

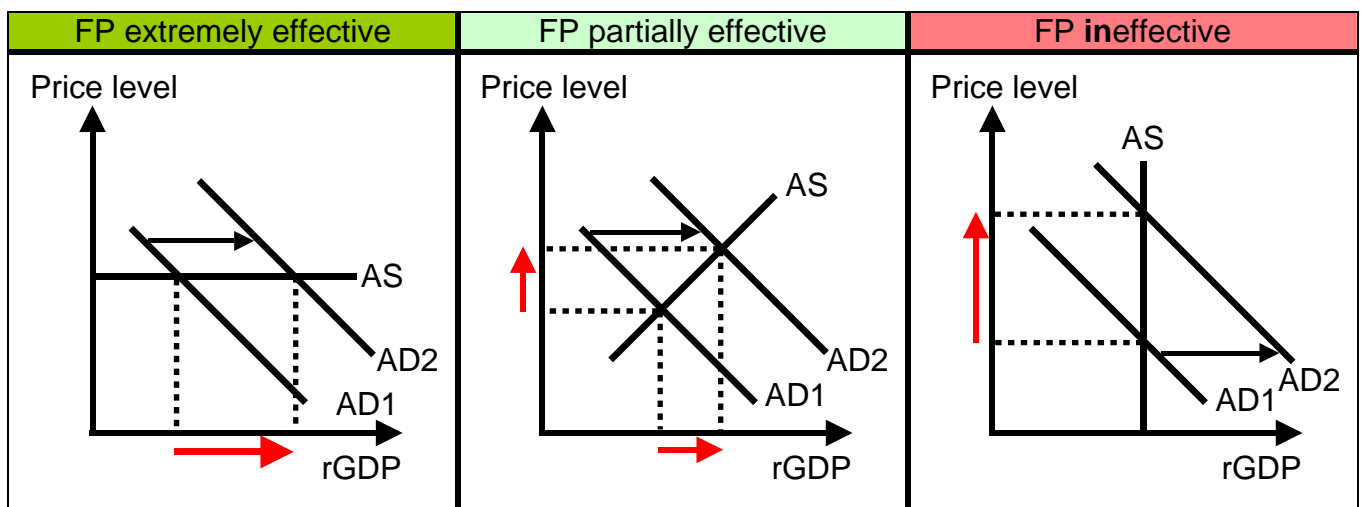
AD-AS model 2 (applications)

1 Fiscal policy

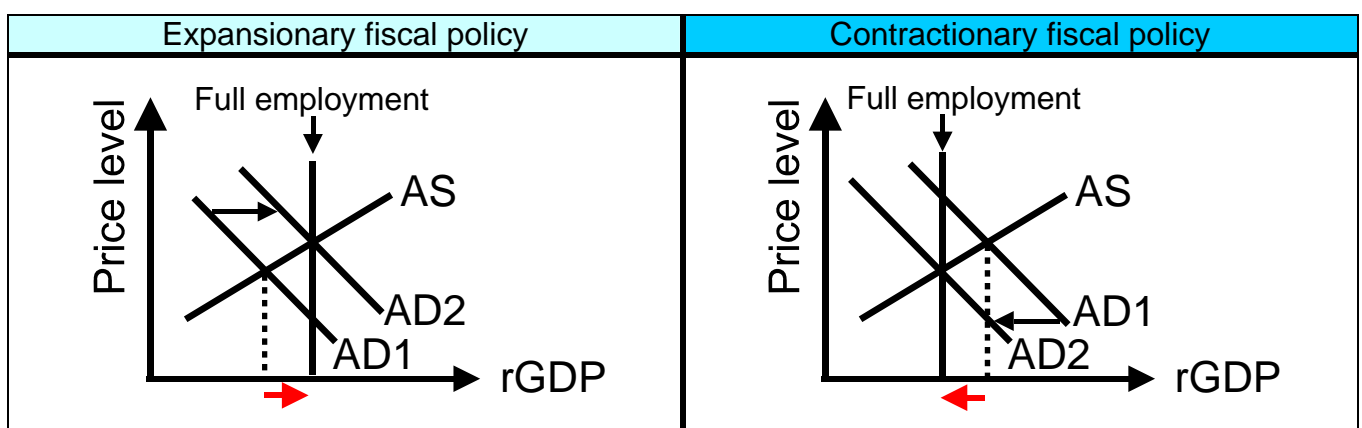
The main instruments of the fiscal policy are government spending or taxes. Both have primarily an effect on aggregate demand (AD).

