Reconciling the Keynesian Aggregate Expenditure Model With the Aggregate Demand and Aggregate Supply Model

Now it is time to reconcile the Keynesian aggregate expenditure model with the aggregate demand and supply model. We find both differences and similarities when comparing the two models:

- The Keynesian model is a fixed, or constant, price model while the AD and AS model is a variable-price model. The vertical axis of the Keynesian model is *aggregate expenditure* while the vertical axis of the AD and AS model is *price level.*

- Aggregate expenditure (C + I + G + Net Exports) on the Keynesian model is aggregate demand on the AD and AS model. A shift upward in aggregate expenditure is the same as a shift outward in aggregate demand. A shift downward of aggregate expenditure is the same as a shift inward of aggregate demand.

- The AD and AS model can account for shifts in aggregate supply. The Keynesian model cannot do so.

- In the Keynesian model, a shift in aggregate expenditures results in the full multiplier effect, and the multiplier can easily be calculated from the graphs. In the AD and AS model, the multiplier is not at full strength on the positively sloped and vertical AS curves.

- In the AD and AS model, the increase in the price level diminishes the impact of the multiplier.

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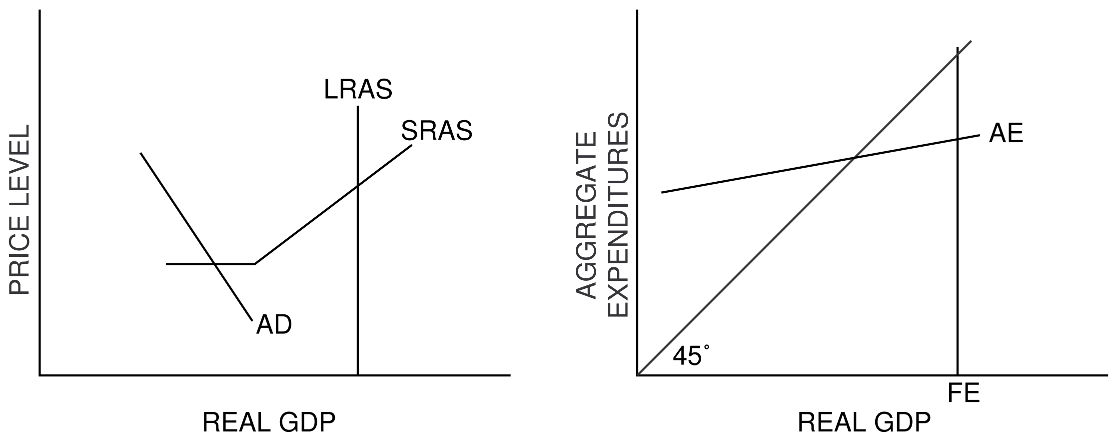
For each of the following situations, illustrate the indicated change on both the AD and AS model and the Keynesian model.

1. The economy is at less than *full* employment. An increase in consumer confidence moves the economy to *full* employment.

Figure 26.1
An Increase in Consumer Confidence

Less Than Full Employment Using the AD and AS Model | **Less Than Full Employment Using the Keynesian Model**



2. The economy is at full employment but businesses begin to believe that a recession is ahead.

Figure 26.2
Businesses Believe a Recession Is Coming

Full Employment Using the AD and AS Model | **Full Employment Using the Keynesian Model**