Economics 212
Principles of Macroeconomics
Some Business Cycle Graphs

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Here is a subset of the possible business cycle graphs. I may ask for the reverse of the cases below, or use other counter cyclical policies. Any policy can overshoot. Your best bet is to practice all conceivable cases until it becomes natural.

I   Application: Fiscal Policy

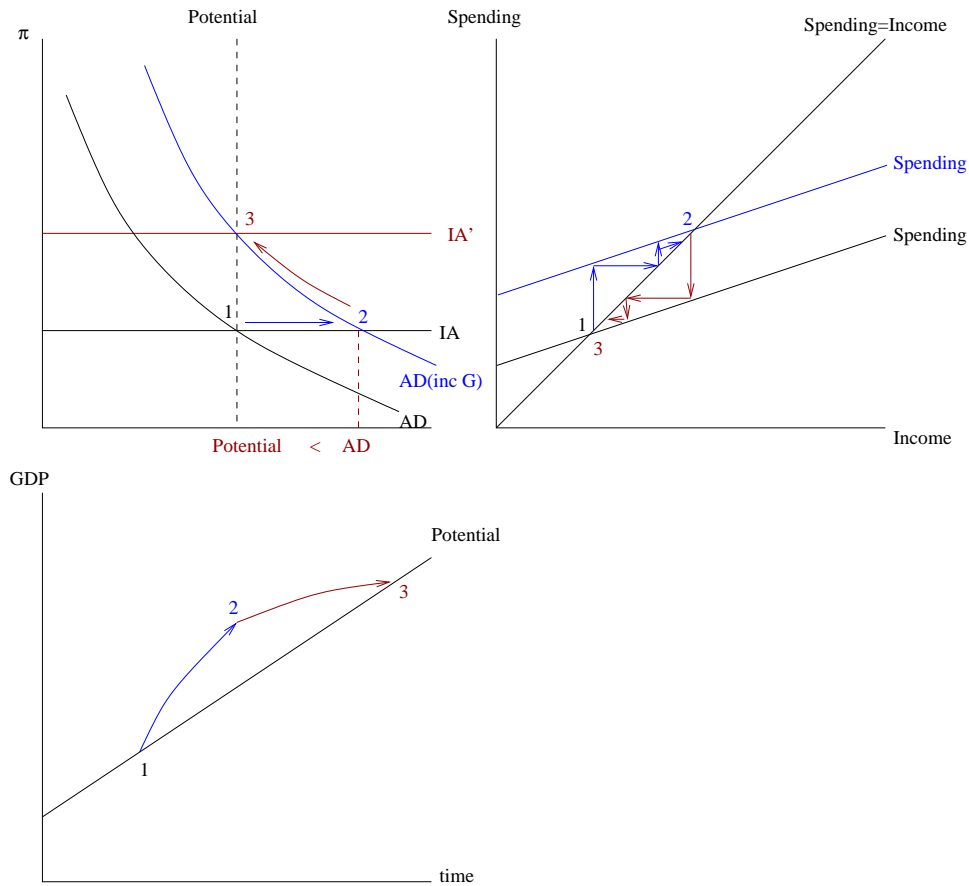## A   Increase in Government Spending, financed by borrowing

Figure 1: Increase in government spending, financed by borrowing.

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↑	↑	-	↑	-	-	-	↑	↓
LR	-	-	↓	↑	↓	↓	↑	-	-

