

# Chapter 7



## The Classical Long-Run Model

ECONOMICS: Principles and Applications, 4e  
HALL & LIEBERMAN, © 2009 Thomson South-Western

---

---

---

---

---

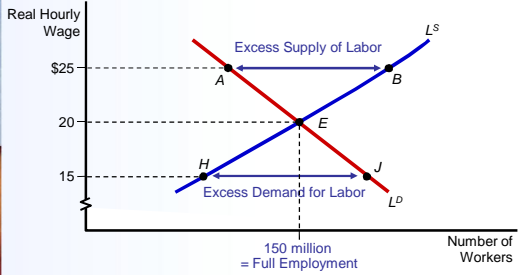
---

---

---

## The Labor Market

Figure 1 The Labor Market



---

---

---

---

---

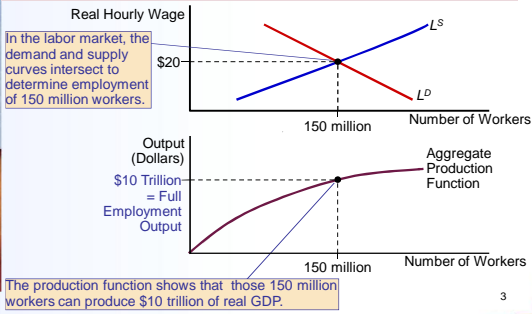
---

---

---

## The Production Function

Figure 2 Output Determination in the Classical Model



---

---

---

---

---

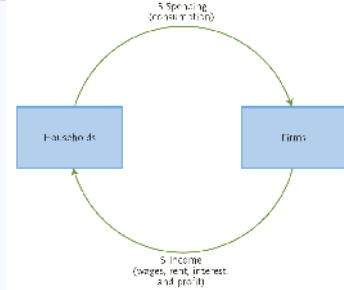
---

---

---

## Total Spending in a Simple Economy

Figure 3 Total Spending in a Simple Economy



4

---

---

---

---

---

---

---

---

---

---

---

---

Table 1: Flows in the Economy of Classica, 2006

Total Output (GDP)	\$10 trillion
Total Income	\$10 trillion
Consumption Spending ( $C$ )	\$7 trillion
Planned Investment Spending ( $I^p$ )	\$1 trillion
Government Purchases ( $G$ )	\$2 trillion
Net Taxes ( $T$ )	\$1.25 trillion
Household Saving ( $S$ )	\$1.75 trillion

