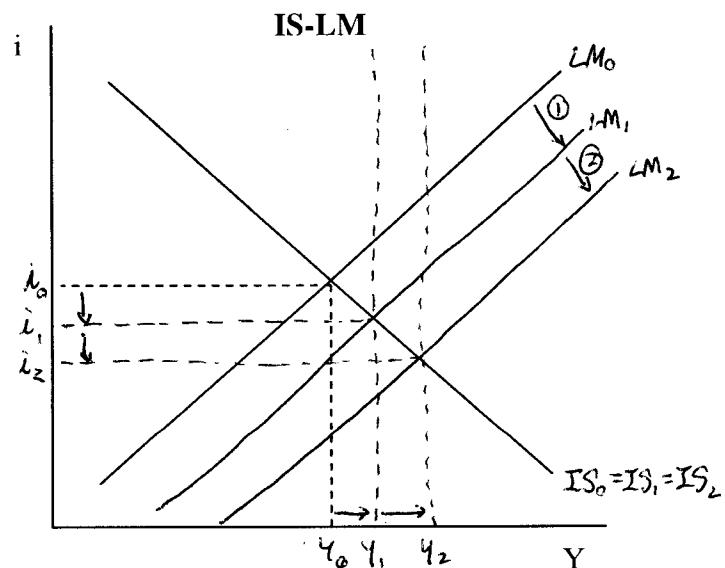
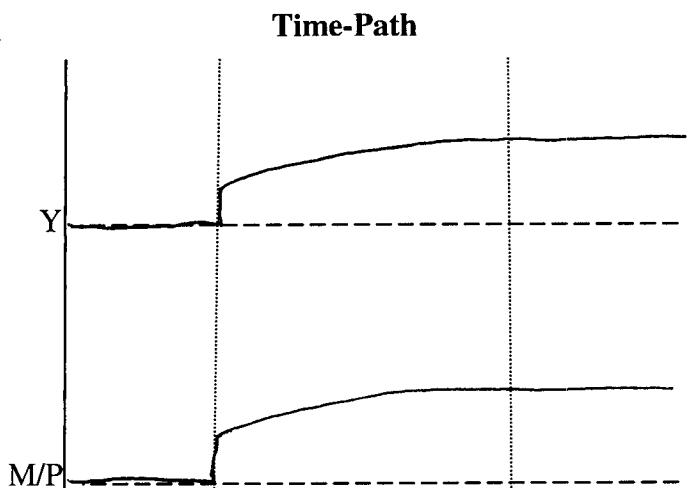
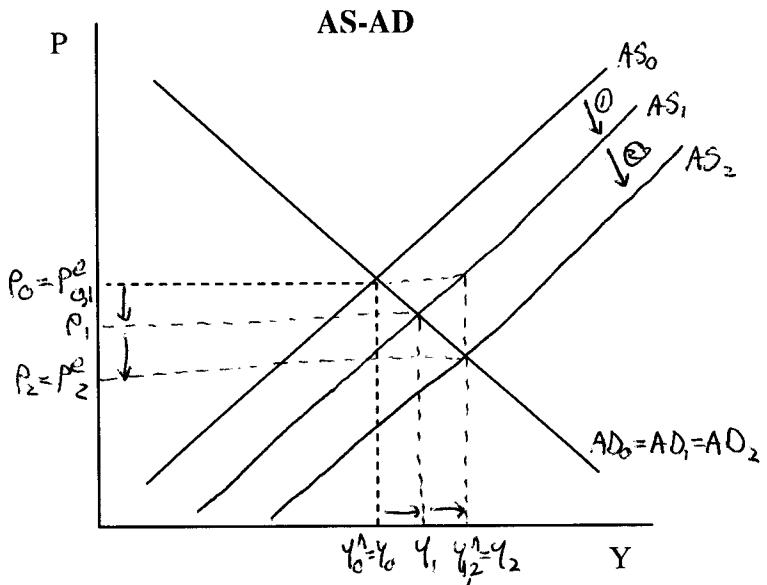
The government decreases the money supply.



How does the new medium-run investment level compare to the initial level?

$$\left. \begin{array}{l} Y_0 = Y_2 \\ i_0 = i_2 \end{array} \right\} \text{I CONSTANT, MONETARY NEUTRALITY}$$

The government strengthens anti-trust legislation (firms must decrease their mark-up over costs).



* DID NOT CONSIDER SUPPLY-SIDE CHANGES IN OUR SR FIXED PRICE MODEL

How does the new medium-run investment level compare to the initial level?

$$\left. \begin{array}{l} i_0 > i_2 \\ y_0 < y_2 \end{array} \right\} \Delta + I$$