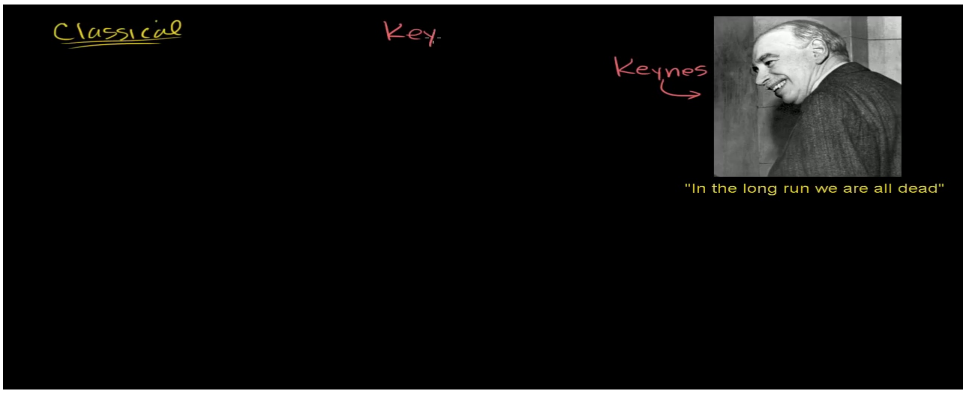
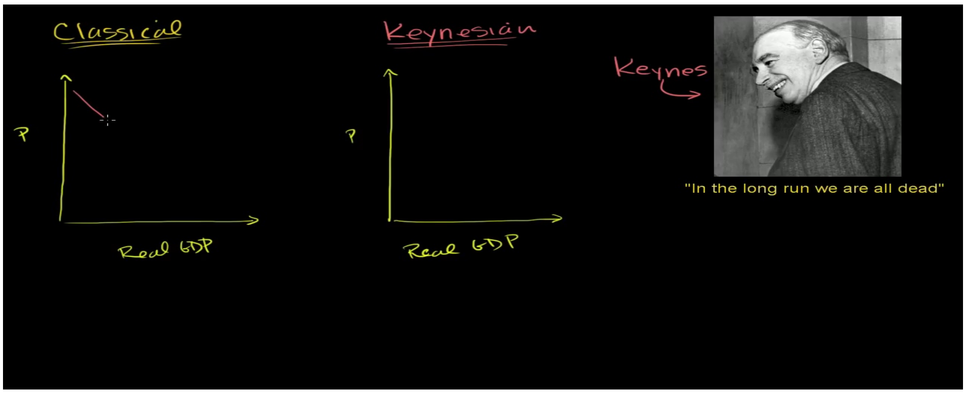
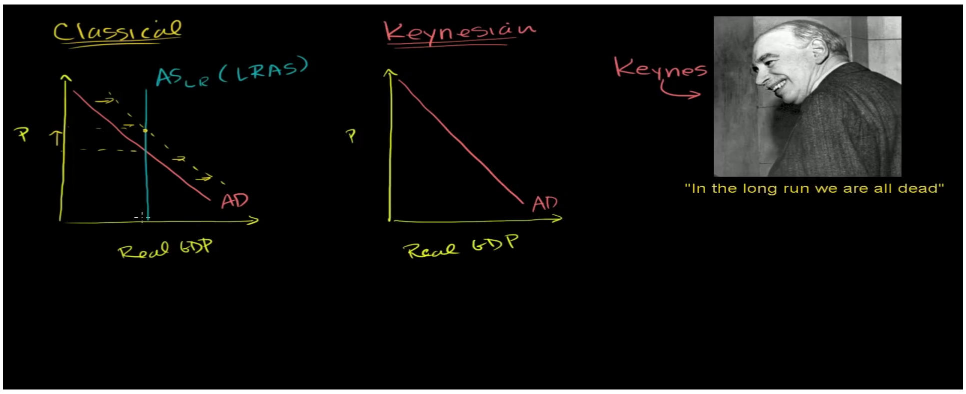


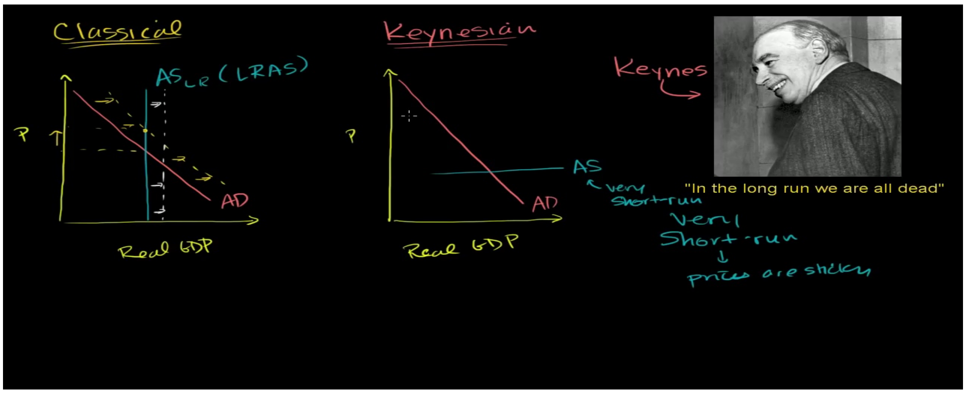
There are some points to what he has to say, but there are other schools of thought. But in this one we just want to understand what Keynesian economics is all about and how it really was a fundamental departure from classical economics.So I'm going to use aggregate demand and aggregate supply in both. This is price this right over here is real GDP real GDP? And I'm going to do it for the Keynesian case as well.



