

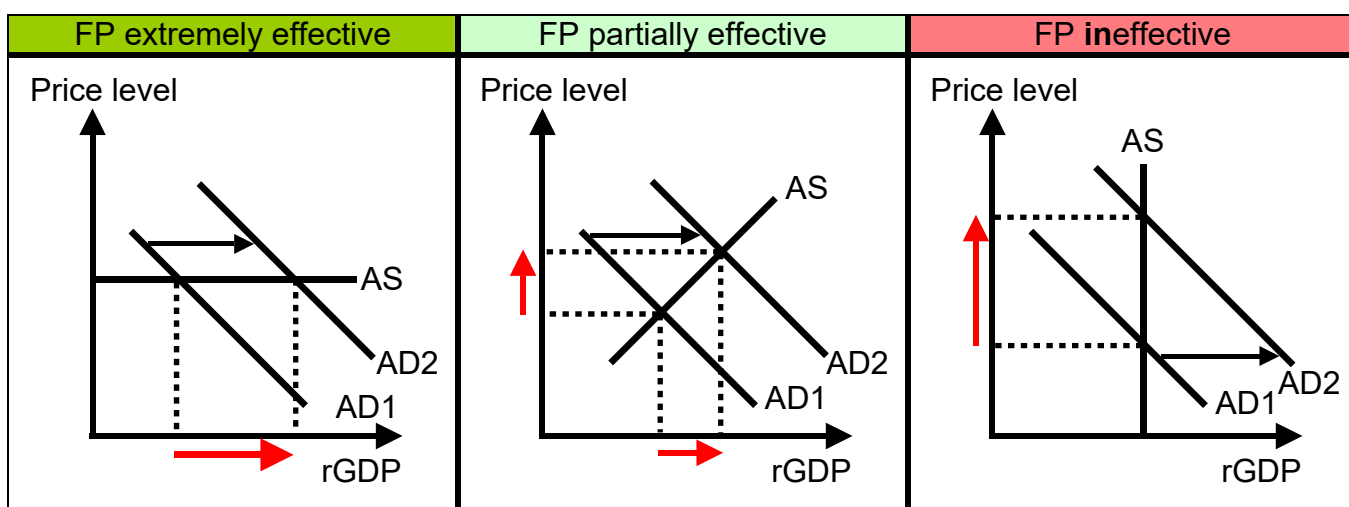
# AD-AS model 2 (applications)

## 1 Fiscal policy

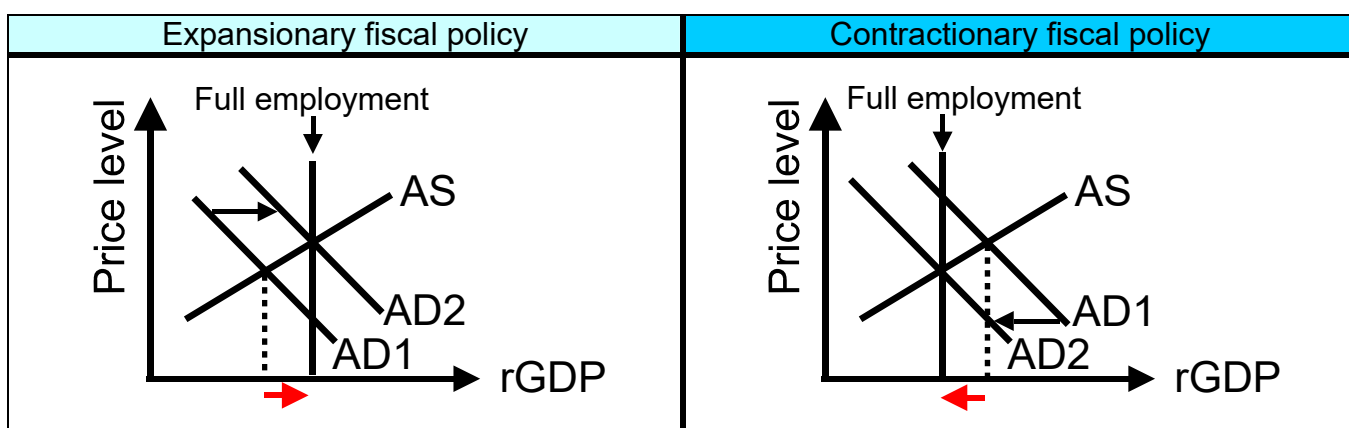
The main instruments of the fiscal policy are government spending or taxes. Both have primarily an effect on aggregate demand (AD).