11 Effectiveness (with regard to changes in real gross domestic product, rGDP)

The effectiveness of the fiscal policy (FP) depends on the slope of the aggregate supply (AS).



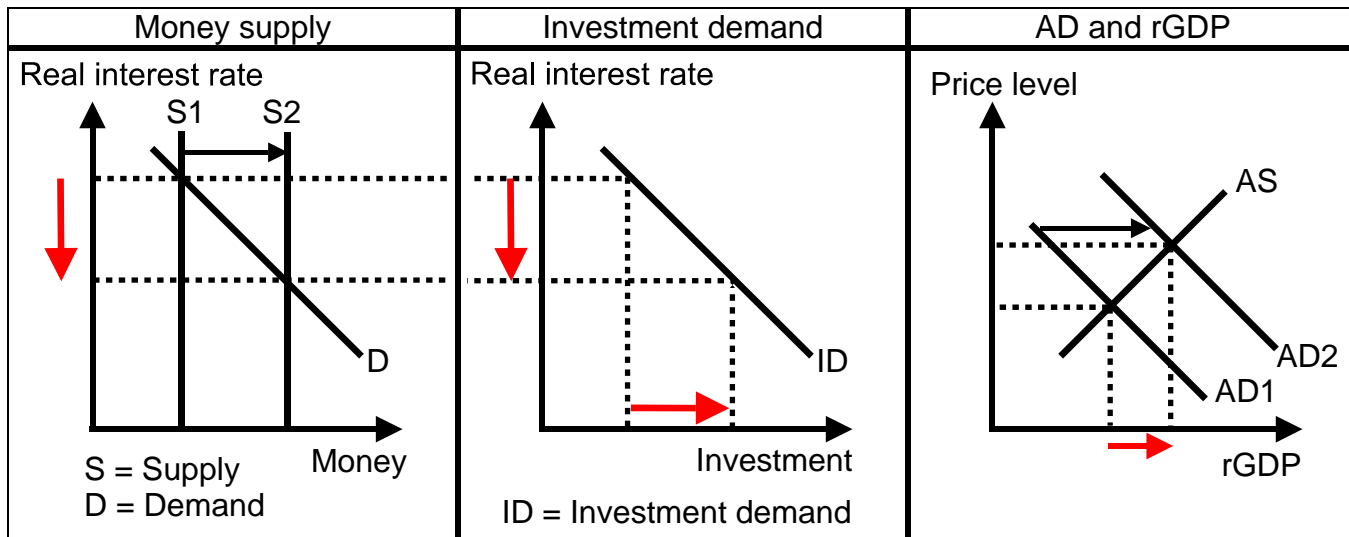
12 Business cycle and fiscal policy



2 Monetary policy

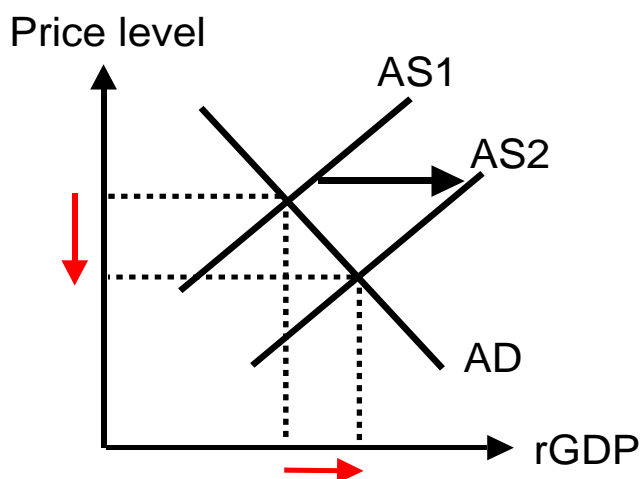
The monetary policy has an indirect effect on AD and on rGDP, namely via the interest-rate mechanism. We assume that rGDP should be expanded in order to fight recession.

