

Keynesian AD¹

$$E[\pi_{t+1}] = \frac{E_t[P_{t+1}] - P_t}{P_t}$$

$$Y_t = \hat{Y} - \alpha \left(i_t - \frac{E_t[P_{t+1}]}{P_t} + 1 \right)$$

Price Elasticity of Output

$$\frac{\partial Y_t}{\partial P_t} \cdot \frac{P_t}{Y_t} = -\frac{\alpha E_t[P_{t+1}]}{P_t^2}$$

¹Expected change in [unadjusted] price level equals the expected nominal price inflation.