Derivation of Aggregate Demand Curve

or

the Relationship between AE & AD

John Maynard Keynes is the founding father of modern macroeconomics. His followers (sometimes called "Keynesians") took some of his basic postulates and ideas and expressed them in a simplified form for contemporary textbooks. The aggregate expenditure model (AE) we have been using is a caricature of the Keynesian model. Our primary model is the AD-AS model. The AD-AS model does a better job explaining today's economy than the AE model we have employed.

We are now ready to show the relationship between AE and AD-AS.

It is important that you remember that all the economics in the AE model we have studied is represented in the AD curve.