

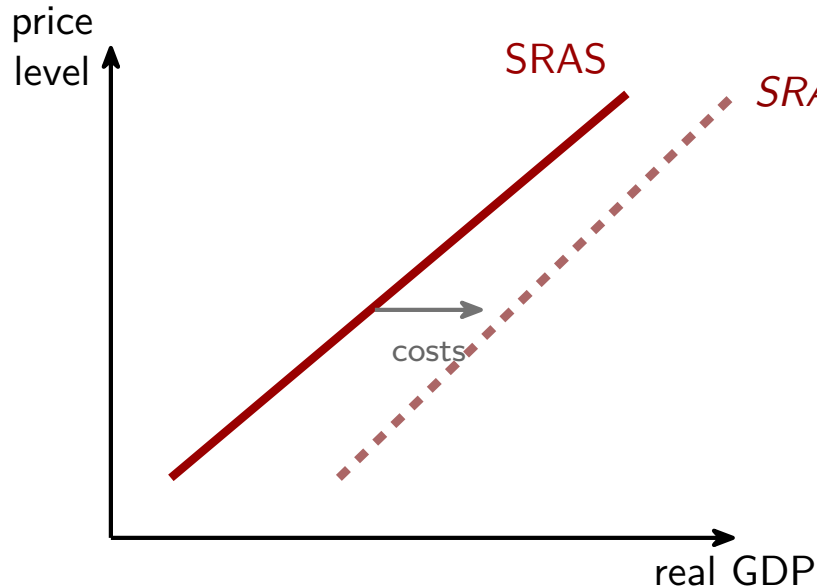
Exercise walk-through

3.3

Short-Run Aggregate Supply (SRAS)

AP Macroeconomics

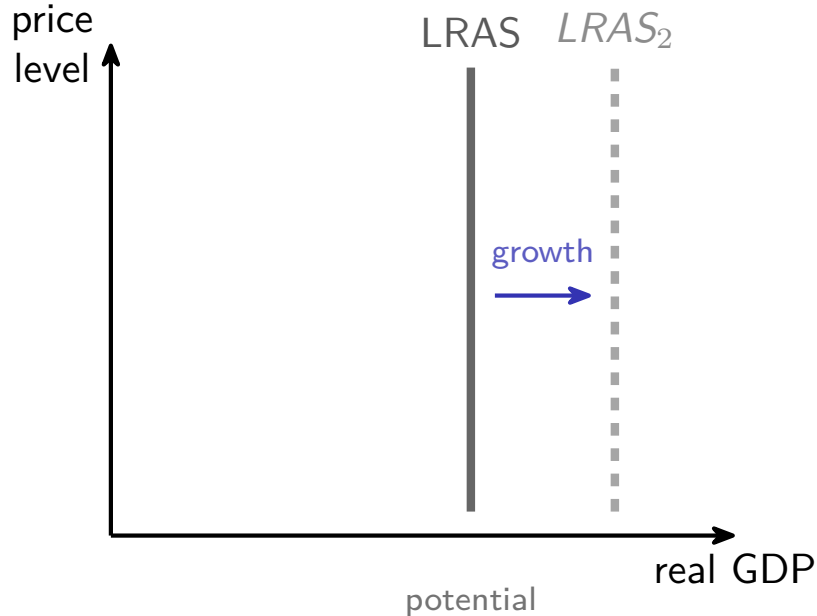
Short-run aggregate supply



In the short run some costs are **sticky** above all **nominal wages**. A higher price level with fixed wages $\Rightarrow$ more profit per unit $\Rightarrow$ more output. So SRAS slopes **up**. Shifters: input prices, **productivity**, **supply shocks**.

- higher costs $\Rightarrow$ shift **left**
- better productivity $\Rightarrow$ shift **right**

Long-run aggregate supply



In the long run wages and prices are **fully flexible**, so output settles at **potential GDP** – the **full-employment output**. LRAS is **vertical**: the same real output at any price level.

More resources, capital, or better technology shift LRAS **right** – that is **economic growth**.

Potential output, and the curve that shows it

Full-employment output

Full-employment (potential) output is what the economy produces when unemployment sits at its natural rate.