Table 1: An increase in government spending, financed by borrowing

1

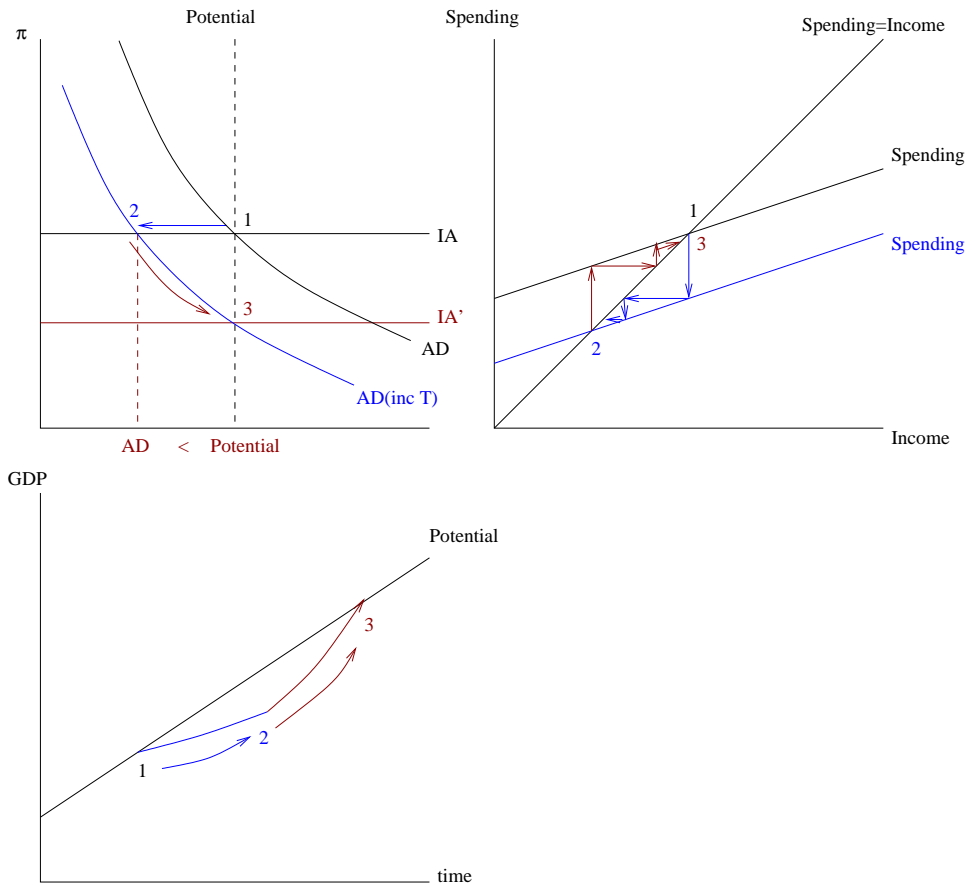# B   Permanent increase in income taxes, financed by less borrowing

Figure 2: Permanent increase in income taxes, financed by less borrowing.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↓	↓	-	-	-	-	-	↓	↑
LR	-	↓	↑	-	↑	↑	↓	-	-

Table 2: Permanent increase in income taxes, financed by less borrowing.

2

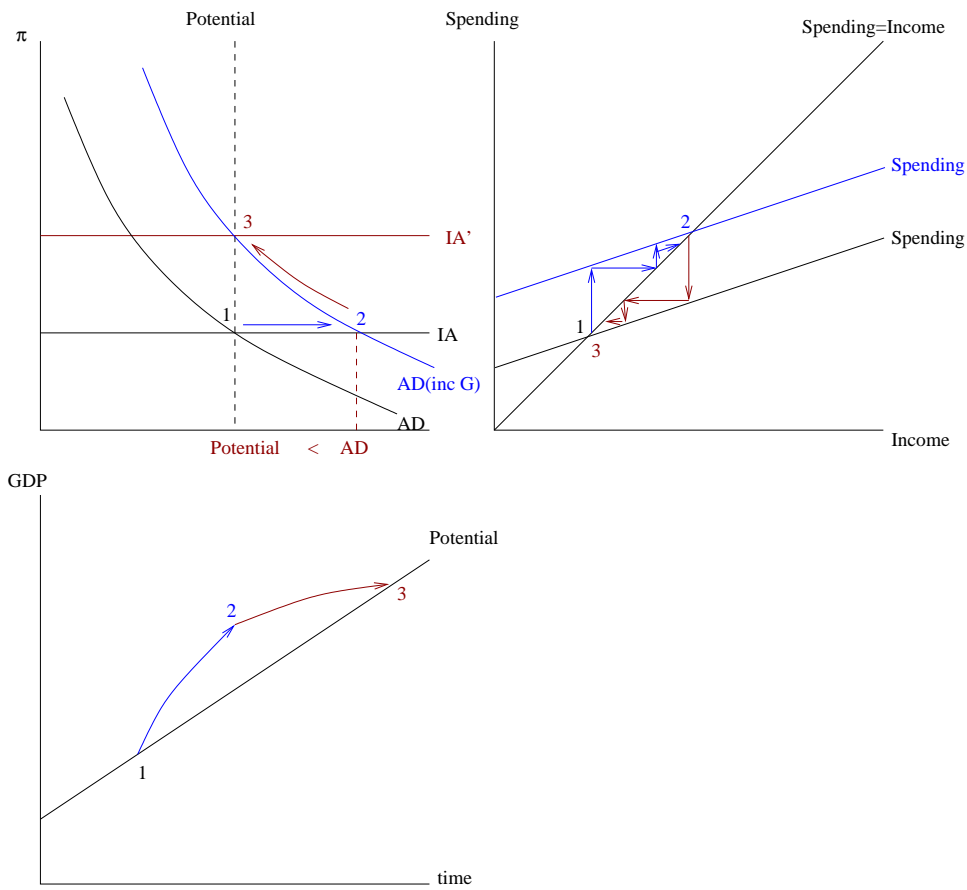# C Increase in Goverment Spending, financed by an increase in taxes

