

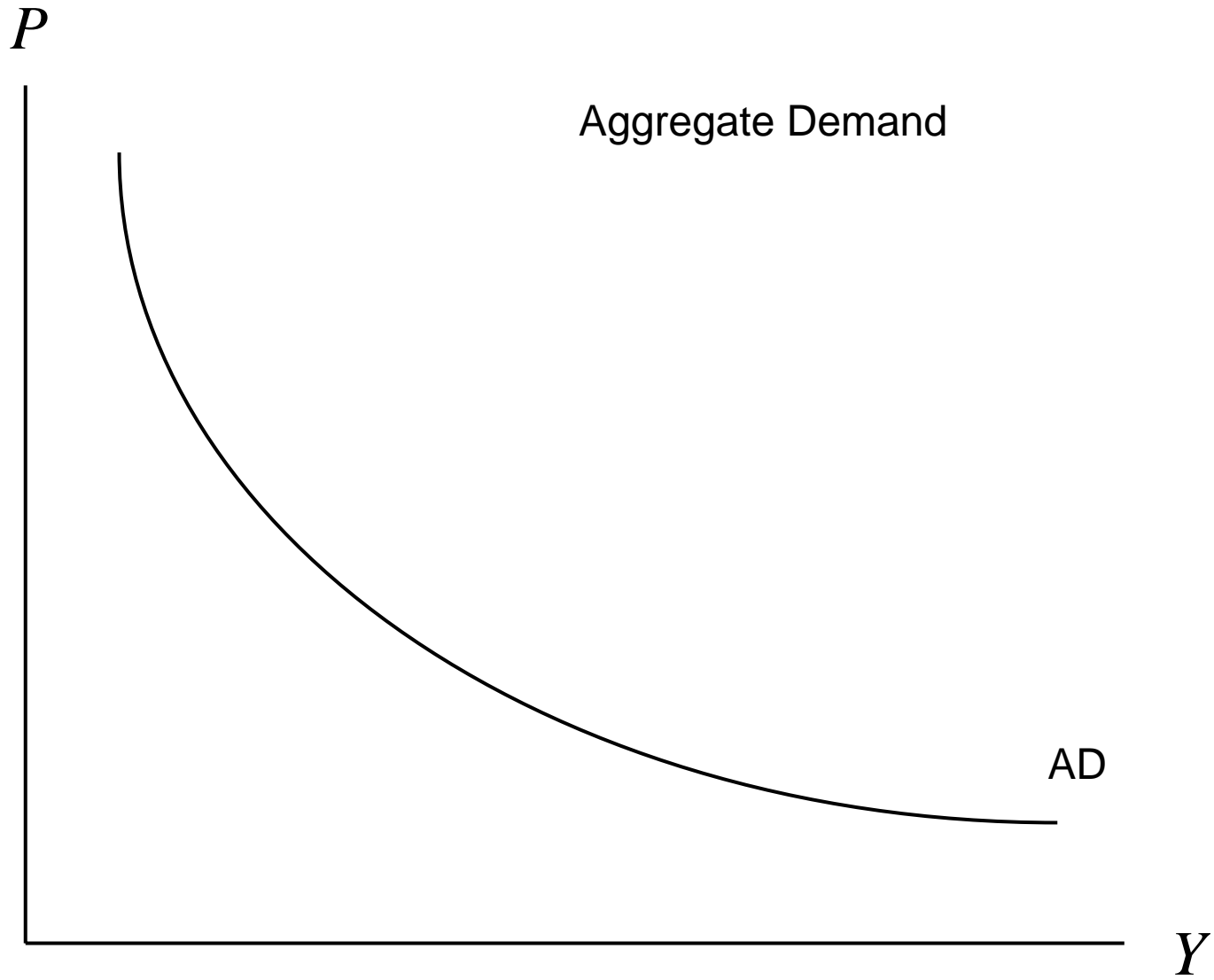
Economic Fluctuations

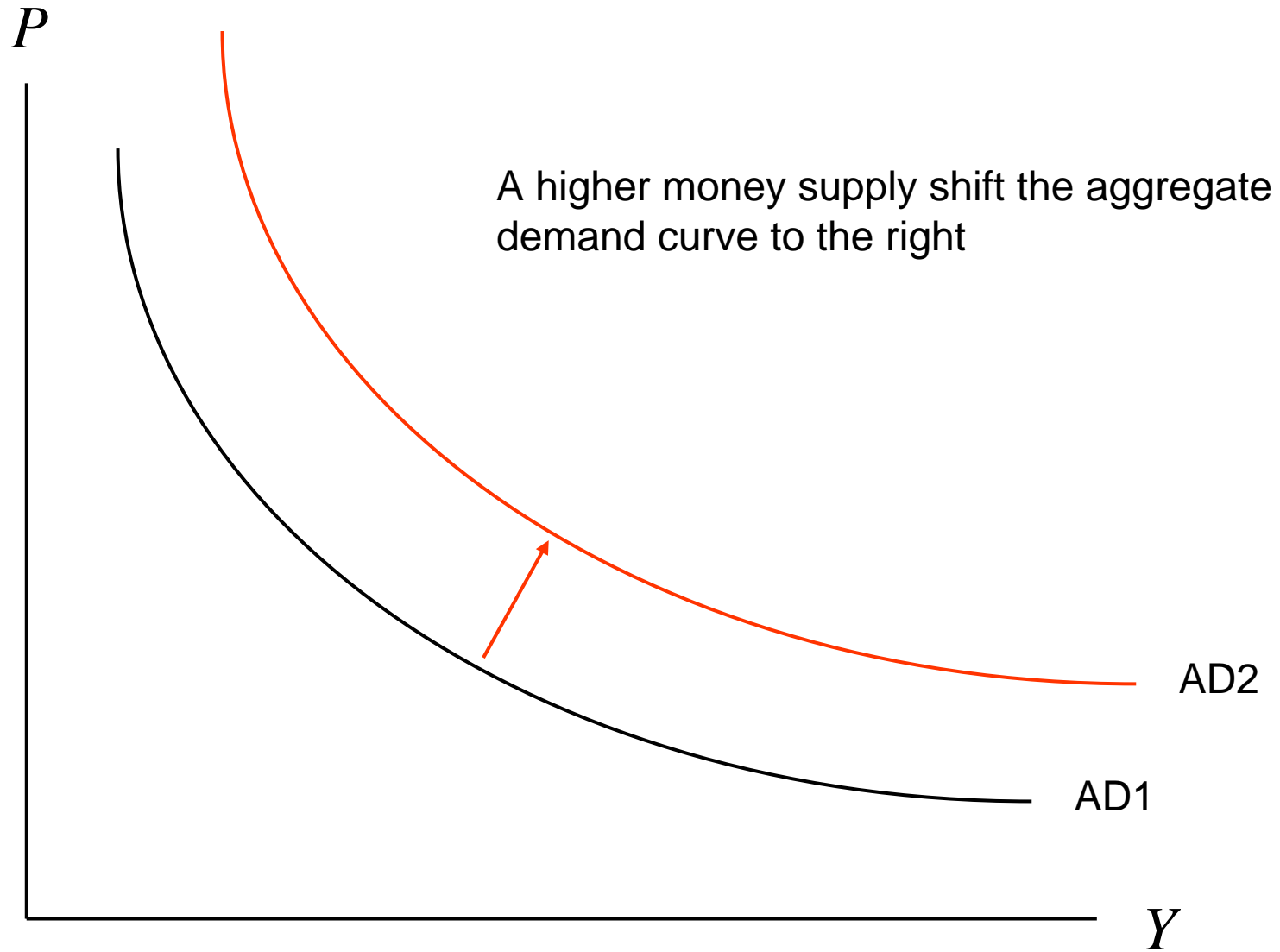
Ryoichi Imai

Aggregate Demand

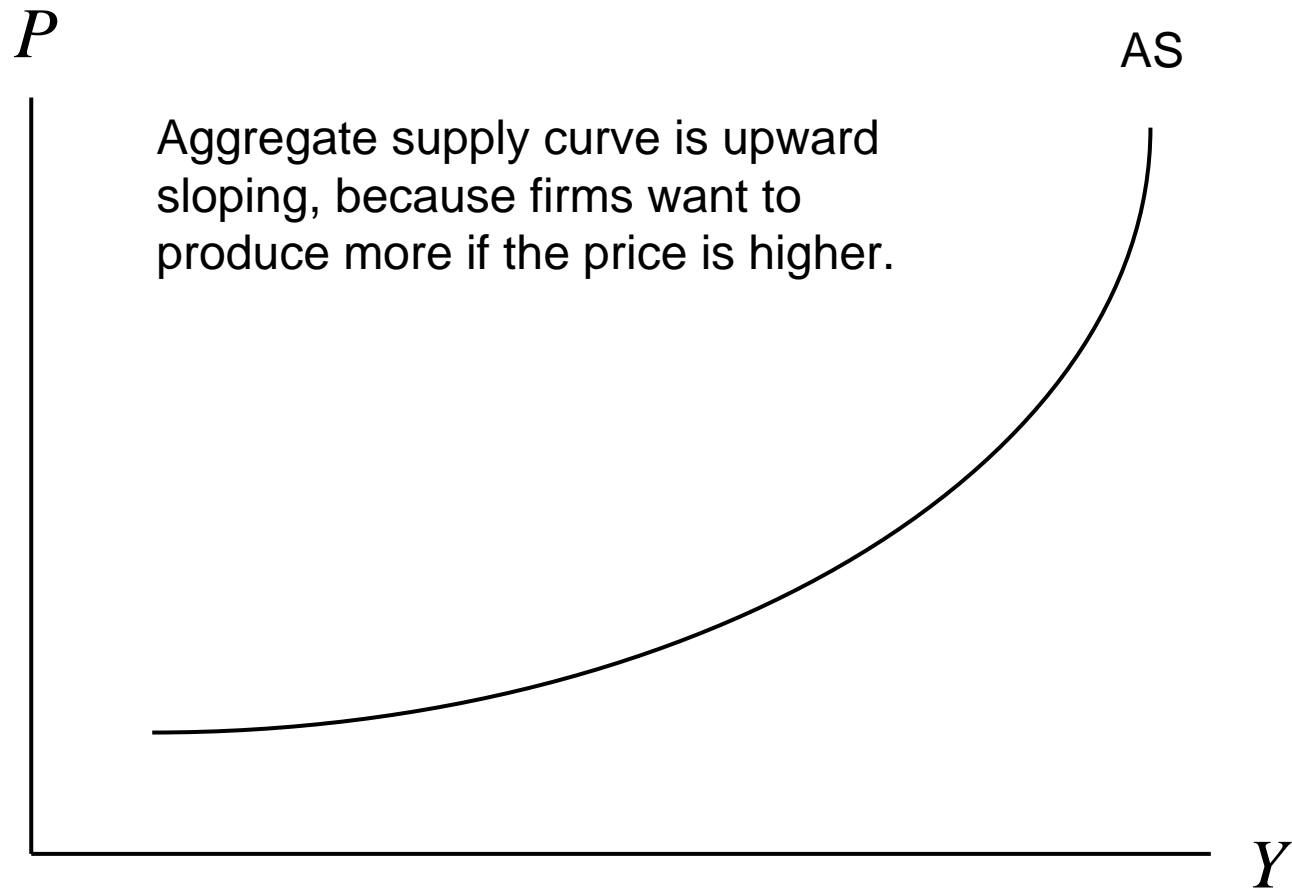
$$MV = PY \Rightarrow Y = \frac{MV}{P}$$

Mathematically, aggregate demand is a decreasing function of the price level. In other words, if the price level is lower, real money balance is higher; the high level of real balances allows a greater volume of transactions, which means a greater quantity of output is demanded

