(AD Shocks) → "Banking Panic" Financial shocks / "turbulence" — negative shocks

"positive LM shocks" ↳ good — upturn Business Cycle.

"Example":
- Acceptance of (credit) card
- improvement in Payment technology.

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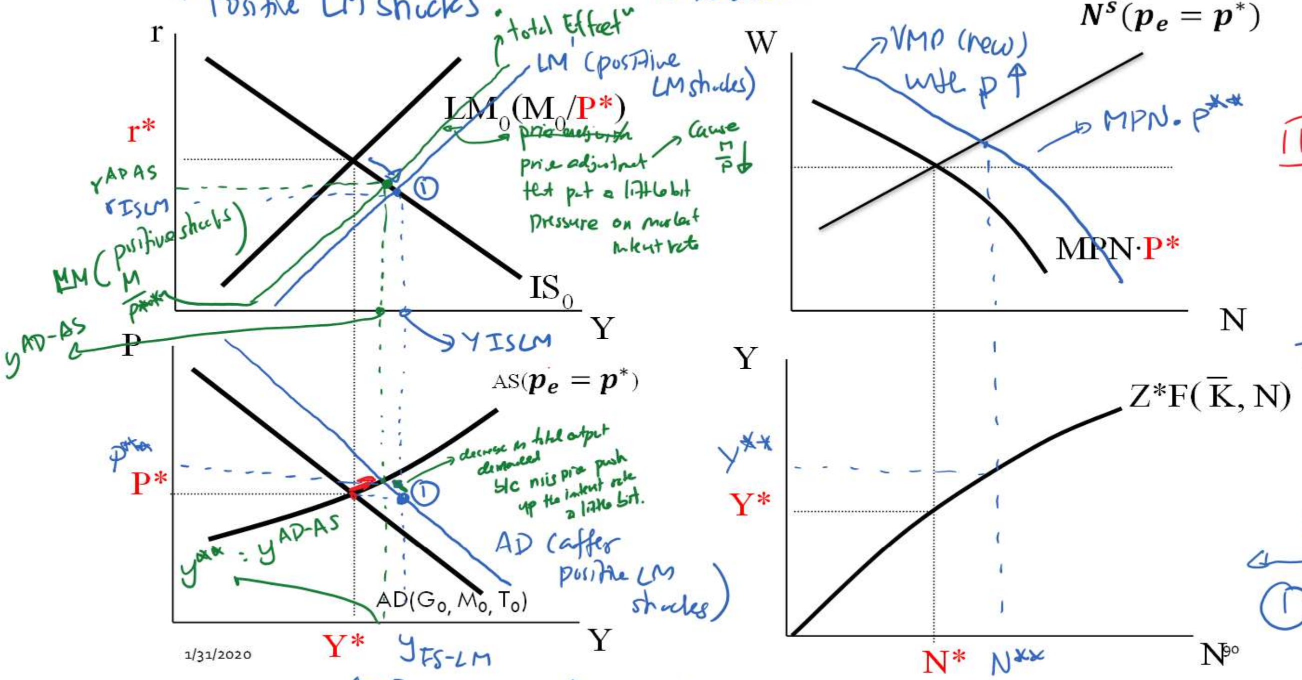
Positive LM shocks.




↔ "change in AD" due to the direct impact of Interest rate Effect.

(1) "Price↑" incentive to producers to expand the production

"VMP"↑ ⇒ firms hire more ppl

(2) Price↑ ⇒ $\frac{M}{P}$↓ $\left(\frac{M}{P^*} > \frac{M}{P^{**}}\right)$ "real liquidity to drop"

$P^* \to P^{**}$

↳ "r" will have upward pressure

r will slightly increase → partially causes a drop in C, I ⇒ Causing a partial drop in quantity demanded.

(1) Change ppl Behavior on money holding! ⇒ less Money holding ⇒ "A decrease in the interest rate" "r"

Transmission. LM shocks ⇒ r↓

⇒ Cost of Borrowing ↓ ⇒ C, I ↑

⇒ AE↑ ⇒ Y↑ (fixed Price)

(Interest rate effect)

(1) would have been Eq'm if price fixed!

Since Price can be adjusted

at P* ⇒ AD > AS (Excess Demand)

"Price Effect" P* is too low ⇒ upward increase in Price (P↑)