



Name &amp; SID:

Date:

7. What is planned aggregate expenditure?
  
  
  
  
  
  
  
  
  
  
8. How is planned aggregate expenditure different from aggregate expenditure?
  
  
  
  
  
  
  
  
  
  
9. Define the equilibrium relationship between aggregate output and planned aggregate expenditure.
  
  
  
  
  
  
  
  
  
  
10. Draw the Keynesian-cross ( $Y=AE$ ) model. Label your aggregate output line,  $Y=AE$ . Label your planned aggregate expenditure line,  $AE$ . Label the equilibrium GDP,  $Y_1$ .

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11. What happens when  $Y_2 > Y_1$ ?

12. What happens when  $Y_3 < Y_1$ ?

13. What is controversial about these adjustment mechanisms?

14. Assume full-employment aggregate output ( $Y^*$ ) is above  $Y_1$ . Why is  $Y^*$  not sustainable in equilibrium? Is  $Y_1$  desirable for an economy?

15. What is Keynes' major argument about full-employment output and equilibrium output?

16. Define the multiplier in words.

17. Define the multiplier as an equation.