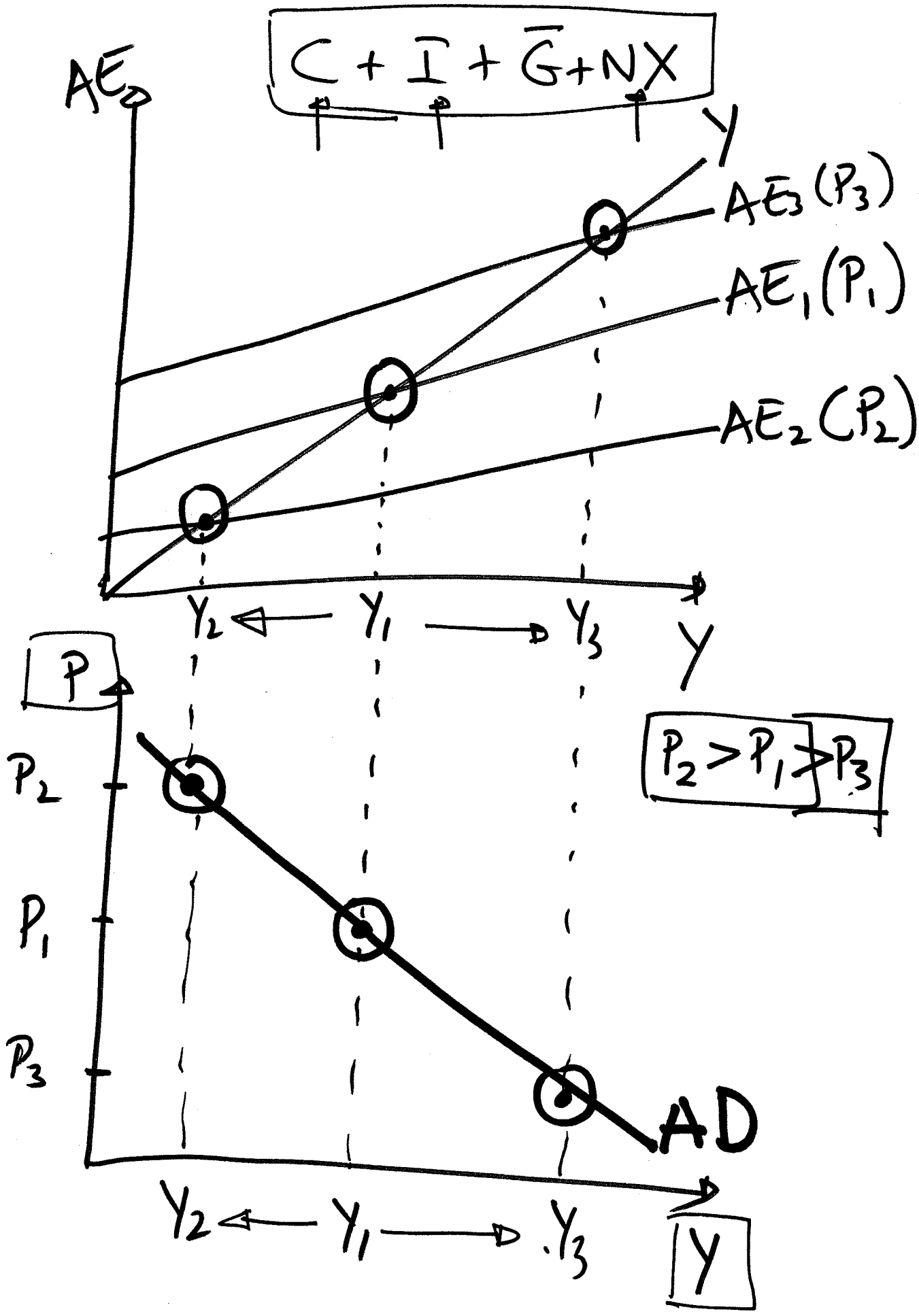

C + I + G + NX
AE
Y
AE3 (P3)
AE1 (P1)
AE2 (P2)
Y2
Y1
Y3
Y
P
P2
P1
P3
P2 > P1 > P3
AD
Y2
Y1
Y3
Y

① What is the consumption function?
→ What do the components represent.
→ How do you calculate $C_0 + C_1$?

[Savings function as well].

② DERIVE (and understand) AE schedule.

③ Calculate equilibrium GDP!

④ What factors shift the AE schedule (and which way).

⑤ What is the multiplier — what does it represent?

