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Writing Assignment 13.14

1. What kind of economic recession might respond best to a Keynesian perspective?

When there is an urgent need to save the economy from a recession, Keynesian economics may be more effective. The Keynesian economic theory tries to manufacture a demand increase through government policy rather than lower prices. This is generally effective for short-term economic issues but tends to be ineffective at resolving long-term economic difficulties. Therefore, the best type of recession for Keynesian economic theory would be a recession similar to the one that was caused by the coronavirus. There was no underlying economic issue that caused the recession. The virus was a temporary economic killer and so we needed to institute a plan that is effective short term. That plan would be based on Keynesian theory. Such a theory might resolve a recession like a coronavirus caused but will not work long-term for a recession like there was in the 2008 recession. In that case, the housing crisis could never have been solved by massive government overreach, but rather through the economy correcting itself as is described in Neoclassical economic theory.

2. Keynesian policy is about shifting the AD curve, not the AS curve. What are some ways to shift AD?

Aggregate demand will shift to the left if consumer spending goes down. This can be caused by policies such as raising taxes or increasing the cost of living. The aggregate demand can also shift to the left due to monetary policy such as increasing interest rates. For every way to shift the demand curve to the left, the opposite will shift the aggregate demand curve to the right.

3. What kind of economic recession might respond best to Neo-classical perspective?

A prolonged economic recession will respond best to Neo-classical economics. Such prolonged economic recessions are generally caused by a factor that substantially affects the economy such as energy and real estate.

4. Neo-classical policy is about shifting the AS curve. What are some ways to shift AS?

The aggregate supply curve will shift to the right as a result of increased production or as the cost of required materials and labor decreases. This will result in less inflation and more productivity. The increased supply of raw materials will require more labor to produce final products and therefore, unemployment will decrease. The aggregate supply curve shifts to the left as raw materials and labor become increasingly expensive. This will reduce output, and therefore cause inflation and unemployment.