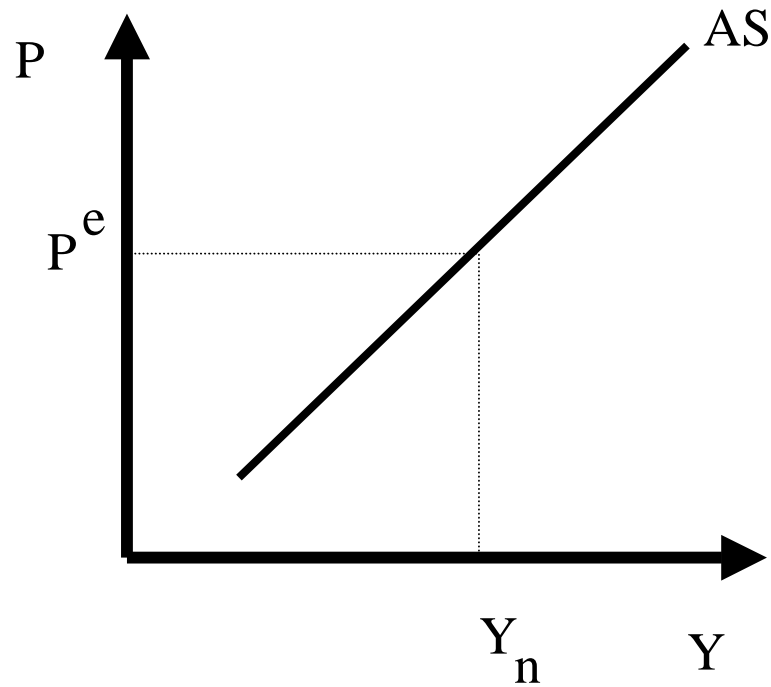


Lecture 20: Aggregate Supply and Aggregate Demand (Cont.)

- Current events (Bloomberg, NYT 11/17/99)
- Review
 - Aggregate supply and demand
 - Monetary expansion

$$P = P^e (1 + \mu) F(1 - Y/L, z)$$



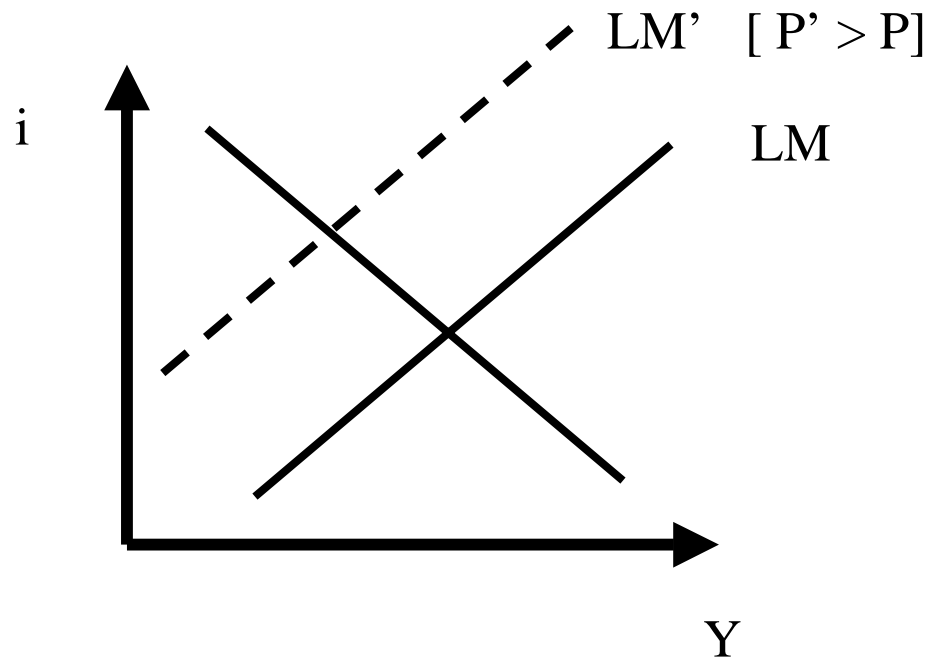
$$P^e(t) = P(t-1) \quad [\text{for now}] \Rightarrow$$

