

**Keynesian AD<sup>1</sup>**

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

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

**Price Elasticity of Output**

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

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<sup>1</sup>Expected change in [unadjusted] price level equals the expected nominal price inflation.