### 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).



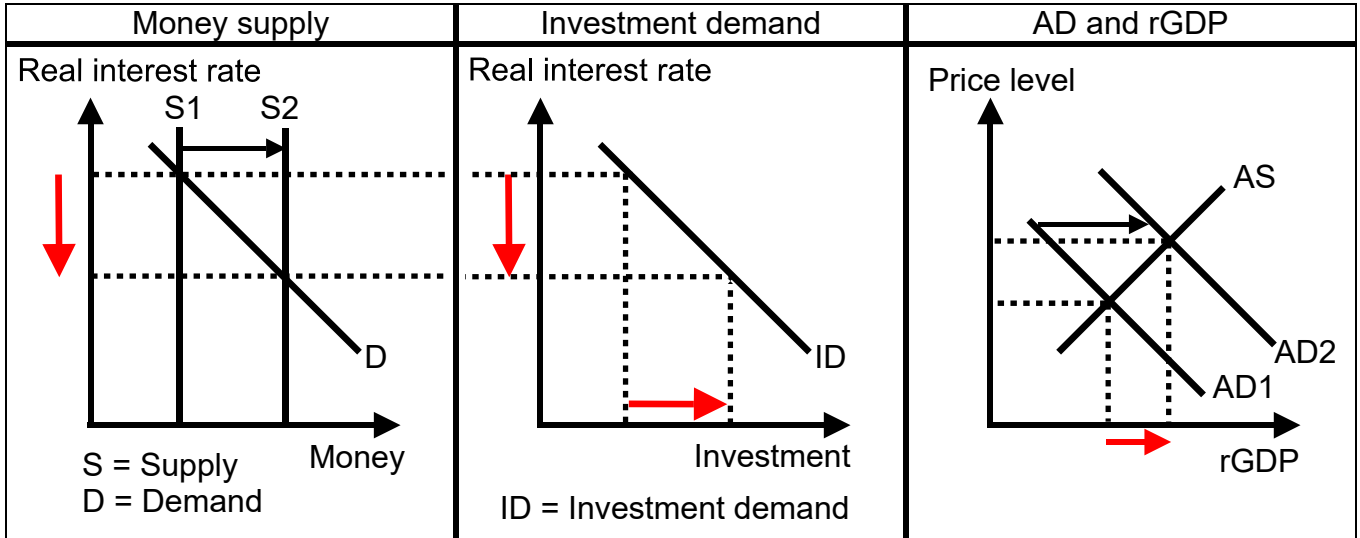
### 12 Business cycle and fiscal policy



## 2 Monetary policy

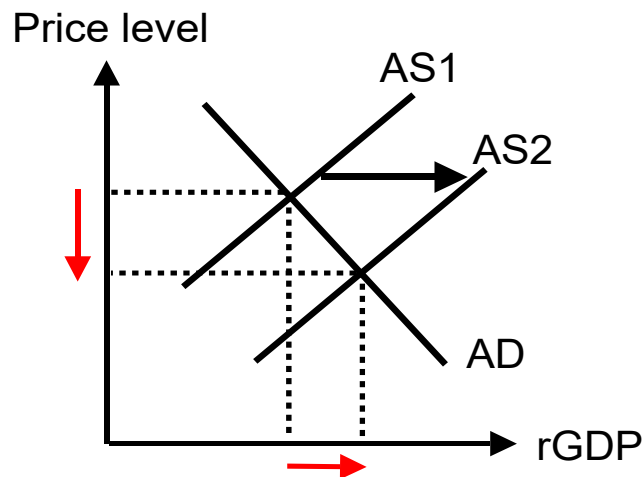
The monetary policy has an indirect effect on AD and on rGDP, namely via the interest-rate mechanism. We assume that rGDP should be expanded in order to fight recession.

Monetary policy and AD:



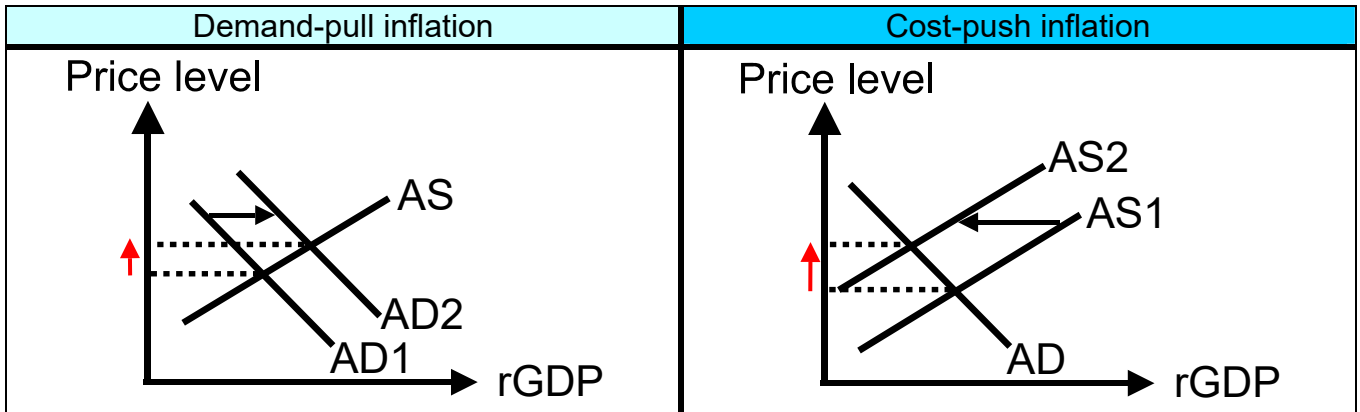
## 3 Supply-side policies

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



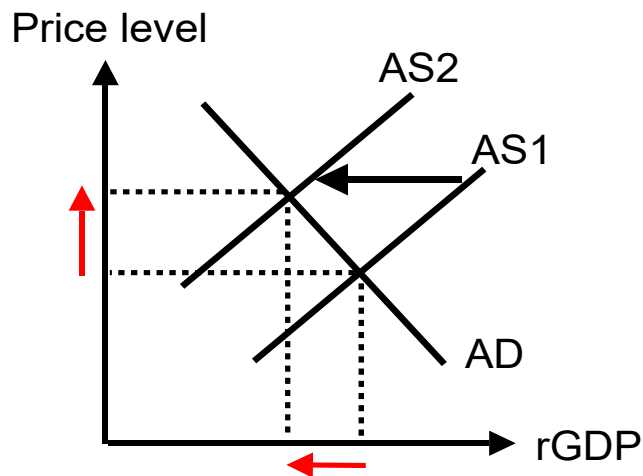
## 4 Inflation

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 and the AD shift to the right when economic growth takes place.

