

# Chapter 10



## The Short-Run Macro Model

ECONOMICS: Principles and Applications, 4e  
HALL & LIEBERMAN, © 2006 Thomson South-Western

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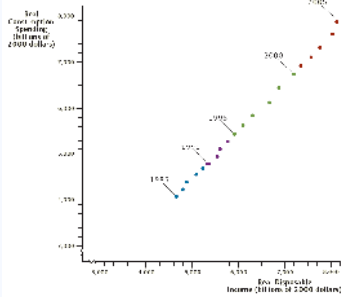
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### U.S. Consumption and Disposable Income

Figure 1 U.S. Consumption and Disposable Income, 1985–2005



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Table 1: Hypothetical Data on Disposable Income and Consumption

Real Disposable Income (billions of dollars per year)	Real Consumption Spending (billions of dollars per year)
0	2,000
1,000	2,600
2,000	3,200
3,000	3,800
4,000	4,400
5,000	5,000
6,000	5,600
7,000	6,200
8,000	6,800

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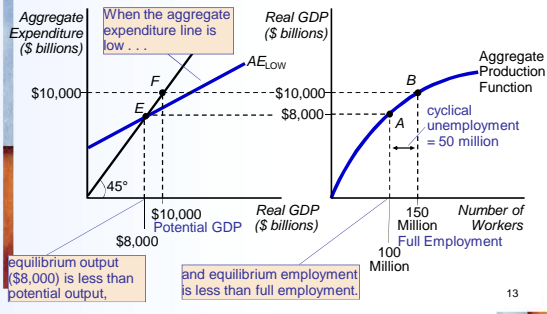






## Equilibrium GDP and Employment

• **Figure 8** Equilibrium GDP Can Be Less Than Full Employment GDP




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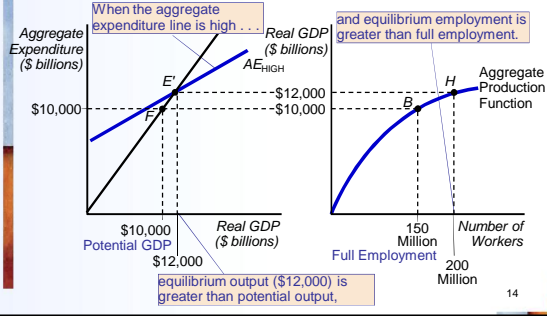
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## Equilibrium GDP and Employment

• **Figure 9** Equilibrium GDP Can Be Greater Than Full-Employment




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**Table 5: Cumulative Increases in Spending When Investment Spending Increases by \$1,000 Billion**

Round	Additional Spending in Each Round (billions of dollars per year)	Total Additional Spending (billions of dollars per year)
Initial increase in investment spending	1,000	1,000
Round 2	600	1,600
Round 3	360	1,960
Round 4	216	2,176
Round 5	130	2,306
Round 6	78	2,384
Round 7	47	2,431
Round 8	28	2,459
Round 9	17	2,476
Round 10	10	2,486
...	...	...
Round 20	0.06	Very close to 2,500

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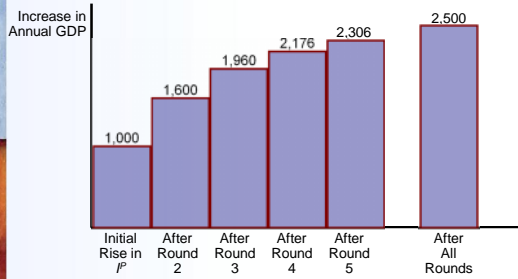
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## A Change in Investment Spending

• **Figure 10** The Effect of a Change in Investment Spending




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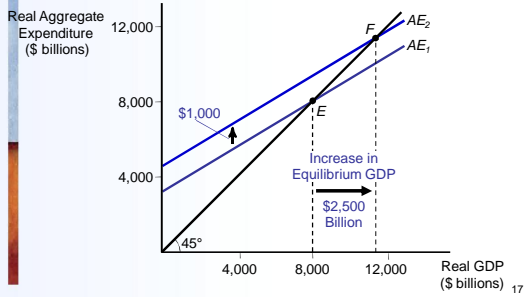
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## A Graphical View of the Multiplier

• **Figure 11** A Graphical View of the Multiplier




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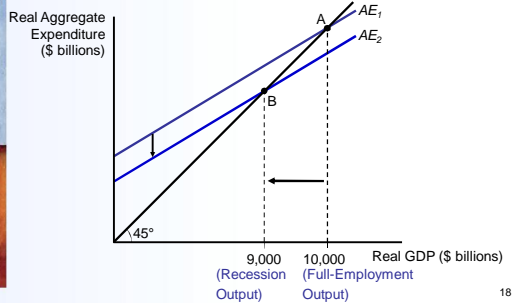
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## Countercyclical Fiscal Policy

• **Figure 12** Countercyclical Fiscal Policy




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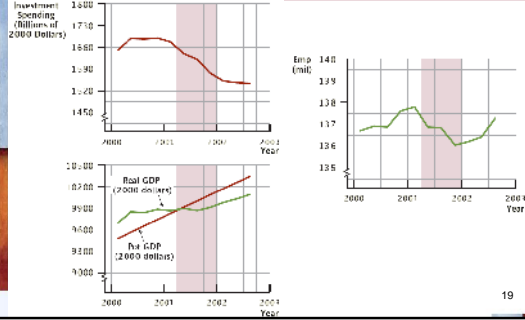
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# The Recession of 2001

• Figure 13 The Recession of 2001



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