

Chapter 13

Objectives

- Explain the two key assumptions of the basic Keynesian model
- Define menu costs and discuss how they affect the decision to change prices
- Identify the contributions of John Maynard Keynes to economics
- Define planned aggregate expenditures
- Identify the components of planned aggregate expenditures
- Explain why planned spending may differ from actual spending
- Define autonomous and induced aggregate demand
- Define the consumption function and MPC
- Identify and define short-run equilibrium output
- Numerically and graphically show how a decline in spending can cause a recessionary gap
- Define the income-expenditure multiplier
- Calculate the multiplier in the basic Keynesian model
- Define stabilization policy and automatic stabilizers
- Discuss the use of fiscal policy to stabilize aggregate demand
- Calculate the effects of government purchases, transfer payments and taxes on short-run equilibrium output
- Discuss the three qualifications to the use of fiscal policy as a stabilization tool