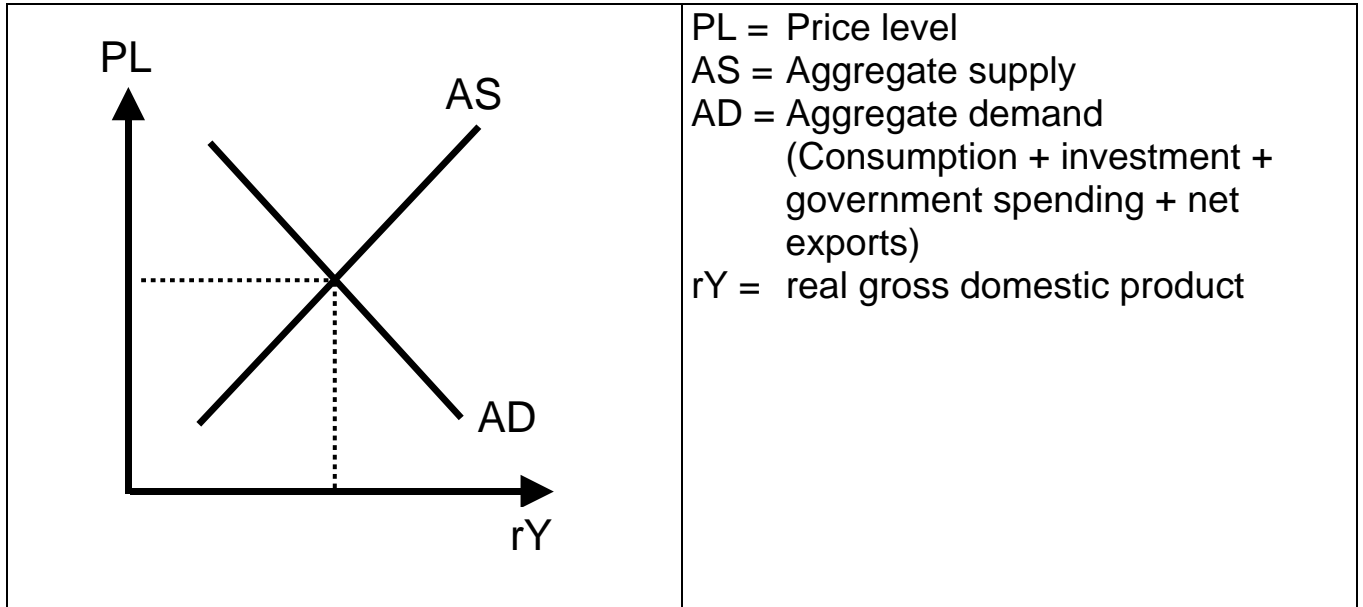


Price level and employment

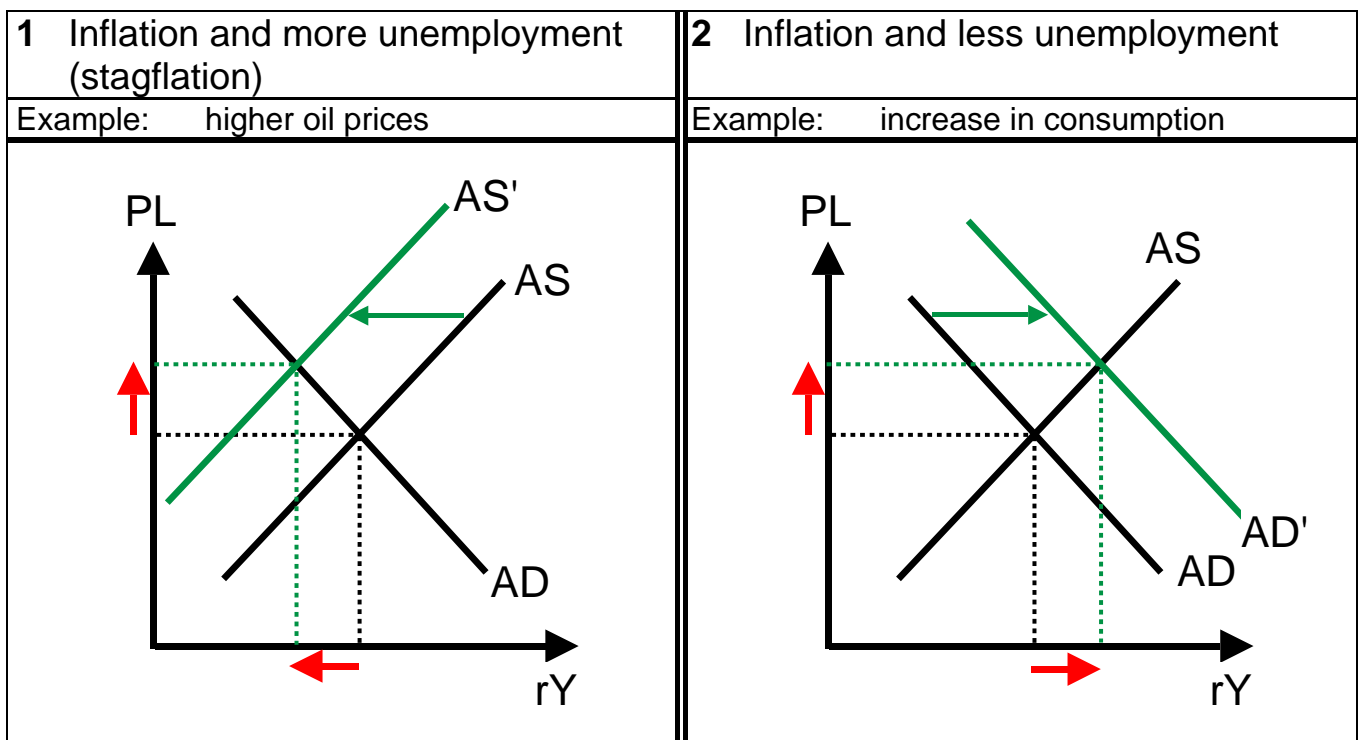
Initial equilibrium:



Interpretations:

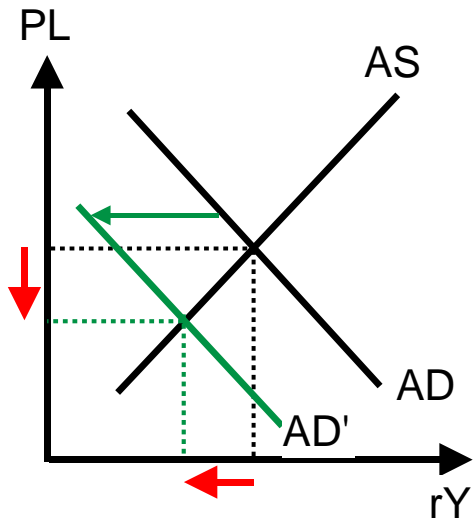
Higher PL → Inflation
 Higher rY → less unemployment

Lower PL → Deflation
 Lower rY → more unemployment



3 Deflation and more unemployment

Example: higher income taxes → lower disposable income → decrease in consumption



4 Deflation and less unemployment

Example: higher productivity in production

