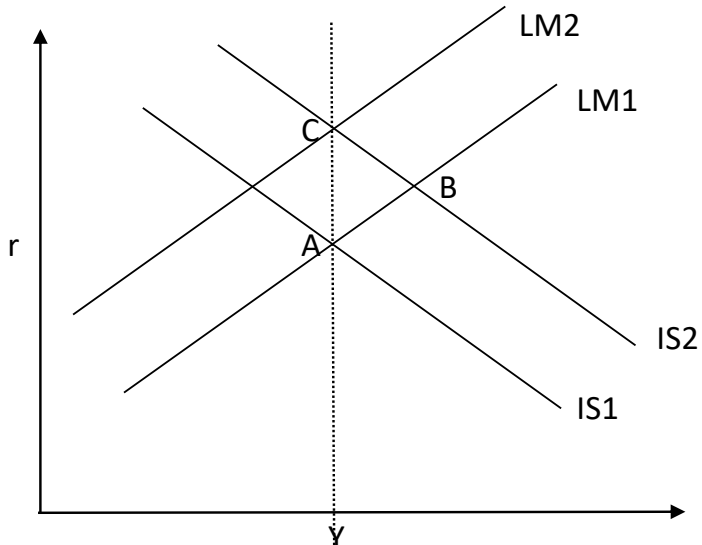


THE SHORT-RUN AND LONG-RUN EFFECTS OF AN INCREASE IN THE GOVERNMENT EXPENSES



*In the short-run, we observe increases in both r and Y .

*In the long-run, only r increases. The increase in G leads to an equal decrease in investment (I) and Y returns to its previous level.