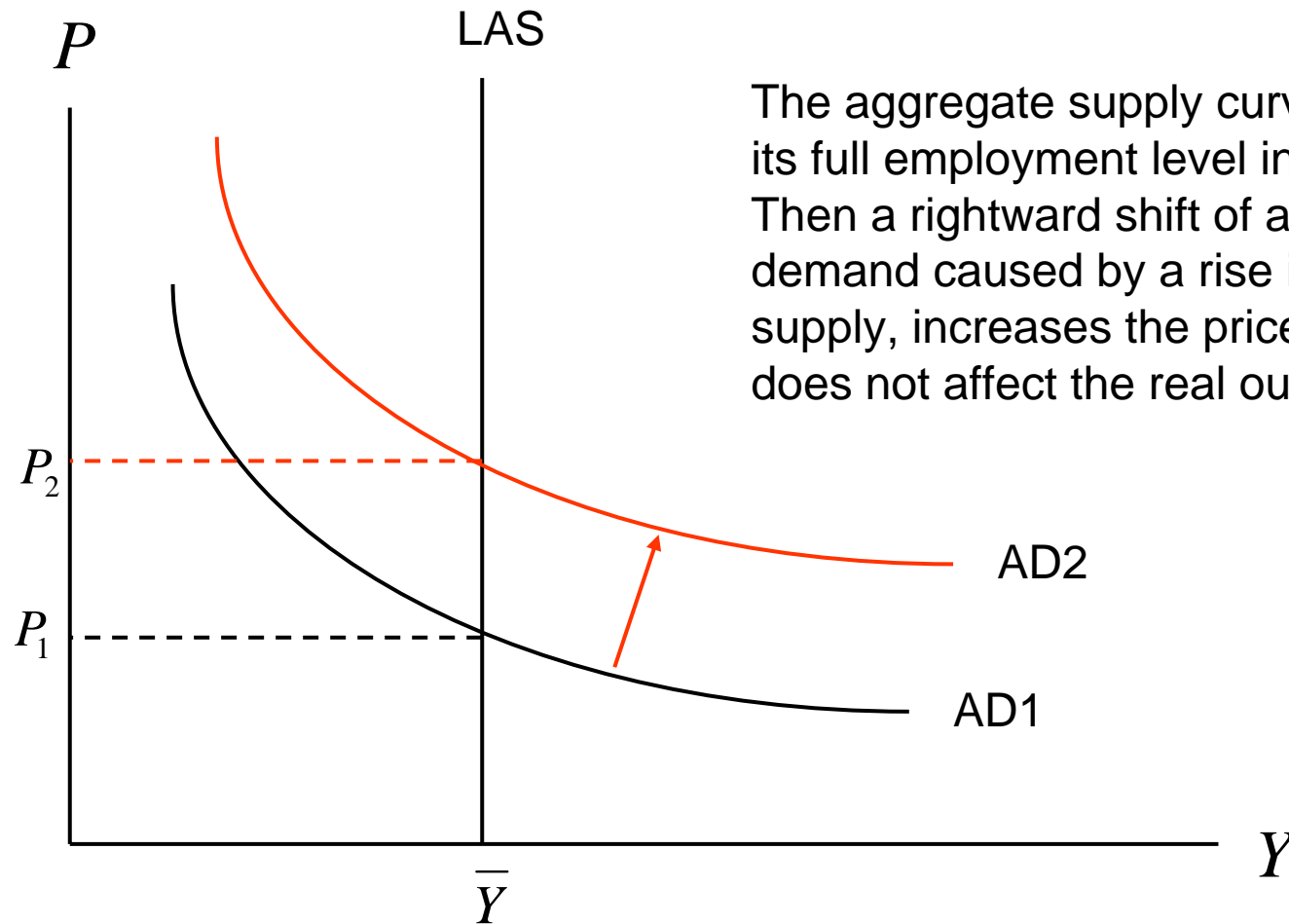




Aggregate Supply

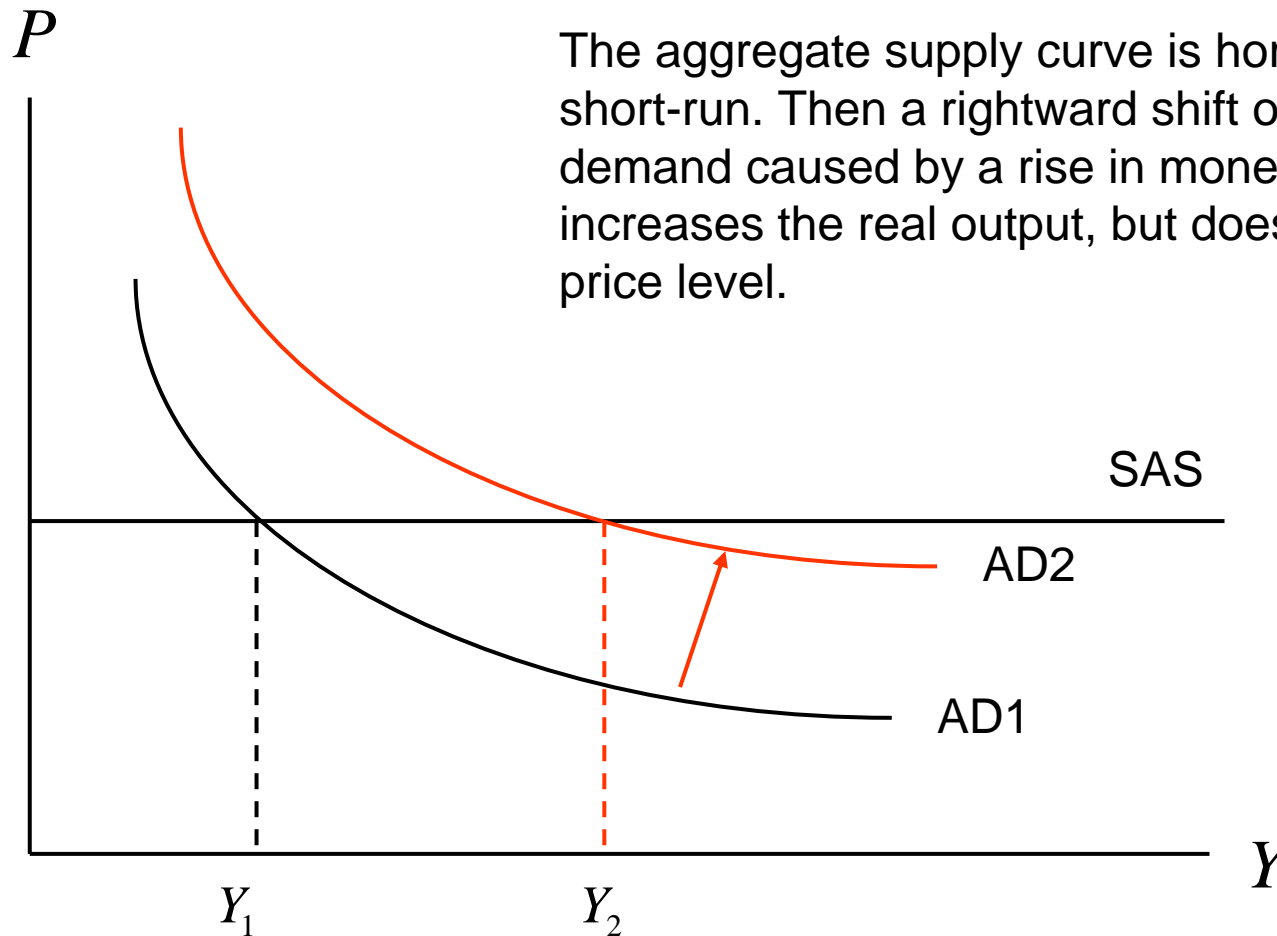


Long-Run Aggregate Supply



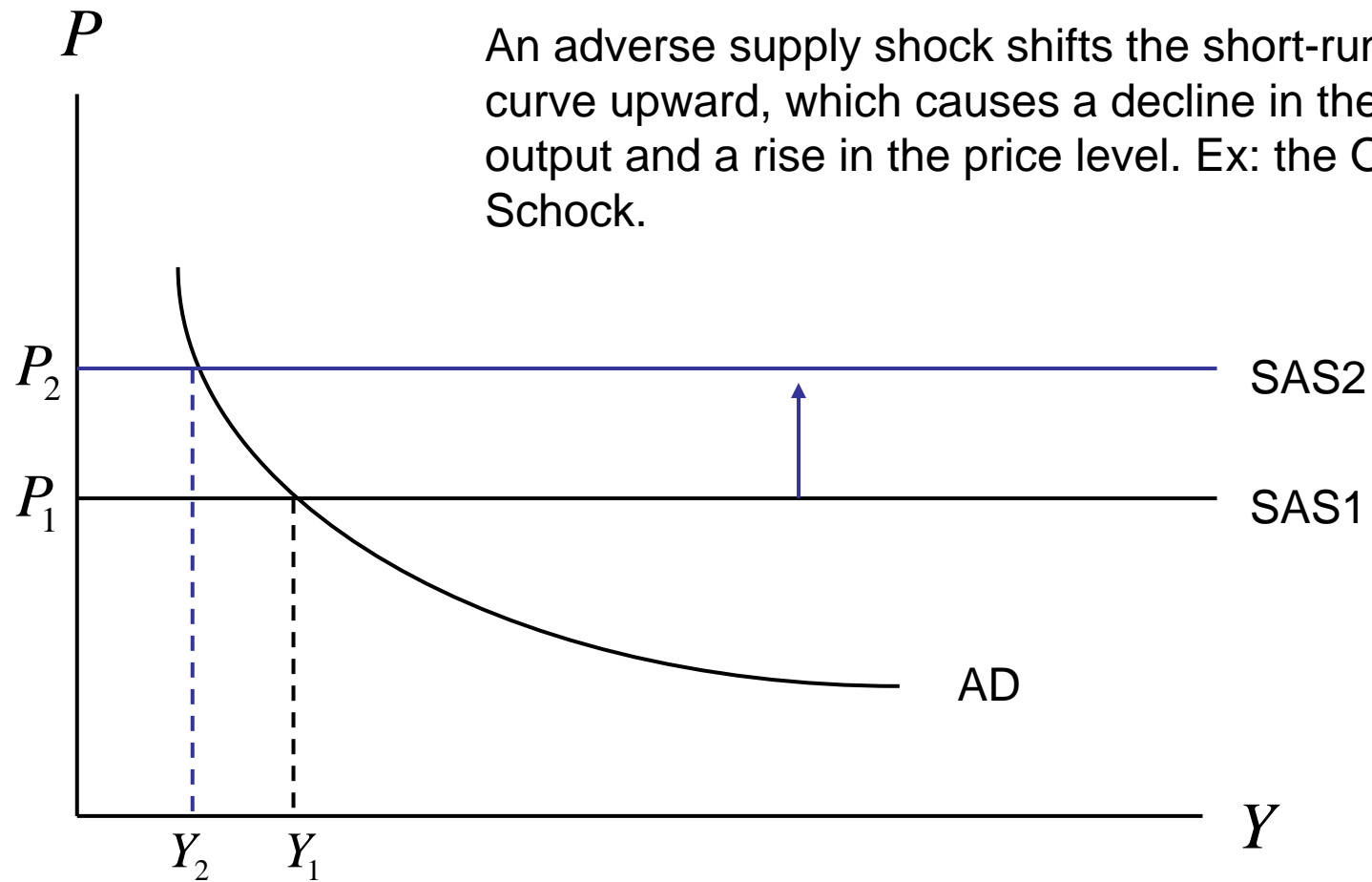
The aggregate supply curve is vertical at its full employment level in the long-run. Then a rightward shift of aggregate demand caused by a rise in money supply, increases the price level, but does not affect the real output.

Short-Run Aggregate Supply



The aggregate supply curve is horizontal in the short-run. Then a rightward shift of aggregate demand caused by a rise in money supply, increases the real output, but does not affect the price level.

An Adverse Supply Shock



Stabilization Policy

