Student Name ____________________ Student no. _________________

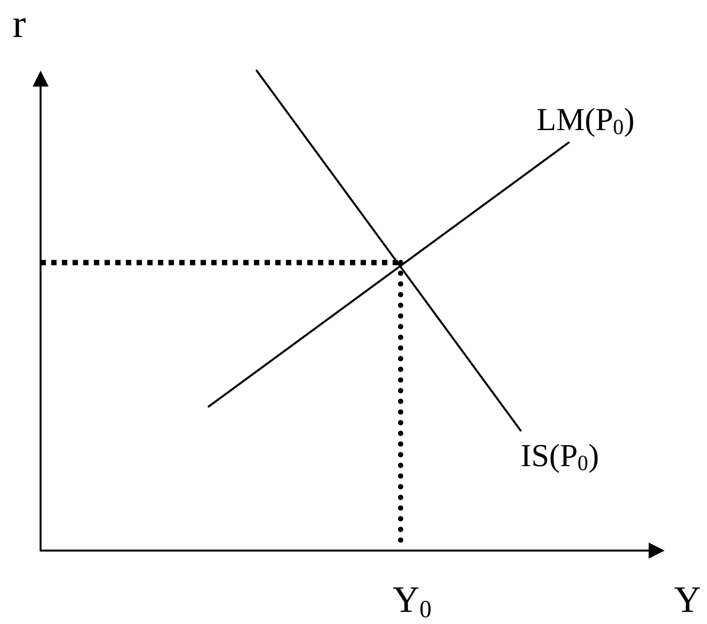
After incorporating the price level, the Keynesian Model can be modified as:

$$Y = \frac{1}{1-c(1-t)}(c_0 - ct_0 + i_0 + \bar{G})/P - \frac{f}{1-c(1-t)}r$$

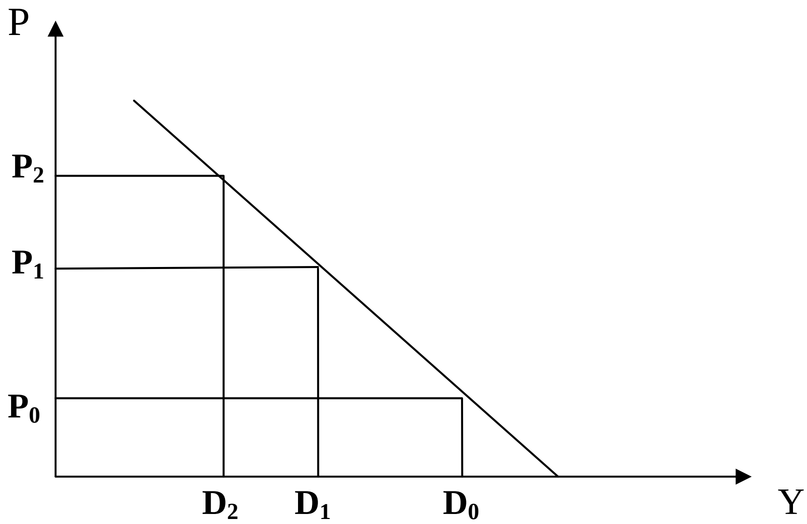
(IS curve without wealth effect)

$$Y = \frac{1}{h}\frac{\bar{M}}{P} + \frac{l}{h}r$$

(LM curve without wealth effect)



<u>Derive the Aggregate Demand (AD) curve if the price level rises from P_0:</u>



What about the Aggregate Supply Curve?

Can you derive it with the IS-LM model, which focuses on the demand side of the economy? The answer is no.