Fig. 4

Interest Rate Response to Increase in Money Growth Rate
According to Classical Theory

$Y = T$

$\Delta t$

Money Growth Rate

Inflation Rate

Normal Interest Rate

Output (Constant)

Real Interest Rate

Time
Figure 2
Interest Rate Response to Increase in Money Growth Rate
According to the Data

Money Growth

Inflation

Nominal Interest

Real Interest

Output

Time

Time

Time
Figure 5

Neo-Keynesian Theory with Fixed Nominal Wages

\[ Y = \alpha \cdot g(K, N) \]

\[ M \uparrow \rightarrow P \uparrow \rightarrow \frac{w}{P} \downarrow \]

\[ \Rightarrow \text{ND} \rightarrow Y \uparrow \]
Figure 8. Effect of the IS curve of an increase in G

Figure 9. The shift in the IS curve
Figure A: Effect on the IS curve of an increase in T.

Figure B: The shift in the IS curve.
Figure 12. Equilibrium in the Money Market and the LM Curve

\[ \frac{M}{P} = L(y, y') \]

Figure 13. The Slope of the LM Curve

\[ \frac{L = M/P}{L > M/P} \]

\[ L < M/P \]
FIGURE 14. SHIFTS OF THE LM CURVE CAUSED BY AN INCREASE IN H.
Figure 15. IS-LM Equilibrium

\[ Y^d > Y^s (I > S) \]

\[ \frac{M}{P} > L \]

\[ \frac{M}{P} < L \]

\[ Y^s > Y^d (S > I) \]
Figure 16. Effects of Monetary Policy

Figure 17. Long-Run (Classical) Effects of an Increase in M
FIGURE 18. EFFECTS OF FISCAL POLICY (INCREASE IN G)

\[ G'' > G' \]

FIGURE 19. LONG-RUN (CLASSICAL) EFFECTS OF AN INCREASE IN G.
Figure 2.0
Output Growth and Money Growth

Real Balances

Short Term Interest Rates
Figure 22. Self-Fulfilling Process caused by Animal Spirits

Animal spirits lead to an exogenous fall in the autonomous components of aggregate demand \((c_0, i_0)\)

\[
C = c_0 + b(y - T) - a \tau \\
I = i_0 - d \tau
\]