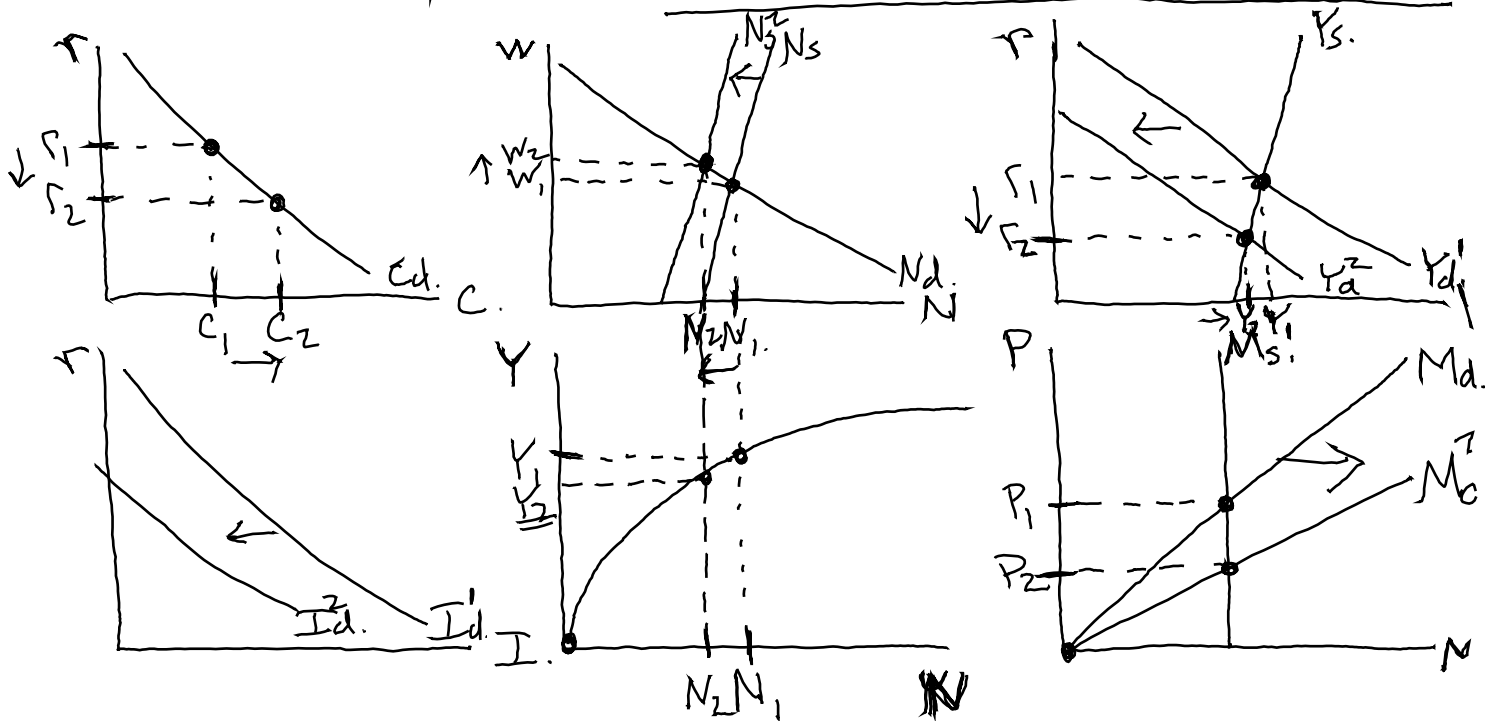


General Equilibrium Effects of a Targeted Governmental Policy.

Suppose the Federal government currently provides low cost loans & grants to businesses to expand their facilities, but the government decides to discontinue these programs.

Immediate effect: Decrease in Investment Demand.



↓ interest rate \Rightarrow Movement along $C_d \Rightarrow \uparrow$ consumption.
 ↓ interest rate \Rightarrow ↓ future purchasing value of wages.

\Rightarrow Leftward shift in N_s (small).
 \Rightarrow small $\uparrow w$, small $\downarrow N$.

↓ interest rate \Rightarrow Right M_d .
 \Rightarrow ↓ Price level.