Learning Objectives

Chapter 33

In this chapter you will

- Learn the difference between planned and actual spending, saving and investment
- Consider why deflationary and inflationary gaps occur
- examine the concept of the marginal propensity to withdraw
- Learn how governments can influence aggregate demand to bring about desired macroeconomics outcomes in the short run
- Develop a model to show general equilibrium in an economy
- Analyse how fiscal and monetary policy influence the IS-LM curves and hence general equilibrium
- See how the aggregate demand curve is derived from the IS-LM model

You should be able to

- Explain the difference between planned and actual spending, saving and investment
- Draw a diagram of the Keynesian cross and use it to show both an inflationary and deflationary gap
- Be able to calculate the value of the multiplier given data on the marginal propensities to withdraw
- Use a diagram to explain the relevance of the slope of the expenditure line in relation to changes in autonomous expenditure
- Show the derivation of the IS and LM curves
- Use a diagram to show general equilibrium in the economy
- Use diagrams to show the effect of both fiscal and monetary policy on general equilibrium

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