The purpose of this session is to review the Keynesian and New-Classical approach to macro-economic modelling.

1. Draw a Keynesian and New-Classical Aggregate Supply Curve.

Price
Level

Real GDP

Price
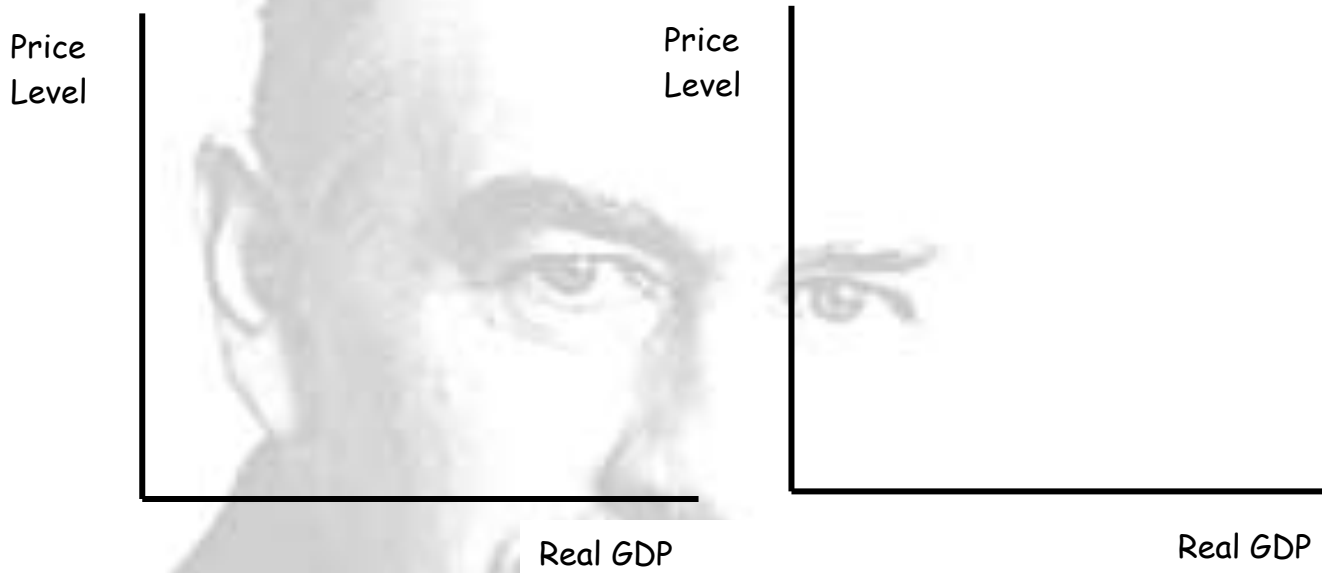Level

Real GDP

2. Explain the assumptions behind the two diagrams given in question 1.

Keynesian

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New-Classical

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3. Illustrate the impact of an increase in aggregate demand on the Keynesian AD/LRAS and the New-Classical AD/SRAS/LRAS.

Price Level

Real GDP

Price Level

Real GDP

4. Explain the impact of an increase in AD (due to an increase in government spending) according to Keynesian and New-Classical Economists.

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5. Explain how New-Classical and Keynesian Economist would advocate increasing national income/GDP.

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6. Using an aggregate labour market diagram illustrate the impact of a fall in aggregate demand according to both Keynesian and New-Classical Economists.
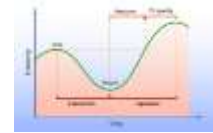
Real
Wages

No. of workers

Real
Wages

No. of workers

7. Explain the above situations.

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8. Illustrate the impact of a fall in aggregate demand on a Keynesian AD/AS and New-Classical AD/SRAS/LRAS diagram.

Price
Level

Price
Level

Real GDP

Real GDP

9. Explain the above situation.

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10. Illustrate and explain the impact of a contractionary monetary policy on Keynesian and New-Classical Aggregate Supply diagram when the economy is at full capacity and 'overheating'.

Price
Level

Real GDP

Price
Level

Real GDP

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11. Illustrate and explain the impact of an expansionary fiscal policy using Keynesian and New-Classical analysis.

Price
Level

Real GDP

Price
Level

Real GDP

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