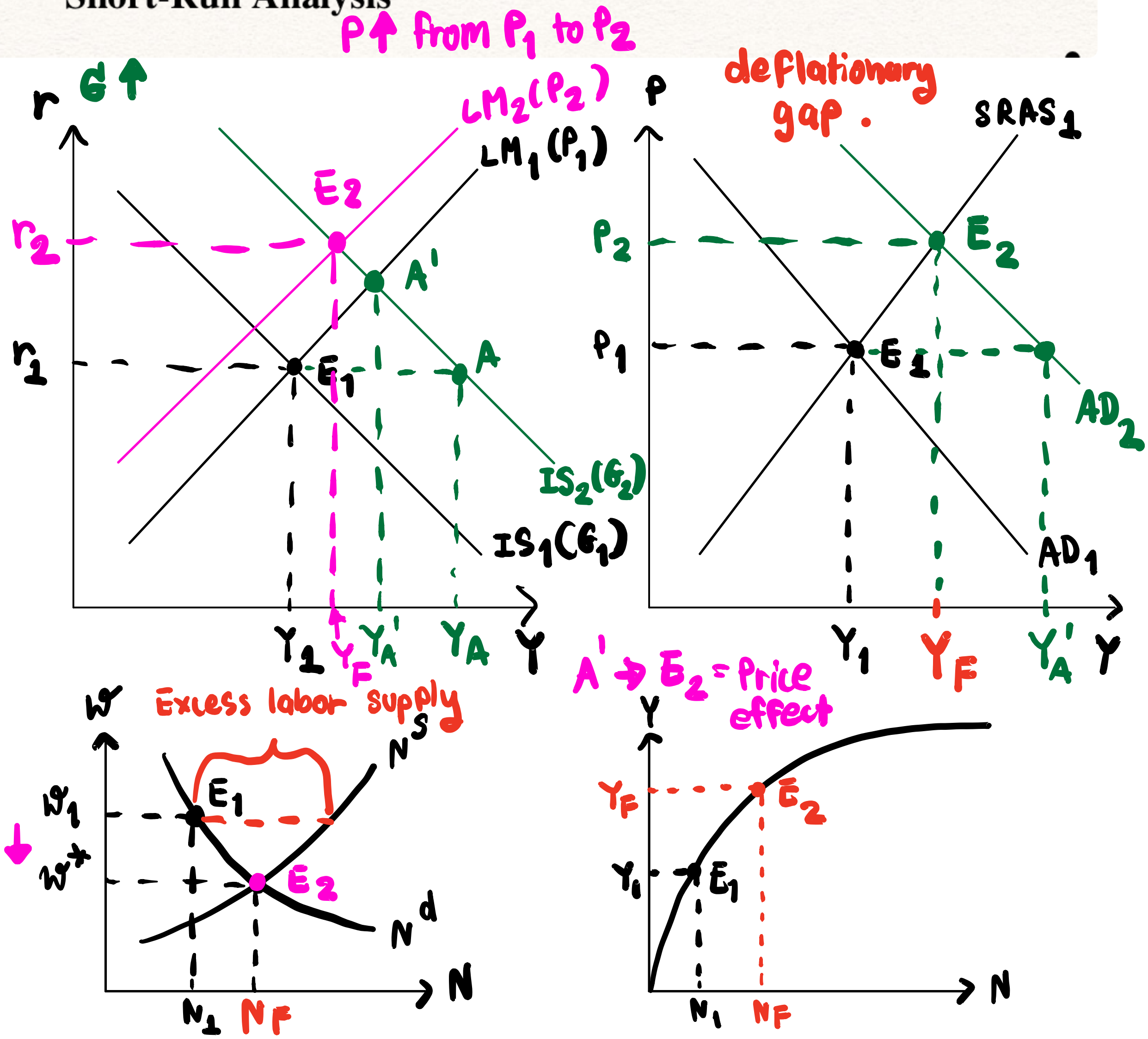
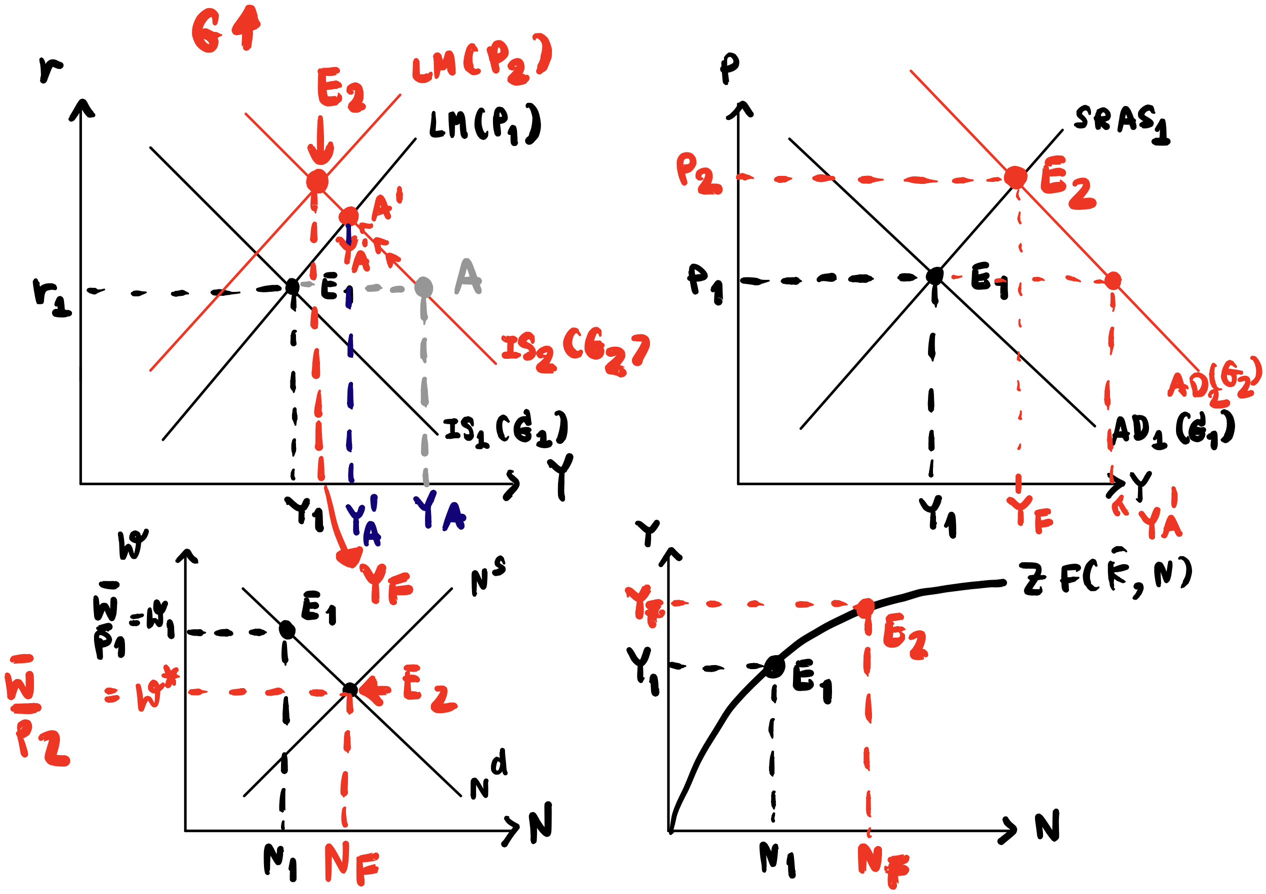
6.2 Expansionary Fiscal Policy : ISLM & ADAS model

