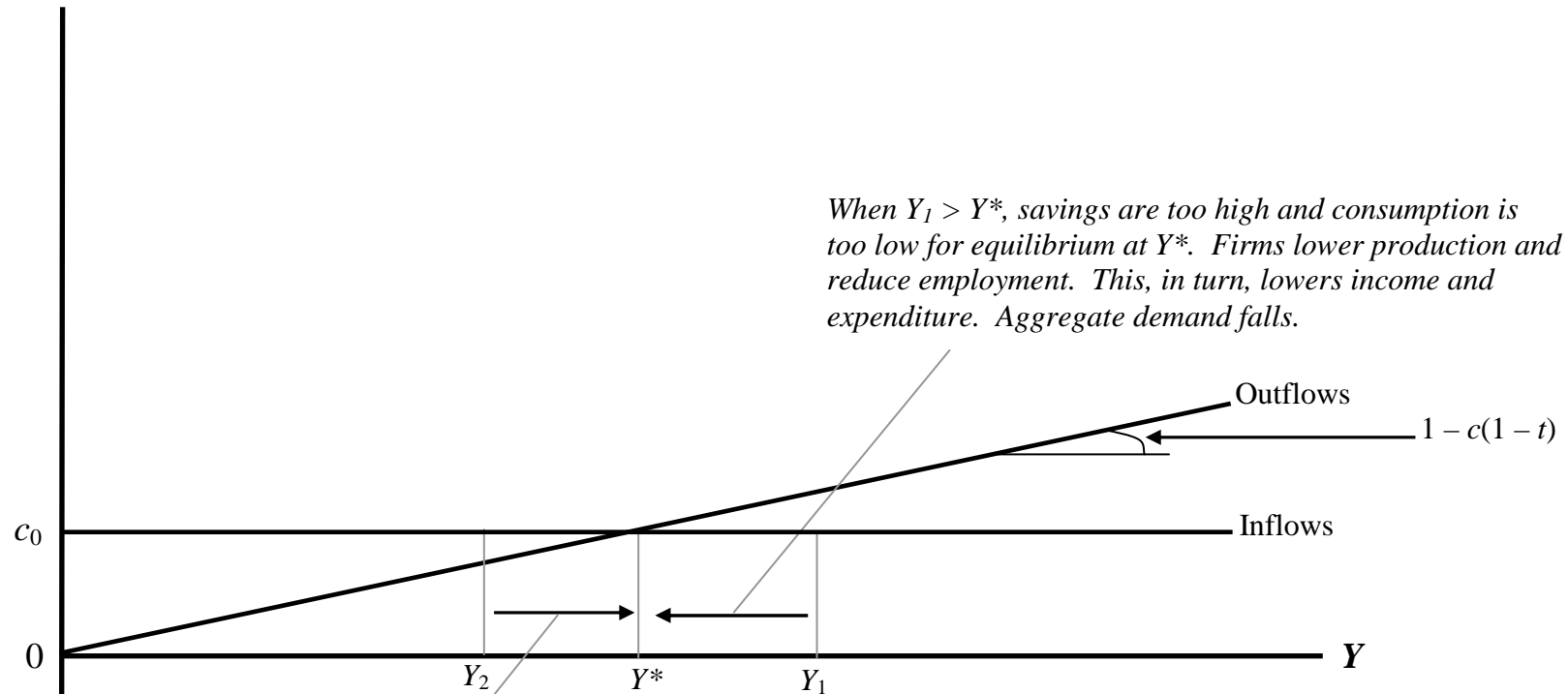


Figure 13.6
The Determination of Aggregate Demand

Inflows and Outflows



When $Y_1 > Y^$, savings are too high and consumption is too low for equilibrium at Y^* . Firms lower production and reduce employment. This, in turn, lowers income and expenditure. Aggregate demand falls.*

When $Y_2 < Y^$, savings are too low and consumption is too high for equilibrium at Y^* . Firms raise production and expand employment. This, in turn, raises income and expenditure. Aggregate demand rises.*