Figure 3: Increase in government spending, financed by higher taxes.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↑	-	-	↑	-	-	-	↑	↓
LR	-	↓	↓	↑	↓	↓	↑	-	-

Table 3: An increase in government spending, financed by borrowing

3

II   Application: Monetary Policy

A   Increase Inflation Target
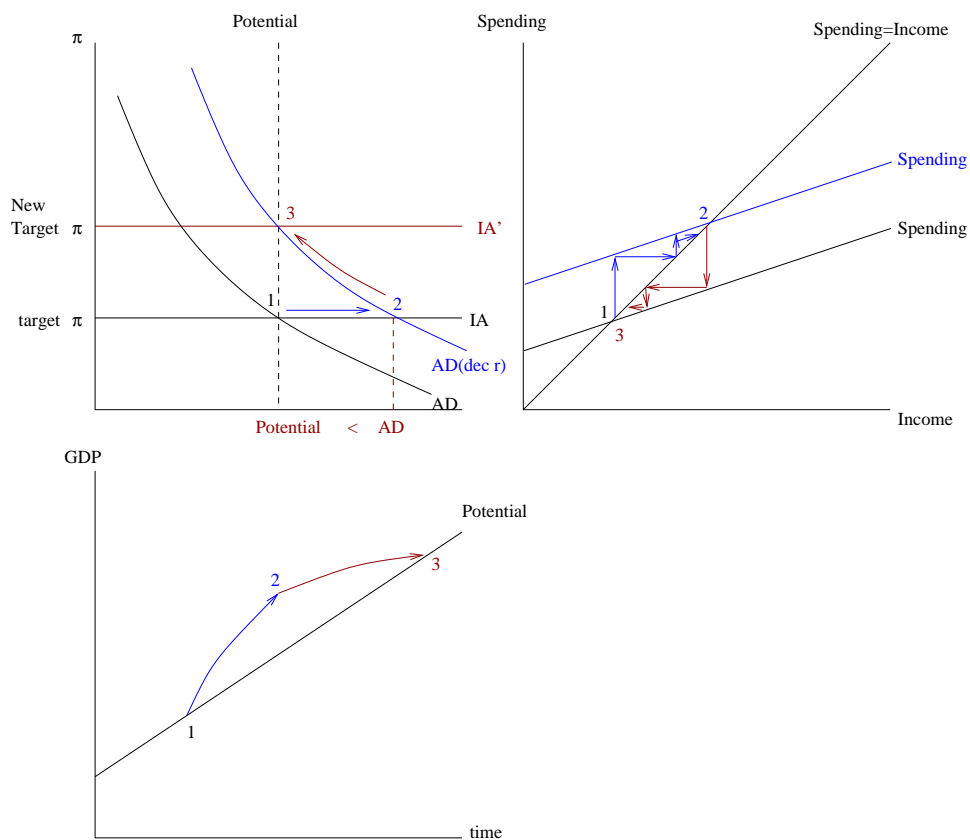

Figure 4: Increase in the FED's inflation target.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↑	↑	↑	-	↑	↓	-	↑	↓
LR	-	-	-	-	-	-	↑	-	-

Table 4: An increase in the inflation target.

