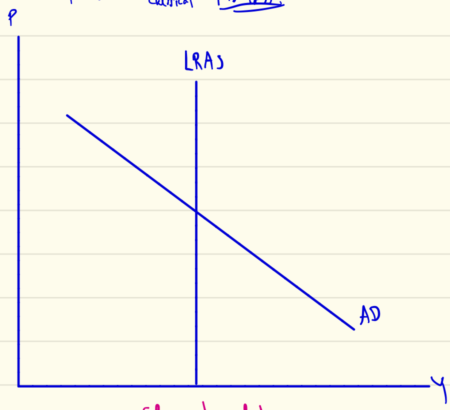
1.2) How does the Keynesian aggregate supply curve differ from the classical one? Is one of these specifications more appropriate than the other? Explain, being careful to state the time horizon to which your answer applies.

classical ดีใน long-run
short run → classical AD [illegible]

Keynesian model



Classical model

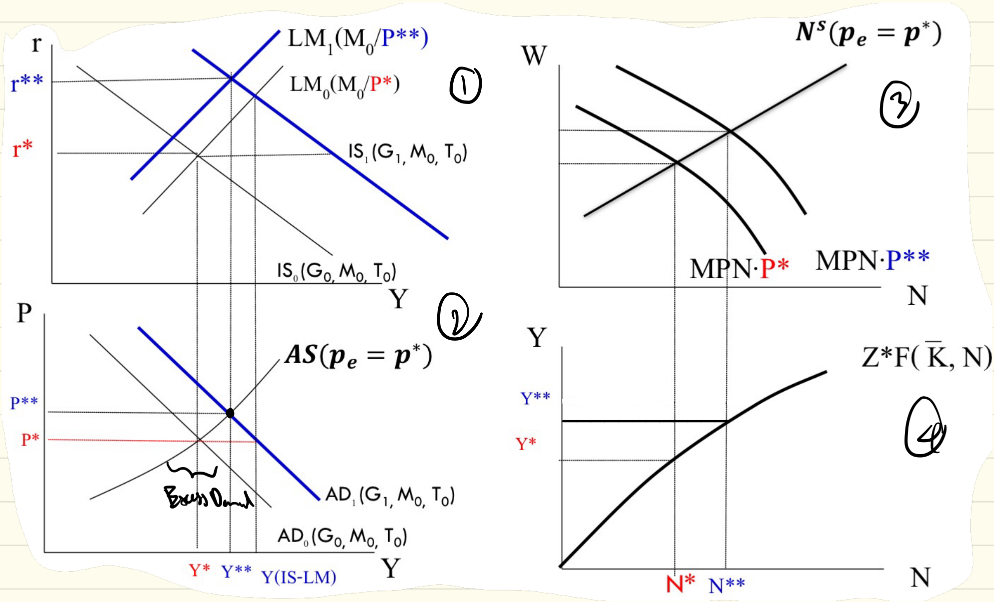
The differences between Keynesian model and Classical model are that Keynesian AS curve assumes that prices and wages are fixed until it reaches at full employment. Moreover, Keynesian model take "spare capacity" in the economy on account which the price level is stable, and real output can expand by an increasing of AD. However, Classical point out that real output was fixed at particular level. Hence, it infers that economy would be fully employed. Considering to aspects of appropiation, in Long-run Classical model is appropiate because economy can be self-adjusting, but in short run I considers that Classical model is not reasonable in aspect of not taking AD effect on accaunt.

Group 8

price & interest rate can be adju

1.4) Within the AD-AS model (4 diagrams), analyze the effects of fiscal expansion that is accompanied by a monetary accommodation. Is the size of fiscal multiplier large under the situation?

(Small MPC ...



According to the 4 diagrams above, firstly, IS_0 line shifts to IS_1 because Government use fiscal policy which increase the government spending, so it lead to shift in AD, at point P^{**} & Y^{**}, Real money ↓ and it affect LM shift from LM_0 to LM_1, at new equilibrium LM_1 intersect with IS_1, in the ③ graph, since price increase, it cause VMPN to increase ($MPN \cdot p^{*} \rightarrow MPN \cdot p^{**}$) and fiscal multiplier small because MPC large under this condition.

2) Why rich country has lower business cycle volatilities than emerging country?

↳ First of all, Let's talk about trade composition. The shares of aggregate exports and imports for the average emerging country are 71% and 33% respectively. It shows that emerging countries produce more commodities than they consume. On the other hand, the shares of aggregate exports and imports for the average developed country are 29% and 31% respectively which are very close to each other. It illurates that developed country produce and consume commodities in similar amounts. Second, Let's move to the international relative price. For developing country, the share of commodities in total production is larger than the share in total consumption. An economic boom occurs when a rise in the relative price of commodities increases the value of type of goods produced relative to those consumed. On the other hand, the changes in relative price of commodities in developing country have a less impact on aggregate economic as the shares of total production and consumption is close to each other. As you can see in the exhibit A, Argentina, developing country, has stronger business cycle volatilities than America, developed country. In exhibit B, it shows that GDP and SD of real gross domestic product have negative relationship.