Main goal: Study short-run movements in output

- You need to remember concepts and definitions from your principles course. Be sure to be precise in your definitions/concepts. See below a short list of definitions/concepts that you need know for this chapter
  a) Graphical solution of the Keynesian-cross diagram;
  b) “Fundamental idea”;
  c) Expenditure function. What is the MPC? Autonomous consumption?
  d) What is (define) C? What is I? What is \((X – IM)\)? What is \(T\)?
  e) Equilibrium RGDP
  f) The multiplier Story

What do we mean by “short-run”? What is the IS-LM model? We can use the IS-LM model to analyze the movements of two important macroeconomic variables (RGDP and interest rate). In which market are these variables determined?

What does the Keynesian-cross model tell us? What we get from it?

There is a fundamental idea behind this model? what is it? It tells us the causes of movements in RGDP (RGDP will follow wherever expenditure goes). What is the logic behind this? Why do we call this the fundamental idea (think about recessions)? Is it possible that all firms produce, for example, $6 billion of output in January, 2003, but expenditure is $8 billion in that month? Explain.

Suppose that \(C\) is given by:
\[
C = C_0 + C_1(Y - T)
\]

What is \(C_0\)? What is \(C_1\)? How can we interpret \(C_1\) (think about changes in income)? What is \(T\)? Can the MPC be bigger than 1? Explain?

What are the factors that determine the level of autonomous consumption?