





Name &amp; SID:

Date:

10. Draw the Keynesian-cross ( $Y=PAE$ ) model. Label your aggregate output line,  $Y=PAE$ . Label your planned aggregate expenditure line, PAE. Label the equilibrium GDP,  $Y_1$ .

11. What happens when  $Y_2 > Y_1$ ?

12. What happens when  $Y_3 < Y_1$ ?

13. What is controversial about these adjustment mechanisms?