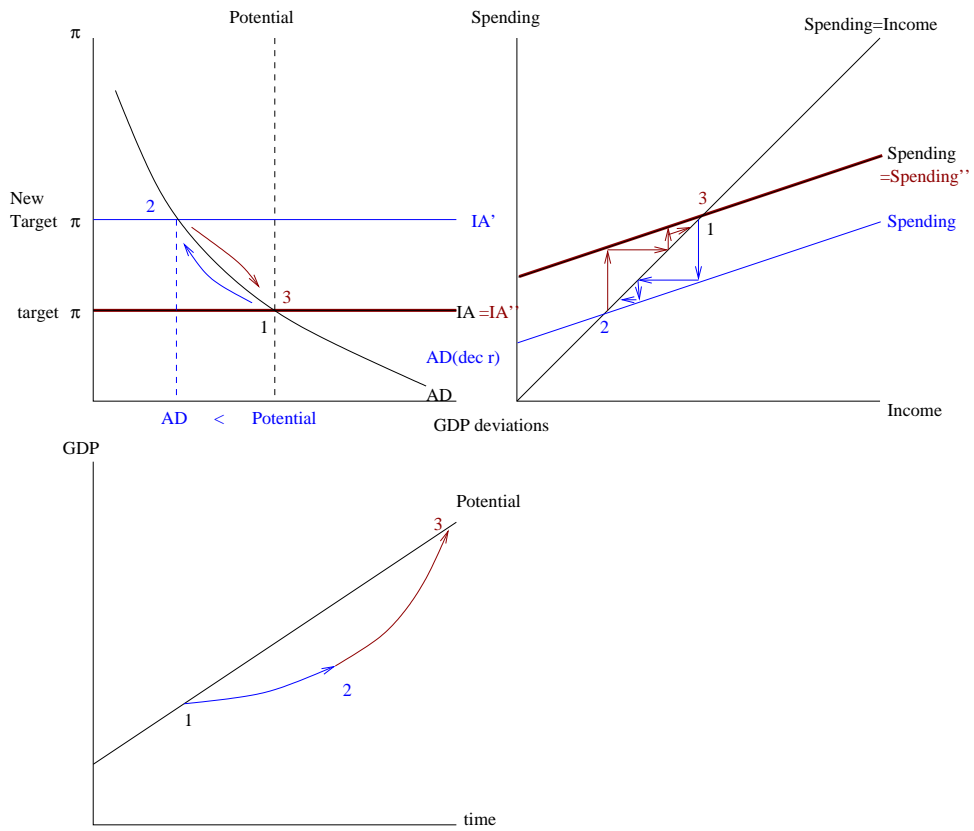# III   Application: Price Shock

A   Positive Price Shock

Figure 5: An oil price shock.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↓	↓	↓	-	↓	↑	↑	↓	↑
LR	-	-	-	-	-	-	-	-	-

Table 5: A price shock.

