What about prices?

Keynesian perspective (Ch. 35 - Current)

Ch. 10 Ch. 35

$P$

AD

AS

RGDP

AD drives AS ($\approx$ RGDP)

An increase in AD does not cause a change in $P$. 
the investment multiplier
\[
\frac{\Delta GDP}{\Delta I} = +2.2
\]

the export multiplier
\[
\frac{\Delta GDP}{\Delta X} = +2.2
\]
Government expenditure multiplier

\[
\frac{\Delta RGDP}{\Delta q} = +2.2
\]

The tax multiplier

\[
\frac{\Delta RGDP}{\Delta T} = -1.0
\]
<table>
<thead>
<tr>
<th>Effect</th>
<th>( \Delta Q )</th>
<th>( \Delta T )</th>
<th>( \Delta I )</th>
<th>( \Delta Y )</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \Delta \text{GDP} )</td>
<td>+2.2</td>
<td>-1.0</td>
<td>+2.2</td>
<td>+2.2</td>
</tr>
</tbody>
</table>

What causes the business cycle?

- Fluctuations in autonomous expenditure:
  \( \Delta Q; \Delta T; \Delta I; \Delta X \)
What determines \( \Delta GDP \) or \( \Delta AD \)?

- Classical School (1776 - 1876)
  - Smith, Ricardo, Mill

AS drives AD

Ch. 9

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<th>AS</th>
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focus: long run growth