⑥ Calculating the multiplier.

⑦ Calculating equilibrium changes in GDP.

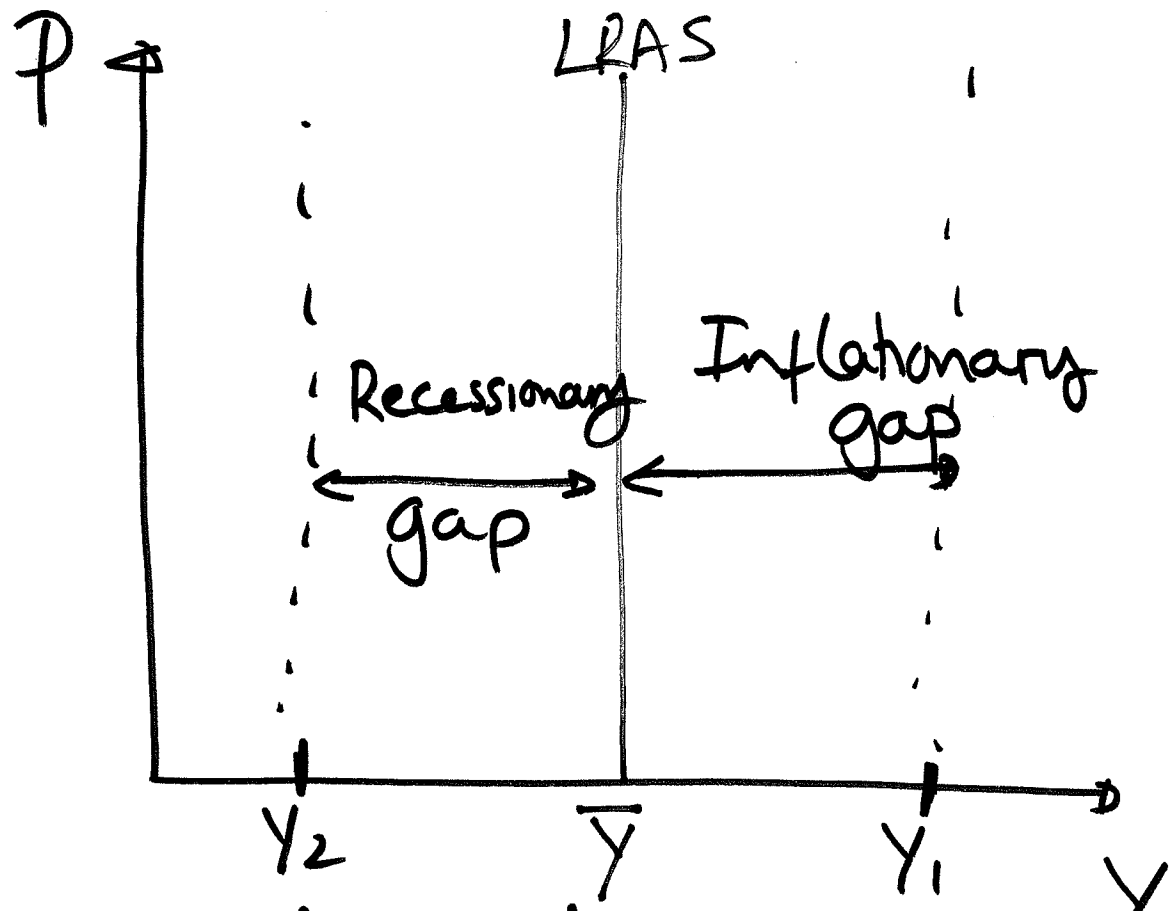
Short Run

- a period of time when certain factors of production may be fixed and wages and/or prices may be fixed.
- $\bar{K}, \bar{Z}$; L can vary.
- $\bar{W}$ may be fixed and/or price, $\bar{P}$

Long Run

- a period of time when all factors of production can adjust and wages and prices are flexible.

- K, L, Z, W, P can all vary/adjust



Aggregate Production Function

$$Y = F(K, L, Z)$$

$$= Z \cdot K^{\frac{1}{2}} L^{\frac{1}{2}} \quad \text{(Cobb-Douglas)}$$

$Z = 1$

$K = 49$ ~~64~~ $\sqrt{64}$

$L = 100$

$= 1 \times \sqrt{49}\sqrt{100} = 70$ ~~$= 80$~~

$= Z \min\{K, L\}$ (Leontief)

$= 1 \times \min\{49, 100\} = 49$

~~64~~ 64.