An expansion of American government purchases would shift the IS curve to the right and the MRPF curve to the left. This means more real GDP at each value of the interest rate, and a decrease in the unemployment rate for every level of inflation. i.e. An expansion of the american economy. A increase in governement expenditure also means growth of the money supply; assuming that the governement is paying in cash. This could cause inflation. If the inflation was more than the target inflation rate of the federal reserve, they could respond by raising interest rates. This rise in the interest rate could then cause a rise in the dollars exchange rate. Via a fall in net exports while financial capital flows into the States, assuming that the mobility of capital is high. Canada's exchange rates, in this scenario, is on par with the U.S. Dollar. Thus, the rise in American interest rates would force Canada to increase their interest rates. In the equation : r = rf + (e0 – e *)/(Er), rf has increased. domestic r would rise in response. This increase in the interest rate could spark a recessionary spiral in Canada, where investment expenditure declines. People are less willing to borrow while interest rates are high. A reduction in borrowing will cause a contraction of Canada's economy.

If Canada still chose to keep their currency on par with the U.S. Dollar they could hope to see the effects of their monetary system diminish. In this case, staying on par with the US dollar means loosing control over interest rates; a valuable macro-economic tool. Another economic tool at the disposal of the Canadian government is fiscal policy. Hoping to stop a recession the Canadian government would start spending money. This increase in Canadian fiscal intervention would cause a greater government deficit. This is one way that American deficit expenditures could generate an increase in Canadian deficit expenditures.