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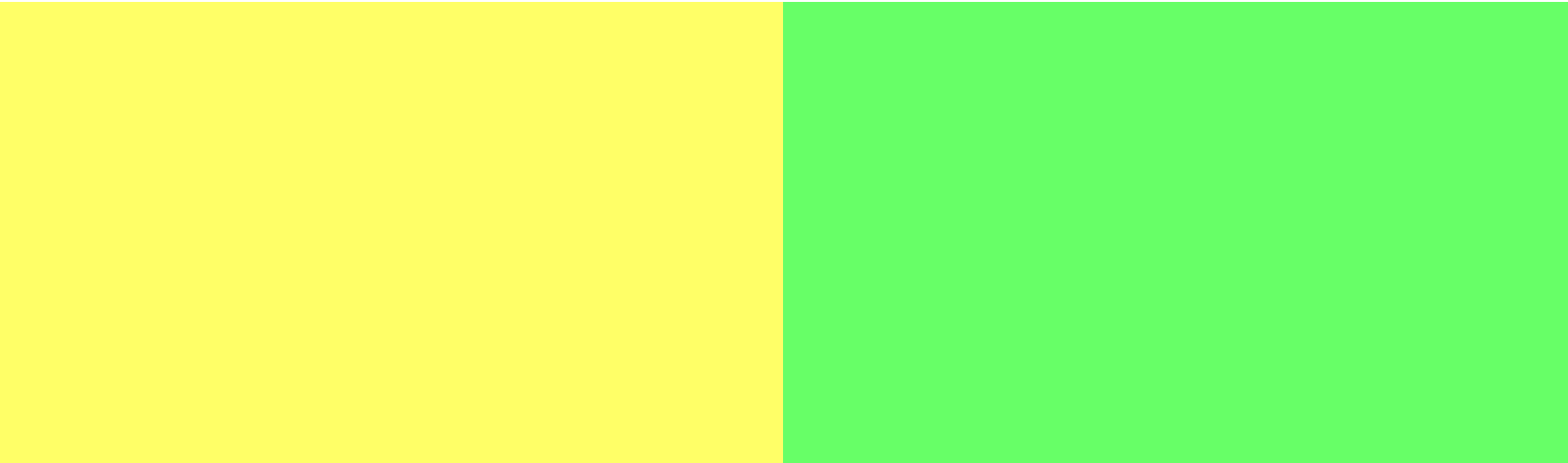
Spending

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•

• •

Output

• •



Inflation

Zone

Unemployment

Zone

**Healthy
Economy**

Zone

Spending < Output

Inventories rise

Firms lay off workers

Output falls

Spending > Output

Inventories fall

Firms hire workers

Output rises

1

The government increases defense spending in order to fight terrorism.

2

Businesses begin to worry about future sales and reduce expenditures on factories and machines.

3

Congress passes a large tax cut.

4

After Europe slides into a recession, European consumers don't buy as many of our exports.

5

Congress passes an investment tax credit.

6

Consumers feel more confident about the economy and step up their purchases of goods and services.

7

Congress raises income taxes.

8

In order to reduce the budget deficit, Congress cuts spending.

9

Interest rates rise, so businesses cut back on investment.

10

Consumers worry that a recession is on the horizon, so they begin saving more.

11

Interest rates fall, and firms respond by increasing investment spending.

12

Japan's economy booms and Japanese consumers begin buying more consumption goods, including products made in America.

13

The government increases the payroll tax rate in order to finance social security.

14

The United States goes to war.

15

The stock market crashes, and people lose a lot of wealth.

16

Thanks to low interest rates, people are able to refinance their mortgages and get cash out of their homes. Many people use the cash for home improvements.

17

Congress passes a prescription drug benefit, allowing Medicare patients to purchase drugs at lower cost.

18

The dollar falls, making foreign goods more expensive. American consumers respond by buying more American-made goods.

19

Higher interest rates make it harder for consumers to afford car payments.

20

Europe implements a trade embargo on American products.

21

The President declares a war on crime and boosts federal spending on law enforcement.

22

The capital gains tax is cut.

23

The dollar rises, making foreign goods less expensive.

24

Social security benefits are eliminated for high income Americans.