$$\text{AS:} \quad P(t) = P(t-1) (1 + \mu) F(1 - Y(t)/L, z)$$

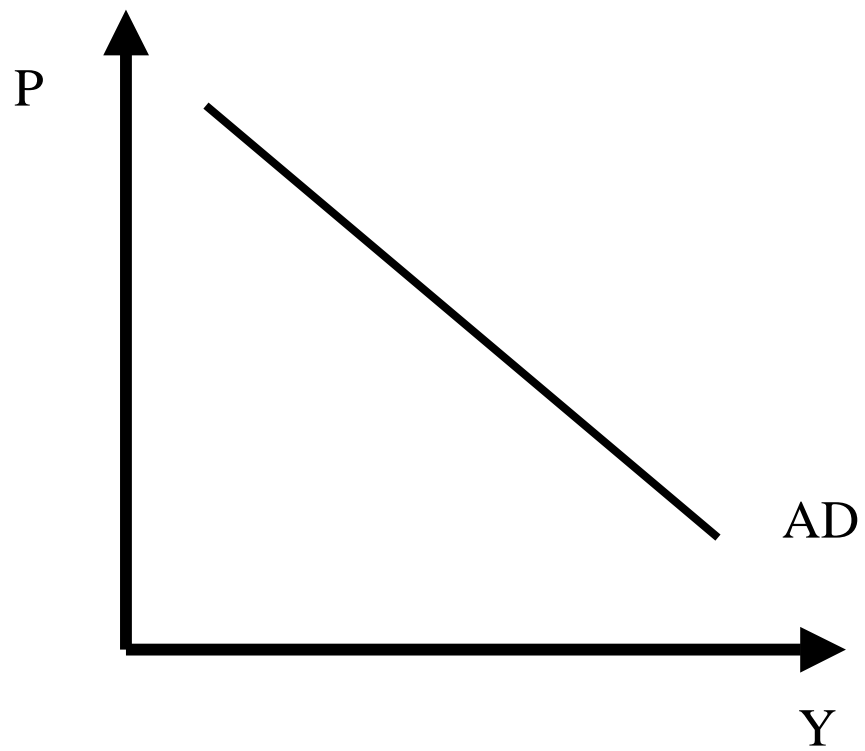
Aggregate Demand

$$\text{IS: } Y = C(Y-T) + I(Y,I) + G$$

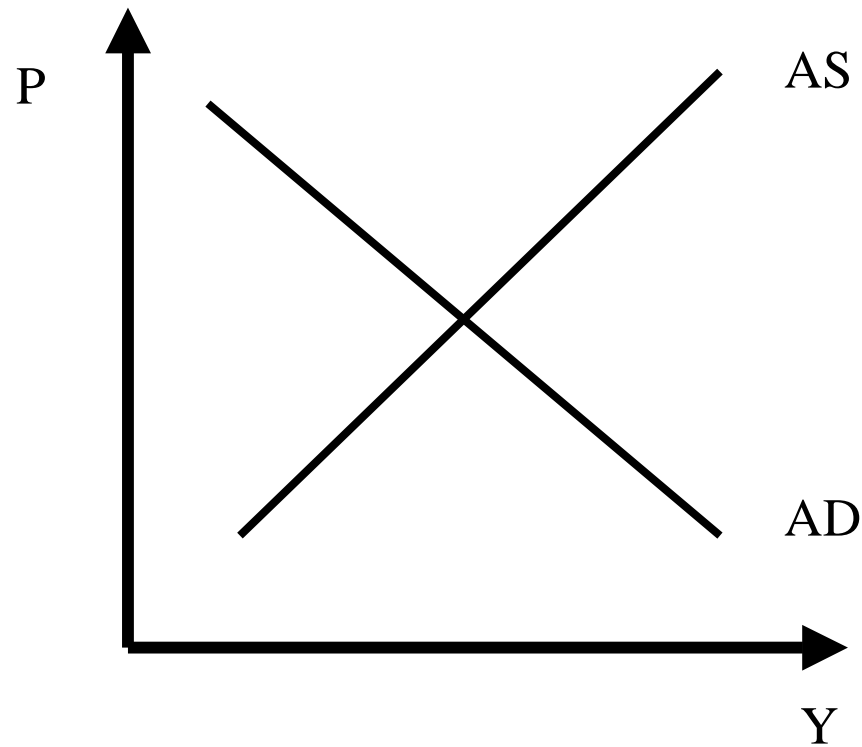
$$\text{LM: } \frac{M}{P} = Y L(i)$$



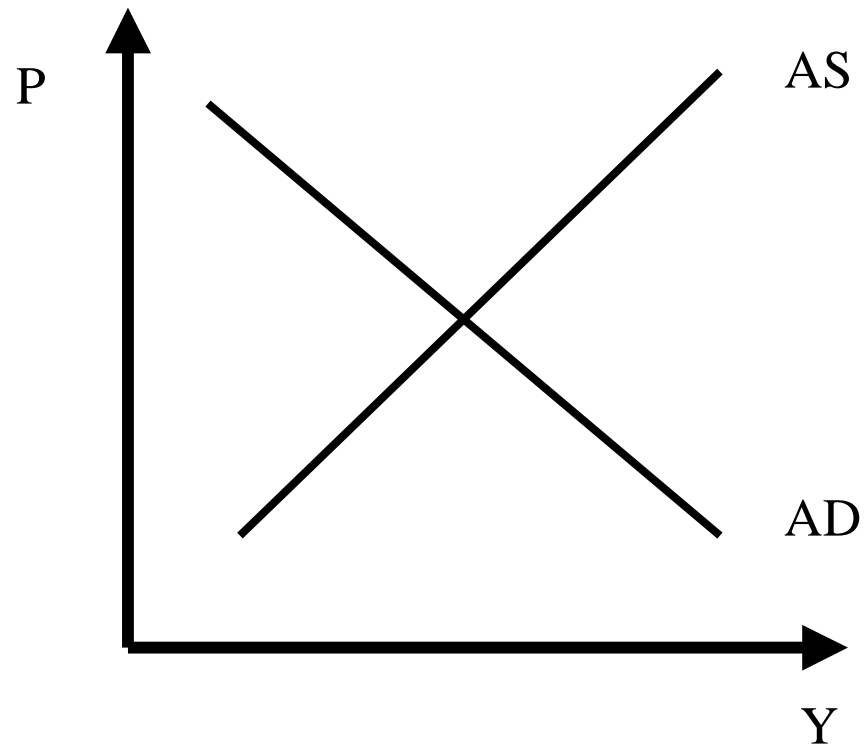
AD: $Y = Y(M/P, G, T)$
+ + -



Aggregate Demand - Aggregate Supply



AD-AS: Canonical Shocks



Monetary expansion; fiscal expansion; oil shock (fig 16-9)

The Phillips Curve

* The price level vs The inflation rate

$$P(t) = P^e(t) (1 + \mu) F(u(t), z)$$

\approx

$$\pi(t) = \pi^e(t) + (\mu + z) - \alpha u(t)$$

* original Phillips curve; Figures: 17-2, 17-3, 17-4, 17-5