The government cuts defense spending.

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

\[
\begin{align*}
\gamma_0 &= \gamma_2 \\
\omega &= \omega_2
\end{align*}
\]

\[
\Delta^+ I = \Delta^- 6
\]
The government decreases the money supply.

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

\[ y_0 = y_2 \]  \text{constant, monetary neutrality}

\[ i_0 = i_2 \]
The government strengthens anti-trust legislation (firms must decrease their mark-up over costs).

\[ AS_{0} \]
\[ AS_{1} \]
\[ AS_{2} \]
\[ AD_{0}=AD_{1}=AD_{2} \]

\[ P_{0}=P_{3}=P_{2} \]
\[ Y_{0}, Y_{1}, Y_{2} \]
\[ i_{0}, i_{1}, i_{2} \]

Time-Path
\[ Y \quad M/P \]
\[ T_{0}, T_{2}, \text{Time} \]

\[ IS_{0}=IS_{1}=IS_{2} \]

\[ LM_{0}=LM_{1}=LM_{2} \]

* 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?

\[ i_{0} > i_{2} \quad \Delta I \]
\[ y_{0} < y_{2} \]