CONCEPT: OVERVIEW OF THE CLASSICAL MODEL AND KEYNESIAN MODEL

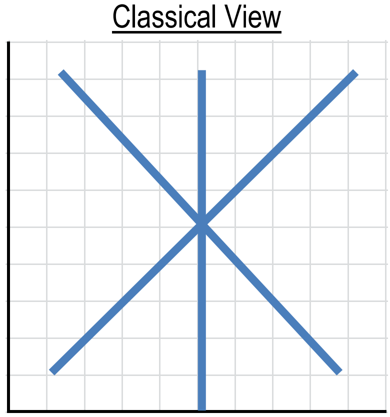
- The ***classical model of economics*** was primarily used before the ___________________
  - □ This model had a _____________ approach to prices and wages
    - > Prices and wages would adjust quickly and accordingly based on financial conditions
    - > The economy was always assumed to be at _________ employment
      - Everyone who wants to work is at work
      - All resources are being used
    - > The economy is *self-correcting*, needing no intervention during period of inflation or recession
      - ***Laissez-faire economics*** – allowing events to run their course without intervention

> **METAPHOR:** Imagine a busy highway with a 60mph speed limit. During rush hour (i.e. recession), the freeway is packed and no one can actually go the speed limit. Eventually, the traffic clears up (i.e. self-correcting), and the 60mph speed limit is attained.

- The ***Keynesian model of economics*** was introduced during the ___________________
  - □ This model notes that some prices and wages may be ______________
    - > Prices and wages do not always adjust quickly
    - > The economy is not always at _________ employment
      - Some people who are looking for work cannot find work
    - >The economy is not always *self-correcting*; government intervention could fight inflation and recession

> **METAPHOR:** Imagine a busy highway with a 60mph speed limit. During rush hour (i.e. recession), the freeway is packed and no one can actually go the speed limit. However, now, a semi-truck has tipped over and is blocking all lanes of the highway. The traffic will not clear up until someone (i.e. government intervention) helps remove the obstruction. Afterwards, the traffic clears up, and the 60mph speed limit is attained.

Classical View



Keynesian View