IV   Application: Counter-Cyclical Policy
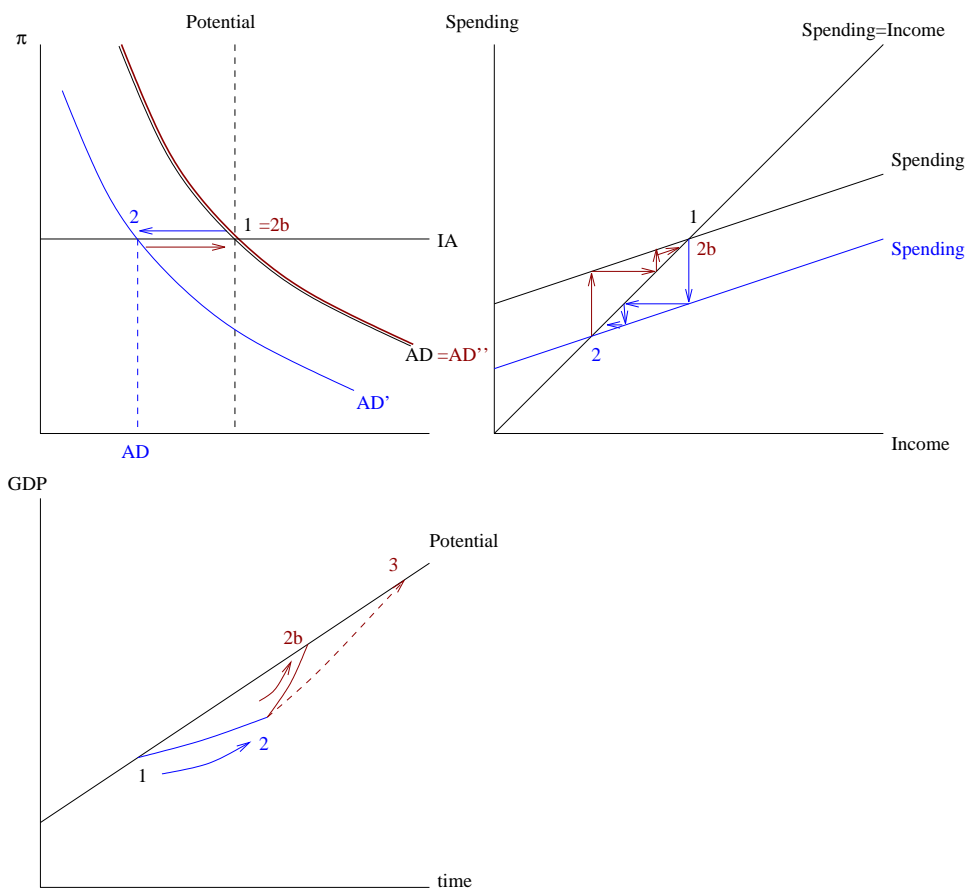
A   Counter-Cyclical Monetary Policy

Figure 6: Counter Cyclical Monetary Policy.

	Y	C	I	G	$X-M$	r	π	cap	u
SR	↓	↓	↓	-	-	-	-	↓	↑
SR'	-	↑	↓	-	↑	↓	-	-	-

Table 6: Counter Cyclical Monetary Policy.

B Counter Cyclical Fiscal Policy
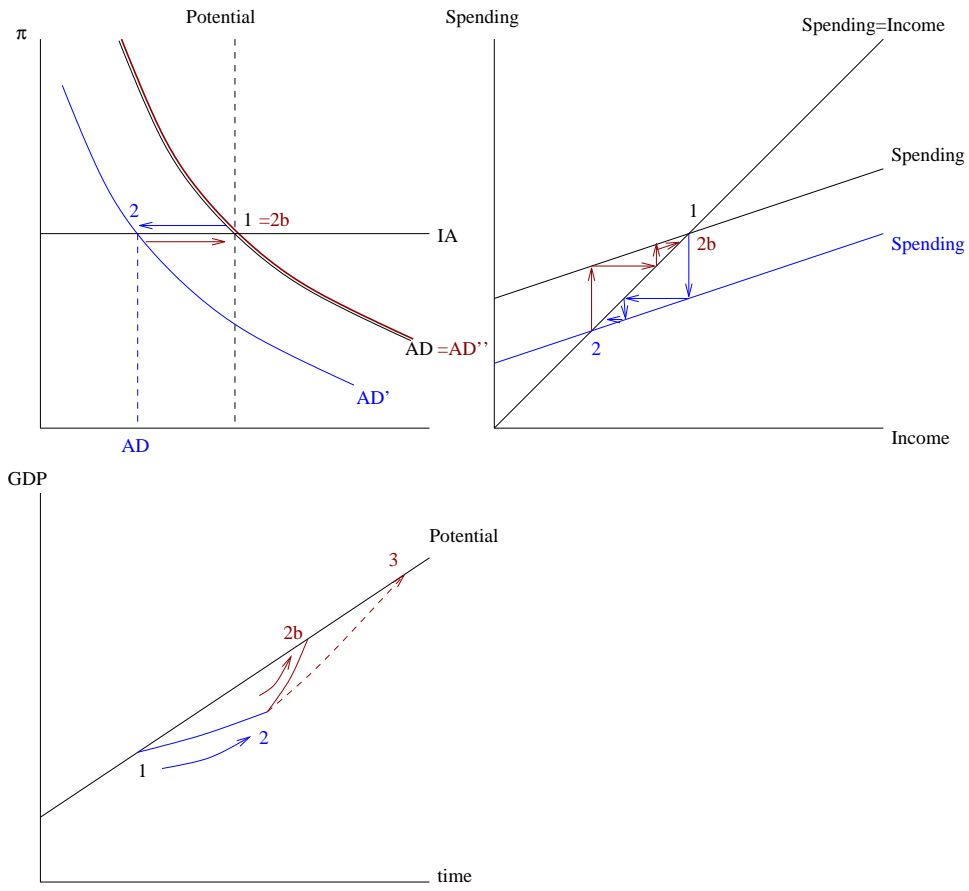
Figure 7: Counter Cyclical Fiscal Policy.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↓	↓	↓	-	-	-	-	↓	↑
SR'	-	-	↓	↑	-	-	-	-	-

