HW: Animal spirits and recessions

a) \( y^c \) causes a + C_d.

b) \( MPK^c \) causes a + T_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.