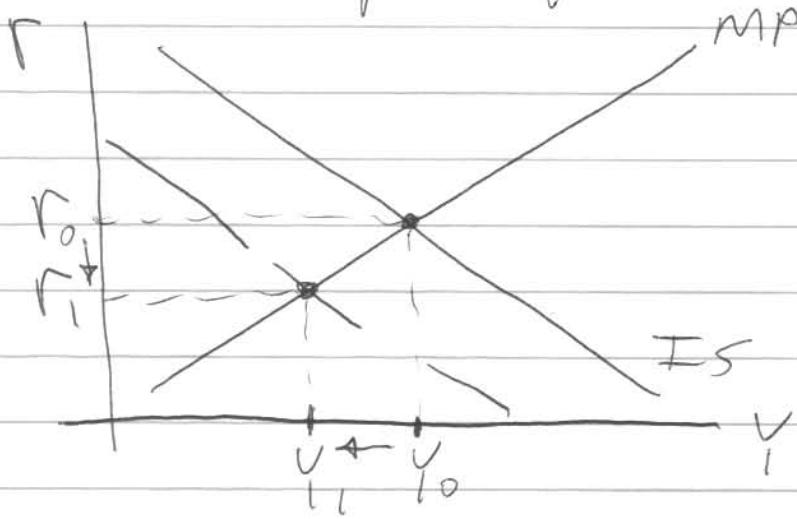


Hw: Animal Spirits and recessions

a  $\downarrow Y^e$  causes a  $\downarrow C^d$ .

a  $\downarrow MPK^e$  causes a  $\downarrow I^d$ .

Both of these things shift IS LEFT.



The result is that  $r$  and  $Y$  both fall.

The drop in  $Y$  supports the Keynesian view that expectations that the future will be worse leads to less spending on  $C$  and  $I$  today, and so the economy has a recession today as a result.