Monetary policy and AD:



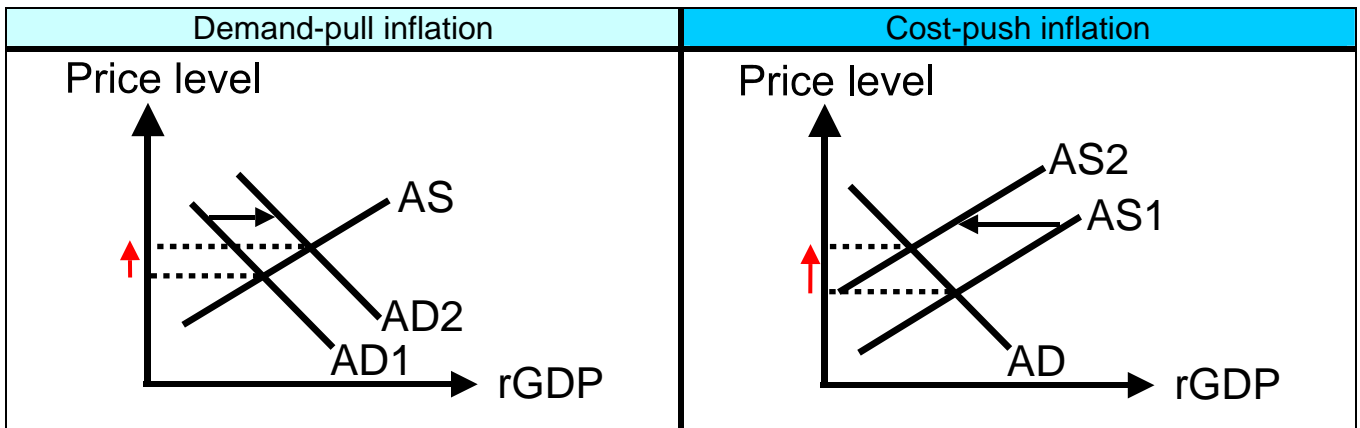
3 Supply-side policies

Supply-side policies have an influence on AS and on rGDP, for example by means of regulation or of subsidies.



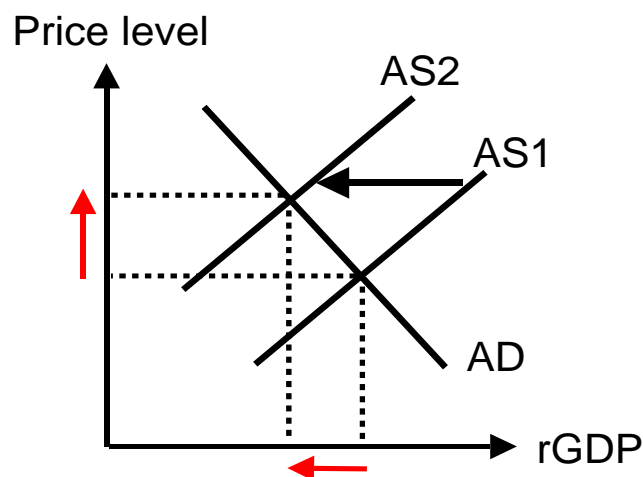
4 Inflation

Inflation can take place by a shift in AD or in AS.



5 Stagflation

Stagflation is the combination of inflation and stagnation (recession); therefore, the price level rises and rGDP falls.



6 Economic growth

The long-run AS shifts to the right when economic growth takes place.

