

Chapter 27 Project

The Neoclassical Perspective

Purpose

In this chapter, you have learned the building blocks of the neoclassical economic perspective. You have learned that the neoclassical model emphasizes aggregate supply and determinants of productivity, keeping the focus on long-run economic growth. You have studied how price adjustments ultimately bring output levels back to potential GDP within the neoclassical model and how there is no long-run tradeoff between inflation and unemployment.

The purpose of this project is to distinguish between Keynesian and neoclassical economic perspectives and to apply each perspective to economic events in the news.

Directions

This project has two parts. In the first, you will work on your own to distinguish between examples of the Keynesian and neoclassical perspectives. You will also assess the value created by each perspective and apply the neoclassical perspective to the Phillips curve.

In the second, you will work with a classmate to identify and apply both perspectives to economic events in the news.

Part 1 - Distinguishing between Keynesian and Neoclassical Economic Perspectives

Evaluate the following statements and classify each statement as exhibiting a Keynesian perspective or a neoclassical perspective. Be sure to explain your answer.

1. Congress has approved a stimulus plan to mail economic impact payments of \$1,200 to taxpayers earning less than \$75,000 per year.
2. Cyclical unemployment must be reduced by running a fiscal deficit, shifting aggregate demand to the right.
3. A voucher system would provide children with greater school choice, leading to increased consumption of higher quality education, ultimately boosting future worker productivity.
4. A shift toward sales taxes and away from income taxes would provide individuals with increased options to save income. The reduction in interest rates would lead to greater capital investment spending, boosting capital per worker.
5. The U.S. government should pay for the retraining of those who become structurally unemployed.
6. Rising export demand due to a thriving global economy will not result in higher long-term output in the U.S. economy.

Review the following hypothetical inflation rates, considering 4% unemployment to be the level of full employment. Assuming a normal and expected inflation rate of 2% annually, fill in hypothetical unemployment rates that would be consistent with the neoclassical Phillips curve.

Year	Unemployment Rate	Inflation Rate
2035		10%
2036		7%
2037		4%
2038		0%

After studying the Keynesian and neoclassical economic perspectives, in your opinion, what are the most valuable takeaways from each approach?

Part 2 - Working in a Group to Apply Economic Perspectives

With a classmate, provide links to two articles that report on a policy initiative that applies the Keynesian perspective. Additionally, find two more articles that report on a policy initiative that applies the neoclassical perspective. For each article, explain how any policies mentioned are focused on long-term or short-term economic effects. Be sure to use articles from trustworthy sources.

Exchange your work with another group. Does your group agree with the connections made by the other group? Explain why or why not. Be sure to include the names of the group members that you exchanged articles with, the articles/links, the connections made by the other group, and your group's feedback.

Checklist

Part 1

- ☐ Determine whether each statement exhibits a Keynesian or neoclassical perspective.
- ☐ Fill in hypothetical unemployment rates for the neoclassical Phillips curve.
- ☐ Explain benefits of the Keynesian approach.
- ☐ Explain benefits of the neoclassical approach.

Part 2

- ☐ Find two articles that discuss a Keynesian policy.
- ☐ Find two articles that discuss a neoclassical policy.
- ☐ Explain how each article appeals to the Keynesian or neoclassical perspective.
- ☐ Exchange and review classmates' articles and connections.