

# **Properties of the Aggregate Demand Curve**

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$y^d(x, p)$  is the AD curve

$$\frac{X^\varepsilon}{[1 + \tau(x)]^{\varepsilon-1}} \cdot \frac{\mu}{p} = y^d(x, p)$$

- $y^d$  is decreasing in  $p$
- $y^d$  is decreasing in  $x$  ( $\varepsilon > 1, \tau' > 0$ )

$$\bullet \quad y^d(x^m, p) = 0$$

$$\tau(x^m) = +p$$

$$y^d(0, p) = \frac{X^\varepsilon}{[1+\tau(0)]^{\varepsilon-1}} \cdot \frac{\mu}{p}$$

$$\tau(0) = \frac{p}{1-p} \rightarrow 1+\tau(0) = \frac{1}{1-p}$$

$$y^d(0, p) = X^\varepsilon (1-p)^{\varepsilon-1} \cdot \frac{\mu}{p} > 0$$

↳ paradox of thrift (Keynes)



