New & improved chapter 7 summary

Money Expansion

Start at \( Y_0 \neq Y_N \) → we are at \( Y_0 \).
This means that we are at \( L_0 \).
It implies that \( P = P_0 \). → we guessed right!
Remember, AS curve gives \( E \) \& \( Y \) combinations that clear Labor market.
AS \& LR demand = LR demand

Short Run:

At \( \Delta P = 0 \), we are at higher level of \( Y \) but price hasn’t 
been.
So, \( \Delta P \) shifts out to \( \Delta P_1 \).

The new \( AS \) intersects \( AD \).

At \( \Delta P = 0 \), price is at \( P_0 \).

When \( \Delta P \), then \( \Delta Y \) + relatively.
LM curve shifts back in to the left.

\( \Delta Y \) is the short-run eqn \( \Delta Y = \frac{\Delta P}{\varepsilon} \).

At \( \Delta P \), i.e., (1 to h).
\( Y \uparrow \) \( (Y_0 \rightarrow Y_1) \).
\( P \uparrow \) \( (P_0 \rightarrow P_1) \).

\( \Delta Y \) is the short-run eqn \( \Delta Y = \frac{\Delta P}{\varepsilon} \).

\( \Delta Y \) tells us the short-run effects of \( \Delta P \).
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Medium Run:

At \( \Delta P \), i.e., \( Y > Y_0 \).
This means that the economy is producing more than \( Y_0 \).
Everyone is "over-worked!"
Given \( P_0 \) & \( L_0 \), we want to be at \( Y_N \).

What happens?

We expect price to rise \( \Delta P \).
Why? We expect people to demand \( W + \Delta W \) in the future.
\( Y \uparrow \) → \( U \uparrow \) → \( F(w, P) \uparrow \) → \( U \uparrow \), \( \Delta P \) expected

When \( \Delta P \) → \( AS \) shifts up, \( \Delta LM \) shifts left.

\( \Delta M = \Delta P \) → \( \Delta Y \) did not change.

We are back to \( L_0 \) → \( \Delta Y = 0 \) → \( \Delta P > 0 \).