Short-Run Analysis

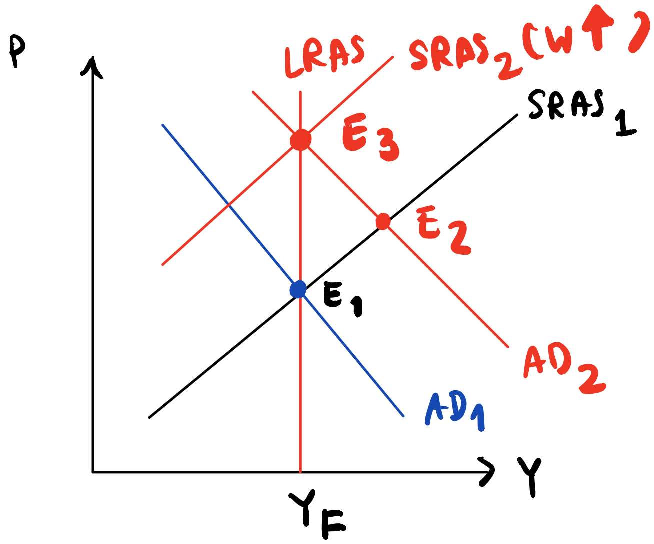


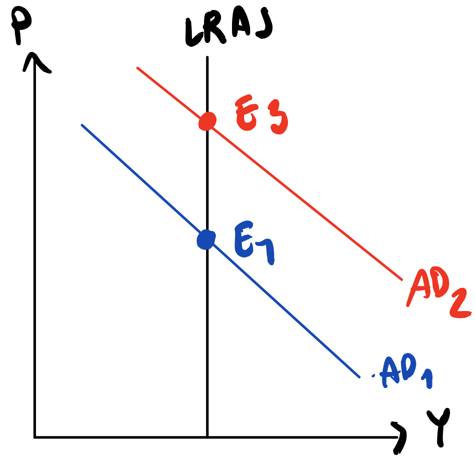
P↑ from P_1 to P_2

$w_1 = \dfrac{\bar{W}}{P_1}$, $w^* = \dfrac{\bar{W}}{P_2}$



G ↑
r
E2
LM(P2)
LM(P1)
A'
YA'
r1
E1
A
IS2(G2)
IS1(G1)
Y
Y1
YA'
YA
YF
P
SRAS1
P2
E2
P1
E1
AD2(G2)
AD1(G1)
Y
Y1
YF
YA
W
W̄/P̄1 = W1
E1
NS
W̄/P2 = W*
E2
Nd
N
N1
NF
Y
Z F(K̄, N)
YF
E2
Y1
E1
N
N1
NF


P
LRAS
SRAS2 (W↑)
SRAS1
E3
E2
E1
AD2
AD1
Y
YF


P
LRAS
E3
E1
AD2
AD1
Y