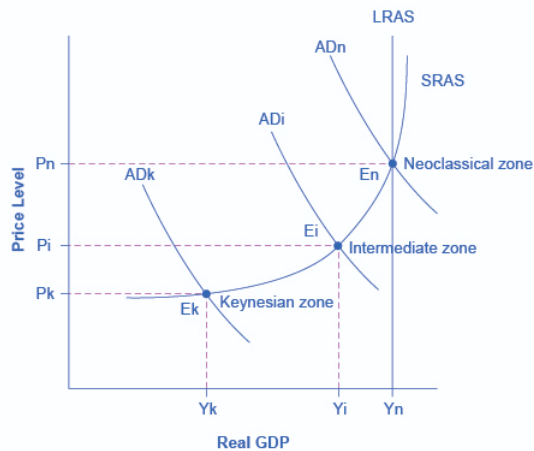


## 9.5: Assignment- Keynesian and Neoclassical Economics

Take a look again at Figure 1 (originally from the page in the text titled “Neoclassical and Keynesian Perspectives in the AD-AS Model.”)



**Figure 1. Keynes, Neoclassical, and Intermediate Zones in the Aggregate Supply Curve.** Near the equilibrium  $E_k$ , in the Keynesian zone at the far left of the SRAS curve, small shifts in AD, either to the right or the left, will affect the output level  $Y_k$ , but will not much affect the price level. In the Keynesian zone, AD largely determines the quantity of output. Near the equilibrium  $E_n$ , in the neoclassical zone at the far right of the SRAS curve, small shifts in AD, either to the right or the left, will have relatively little effect on the output level  $Y_n$ , but instead will have a greater effect on the price level. In the neoclassical zone, the near-vertical SRAS curve close to the level of potential GDP largely determines the quantity of output. In the intermediate zone around equilibrium  $E_i$ , movement in AD to the right will increase both the output level and the price level, while a movement in AD to the left would decrease both the output level and the price level.

Think about a minor recession, like the one that occurred in 1990. (Hint: a minor recession could be caused by a slight shift to the left in the AD curve.)

What would a Keynesian likely recommend in response to a recession? What would a neoclassical likely recommend? Why would a Keynesian policy response not make much sense in response to a minor recession like the one that occurred in 1990? What would be the cost of letting the economy adjust by itself to a new long run equilibrium?

Now think about a major recession, like the one that occurred in 1982. (Hint: a major recession could be caused by a large shift to the left in the AD curve.) Why would a Keynesian policy make more sense in response to a major recession like the one that occurred in 1982? What would be the cost of following a neoclassical policy then?

### Rubric

Criteria	Not Evident	Developing	Proficient	Distinguished	Weight
Identify an appropriate Keynesian policy response to a recession					4
Identify an appropriate Neoclassical policy response to a recession					4
Explain the cost of doing nothing in response to a minor recession					4

Explain the cost of doing nothing in response to a major recession					4
Make a case for why a Neoclassical policy makes more sense in response to a minor recession while a Keynesian response makes more sense in response to a major recession					4
					Total: 20

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