Properties of the Aggregate Demand Curve

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$y^d(x, p)$ is the AD curve

$$\frac{x^{\varepsilon}}{[1+\tau(x)]^{\varepsilon-1}} \cdot \frac{\nu}{p} = y^d(x,p)$$

- y^d is decreasing in p
- y^d is decreasing in x ($\varepsilon > 1, \tau' > 0$)

- $y^d(x^m, p) = 0$

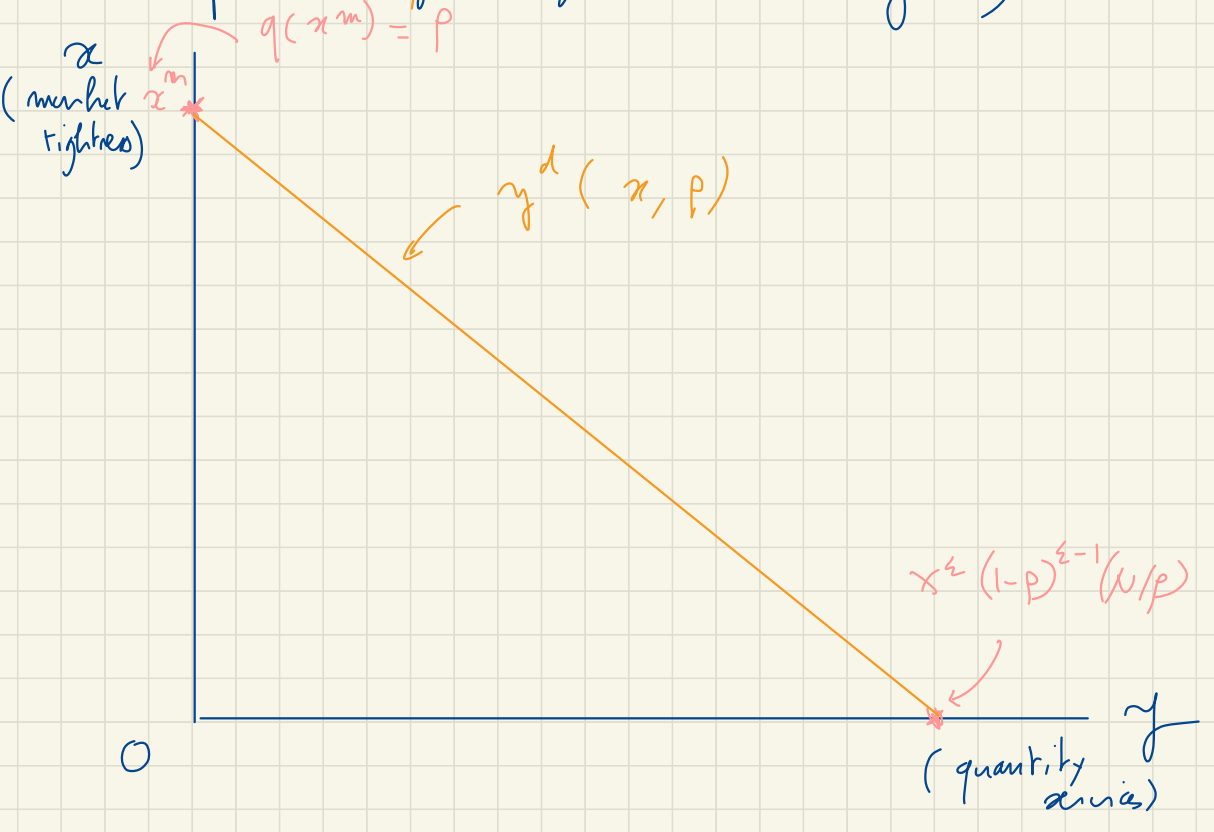
$\tau(x^m) = +\rho$

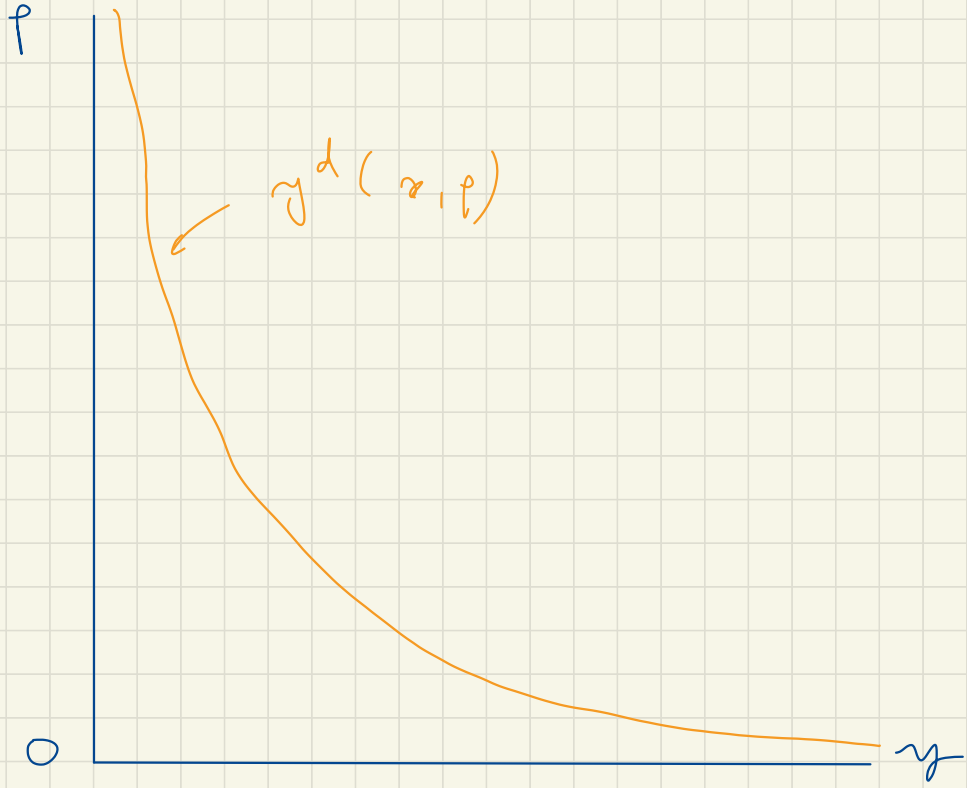
$$y^d(0, p) = \frac{x^\varepsilon}{[1+\tau(0)]^{\varepsilon-1}} \cdot \frac{\nu}{p}$$

$$\tau(0) = \frac{\rho}{1-\rho} \rightarrow 1+\tau(0) = \frac{1}{1-\rho}$$

$$y^d(0, p) = x^\varepsilon (1-\rho)^{\varepsilon-1} \cdot \frac{\nu}{p} > 0$$

↳ paradox of thrift (Keynes)




p
$y^d(x, p)$
O
y