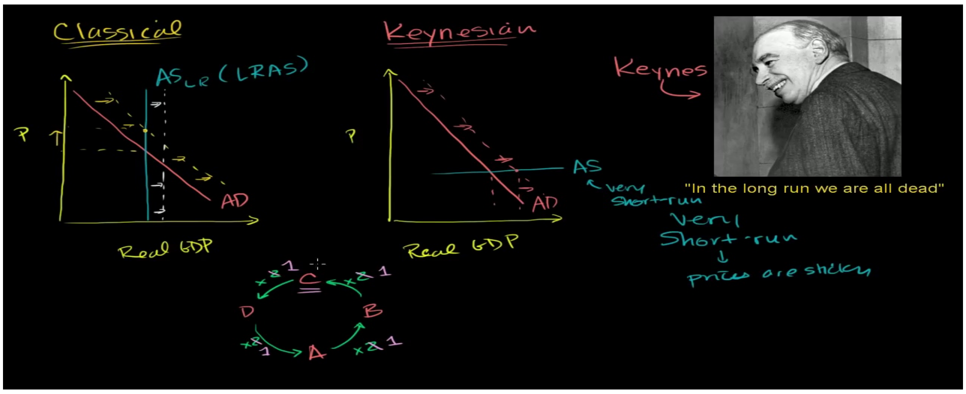
Now, and we've already seen it, the classical view is that in the long run, in the long run in economies, productivity or productive capacity or its output shouldn't be dependent on prices. So we've seen the long run aggregate supply curve something like this. Sometimes it'll be referred to that and saying look all prices. They're just facilitating transactions and you go to work and you get paid and all that, but then you go and use that money to go buy other things that the economy produces, like food and shelter and transportation. It's just going to produce what it's going to produce, and if you were to just change aggregate demand.Where to print money and aggregate demand were to and distribute it from helicopters in this classical model you would just have aggregate demand shift to the right, but you have this vertical long run aggregate supply curve, so the net effect is it didn't change the output in this classical model. So you have the price would go up and you would just experience inflation with no increased output.You could have fiscal policy where the government, maybe it holds, it's maybe it holds its tax revenue constant, but it increases spending or it goes the other way around.



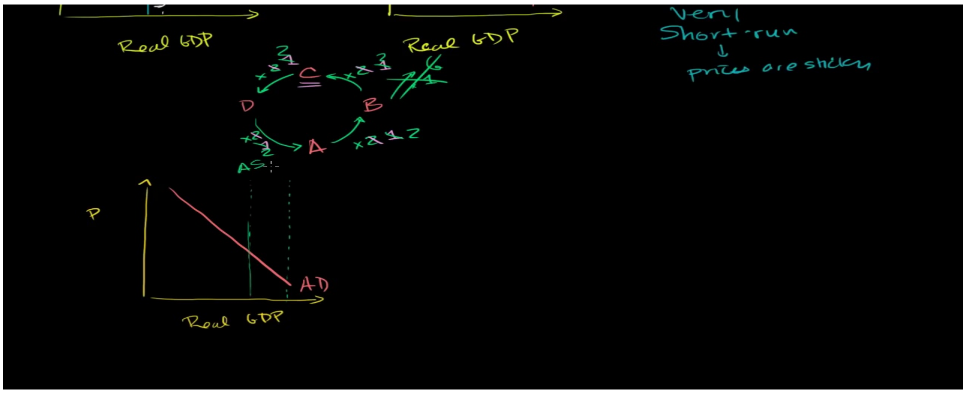
There are people that want to work, but no one is asking them to work. So in a very pure, very very very short run model, I know we have talked about kind of a short run aggregate supply curve that is upward sloping, so something that might look something that might look something like that and that is actually starting to put some of the Keynesian ideas into practice.In the short run and I'll call it the very short run, the very short run you have, especially if the economy is producing well below its capacity like it seemed to be doing during the Great Depression. If the economy is trying to get overheated, people are being overworked. Hey, I want overtime. People are going to start charging and more and more. If my factory is at 30% utilization and someone wants to buy a little bit more, that's not that I'm that I'm going to say, hey, I'm going to raise prices on you. Yeah, you want another 5% of my factory to be utilized. The only way to increase product, the only way to increase GDP was on the supply side.To actually, either through monetary policy, print more money or through fiscal policy, lower taxes while holding spending constant.



The classical economists would tell you if you have a free and unfettered market. And Kane says yes, that is sometimes true, but that's sometimes not true, and we'll talk about different cases and by no means do I think the Keynesian model is the ideal. But Keynes would say look, let's think about very simple, very simple idea.Well bizwell GI my business is bad now I'm only going to produce purchase one unit and a does the same thing for the same reason D does the same thing. I was right that dream was predictive but it was a self fulfilling prophecy and now they're going to operate in this state and there might not be any natural way to get them bumped up to that state where they're all buying 2 units from each other without maybe some outside especially some government actor.



This spending right over here, but this was the general idea behind the Keynesian versus a classical. Now the correct answer is with all things, it's probably something in between. So let's draw. This is real GDP right? Over here and we'll still draw our downward sloping aggregate demand curve, aggregate demand curve, and the more accurate thing might look something like this.Medium run supply curve or short run supply aggregate supply curve, so this is aggregate supply in the very long run.



The best model would be something that's in between. So our aggregate supply curve might look something like I wanted a different color. Maybe they'll make sense.Now on the other side, if we're performing well at potential and then all of a sudden the government wants to do Keynesian policies, and we'll see in future videos, the government will always want to do Keynesian policies, even if they're not justified.