5

---

---

---

---

---

---

---

---

---

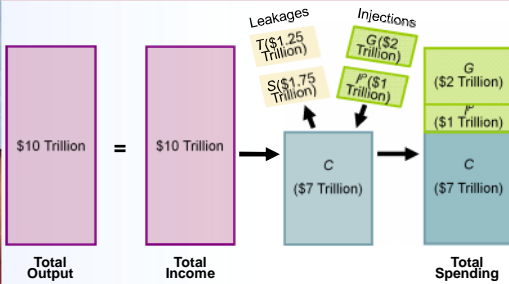
---

---

---

## Leakages and Injections

Figure 4 Leakages and Injections



6

---

---

---

---

---

---

---

---

---

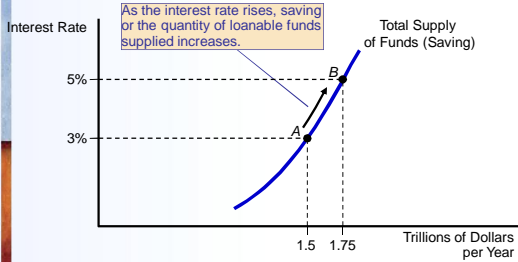
---

---

---

## The Supply of Funds Curve

• Figure 5 Household Supply of Loanable Funds




---

---

---

---

---

---

---

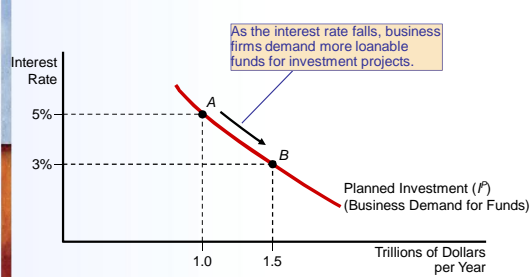
---

---

---

## Business Demand for Loanable Funds

• Figure 6 Business Demand for Loanable Funds




---

---

---

---

---

---

---

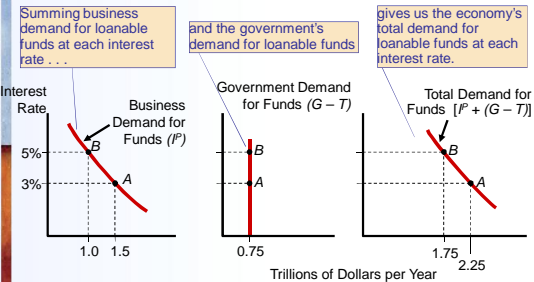
---

---

---

## The Demand for Funds

• Figure 7 The Demand for Funds




---

---

---

---

---

---

---

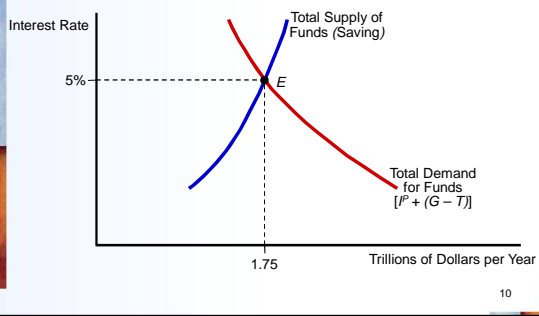
---

---

---

## Equilibrium in the Loanable Funds Market

• Figure 8 Loanable Funds Market Equilibrium




---

---

---

---

---

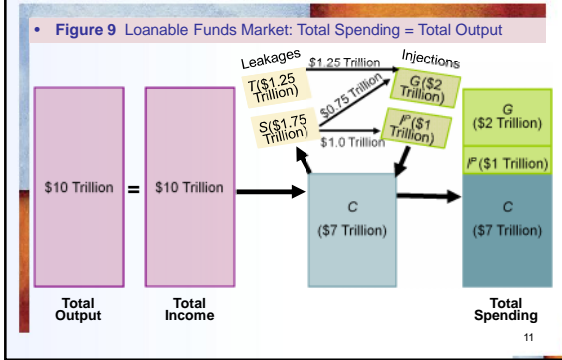
---

---

---

## The Loanable Funds Market and Say's Law

• Figure 9 Loanable Funds Market: Total Spending = Total Output




---

---

---

---

---

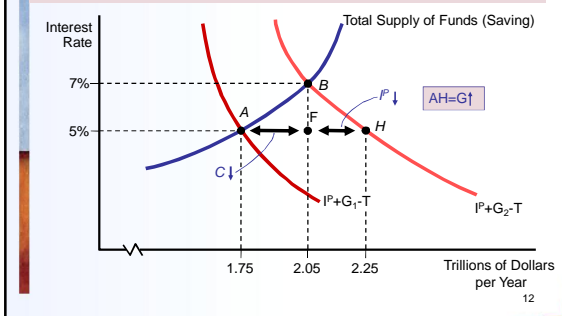
---

---

---

## An Increase in Government Purchases

• Figure 10 Crowding out from an increase in Government purchases




---

---

---

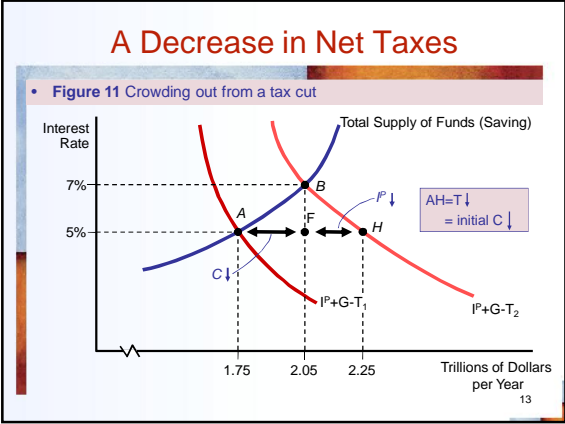
---

---

---

---

---




---

---

---

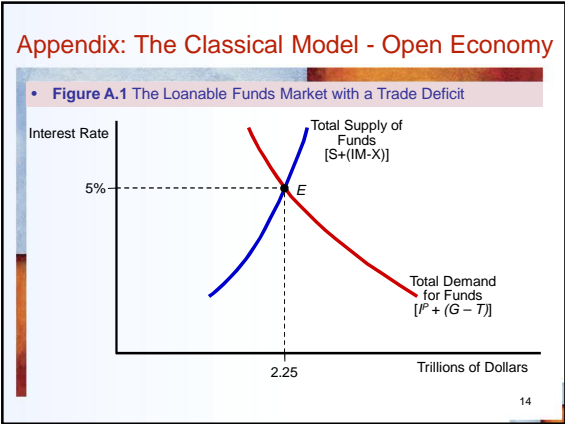
---

---

---

---

---




---

---

---

---

---

---

---

---