Table 7: Counter Cyclical Fiscal Policy.

7

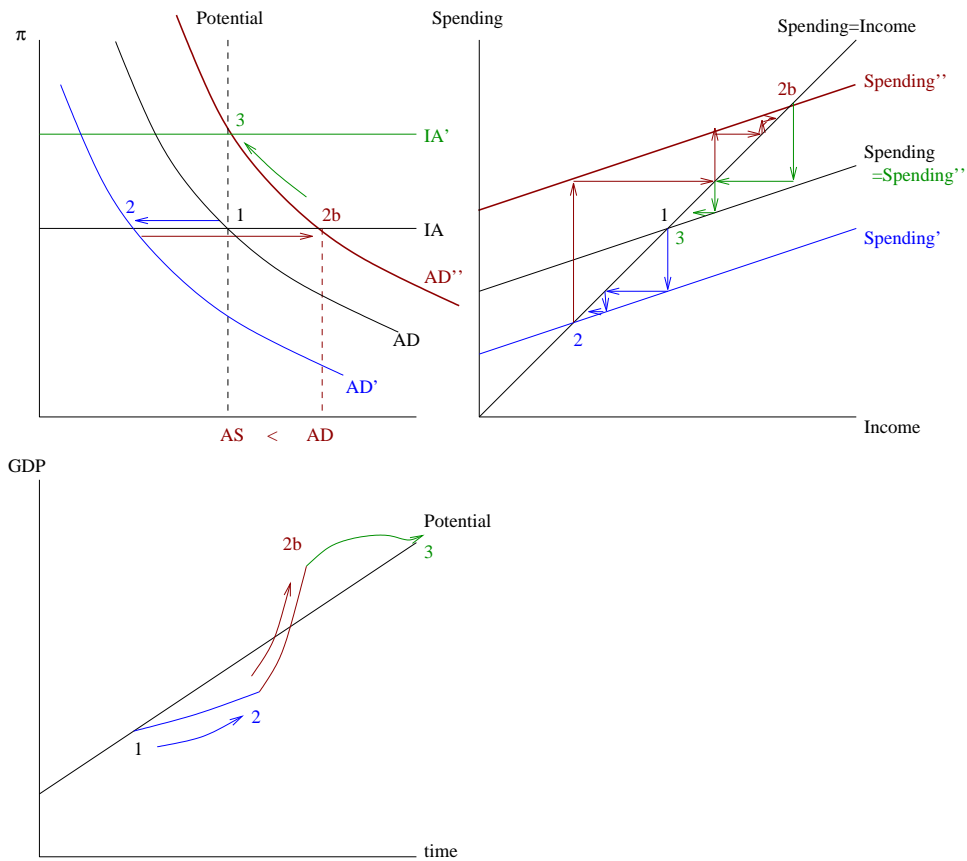## C Overshooting in a Counter Cyclical Fiscal Policy (government spending)

Figure 8: Counter Cyclical Fiscal Policy.

Overall,

	Y	C	I	G	$X - M$	r	π	cap	u
SR	↓	↓	↓	-	-	-	-	↓	↑
SR'	↑	↑	↓	↑	-	-	-	↑	↓
LR	-	↓	↓	↑	↓	↑	↑	-	-

Table 8: Counter Cyclical Fiscal Policy which overshoots the Long Run Equilibrium.