Classical and Keynesian Macro Analysis

What does the example about the price of Coke illustrate about prices?

Who is the first economist to write about the "incomplete adjustment" of prices?

What did all of the classical economists assume about wages and prices throughout the economy?

According to Say's law, if the economy produces 15 trillion in real GDP how much a national income will it produce to purchase these products?

Say's law is that "Supply creates its own ___________________ . "

Why does Say believe that there is no possibility of a glut or overproduction in a market economy?

If an oversupply of goods occurred in a particular market, what would happen to prices? How would this solve the problem of a glut?

List the four assumptions of the classical economists:

1.

2.

3.

4.

What role did the classical economists see for government?

In what way can **savings** be seen as a leakage in the market economy?

What did the classical economists believe happened to savings?

How would increased savings affect the interest rate?

How is unemployment eliminated in the classical model?

Why in the classical model is the LRAS also the natural rate of unemployment in the classical model?

What impact does the increasing aggregate demand have on the price level and the Real GDP in the classical model?

Why does your book say the classical model has real GDP as completely supply determined?

What was happening in the 1930's that led Keynes to believe that the classical model did not adequately explain the economic realities of the time?

Why did Keynes believe that prices were "sticky?"

Looking at figure 11-7, what is the shape of the Keynesian Short Run Aggregate Supply Curve?

What impact do increases in Aggregate Demand have on the price level and RGDP in the Keynesian model?

Why do Keynesians believe that there can be unemployment that lasts over the long term?

According to the graph 11-8, what happens to price levels during the period of 1934-1940 as real GDP grew?

What is the shape of the short run aggregate supply curve in the Modern Keynesian analysis?

What are the three reasons that the modern Keynesian analysis sees partial increases in price levels in the short run?

1.

2.

3.

What might shift both the long run and short run aggregate supply curves?

What may cause a shift in the SRAS, but not the LRAS?

List several factors that increase aggregate supply:

1.

2.

3.

List several factors that decrease aggregate supply"

1.

2.

3.

What occurs when the LRAS and SRAS are constant but Aggregate Demand falls?

What is a recessionary gap?

What happens when the LRAS and SRAS are constant, but Aggregate Demand rises?

What is an inflationary gap?

Explain the differences and **graph demand pull inflation** and **cost push inflation**.

How will a weaker dollar affect input prices for raw materials brought from other countries and aggregate supply?

How will a weaker dollar affect aggregate demand?

What impact will a weaker dollar have on price levels? Why?

A weaker dollar have an indeterminate effect on real GDP? Why? What would have to happen to have an increase in real GDP due to a weaker dollar?

How will a strong dollar affect aggregate demand?

What impact will a strong dollar have on price levels? Why?

Will a strong dollar increase or decrease aggregate demand? What does this depend upon?

Draw graphs for 11-13 on page 285 for each of the scenarios in a, b, and c.

a)

b)

c)