2-A Shift of the $AD$ Curve When the Economy is Operating at or Near Capacity

1-Here, an expansionary fiscal policy does not work well. The output multiplier is close to zero.
2-Output is initially close to capacity (full employment), this lead to that increase output further mostly lead to a higher price level.
3-With a higher price level, (Md shift right) the Fed increases the interest rate ($r$), and in this case, there is almost (near) complete crowding out of planned investment.
4-If the shift in the $AD$ curve caused by a decrease in net taxes, it is consumption, Not government spending that causes the crowding out of investment.

Note:-
If wages adjust fully to match higher prices, then the long-run $AS$ curve is vertical at $Y_1$. In this case, it is easy to see that fiscal policy will have no effect on output because output multiplier equal zero.