LRAS

Vertical at that output: in the long run the price level does not change what the economy can produce.

The PPC

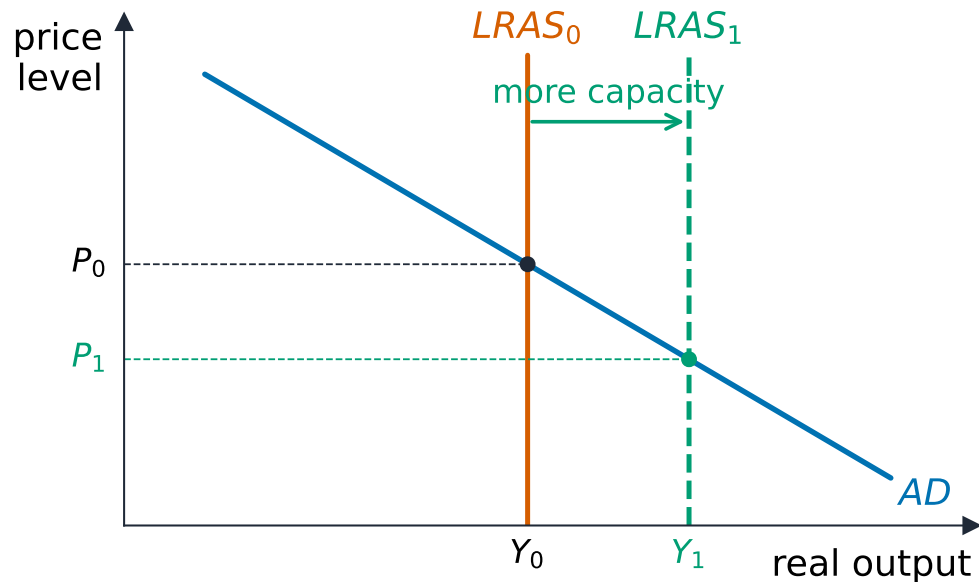
The **production possibilities curve (PPC)** shows the same limit in goods-against-goods form – and both shift out for the same reasons.

What shifts it

More or better resources, more capital, better technology, higher productivity.

An AD shift moves output only until wages adjust. Only an LRAS shift raises output permanently.

Supply-side policy shifts long-run aggregate supply



Supply-side policy shifts long-run aggregate supply right: more output, lower prices

Exercises 2.1-2.3

2.1 State why SRAS slopes upward.

[1]

2.2 State the effect of a sharp rise in oil prices on SRAS.

[1]

2.3 Name two determinants of SRAS.

[2]

Exercises 2.1-2.3

2.1 State why SRAS slopes upward.

[1]

2.1

- wages and some prices are sticky, so a higher price level raises profits and encourages more output

2.2 State the effect of a sharp rise in oil prices on SRAS.

[1]

2.2

- it shifts SRAS to the left

2.3 Name two determinants of SRAS.

[2]

2.3

- any two of: input prices, productivity, supply shocks

Exercises 3.1-3.2

3.1 SRAS slopes upward because wages and prices are

[1]

☐

A perfectly flexible

B sticky in the short run

C always zero

D always falling

3.2 A negative supply shock shifts SRAS

[1]

☐

A to the right

B to the left

C up along itself

D not at all

Exercises 3.1-3.2

3.1 SRAS slopes upward because wages and prices are

[1]

- ☐ A perfectly flexible
B sticky in the short run
C always zero
D always falling

3.1 B

- sticky in the short run.

3.2 A negative supply shock shifts SRAS

[1]

- ☐ A to the right
B to the left
C up along itself
D not at all

3.2 B

- to the left.

Exercise 3.3 (a)

3.3 The price of oil doubles across the economy.

(a) State the direction SRAS shifts.

[1]

Exercise 3.3 (a)

3.3 The price of oil doubles across the economy.

(a) State the direction SRAS shifts.

[1]

(a)

- to the left

Exercise 3.3 (b)

3.3 The price of oil doubles across the economy.

(b) State the effect on the price level.

[1]

Exercise 3.3 (b)

3.3 The price of oil doubles across the economy.

(b) State the effect on the price level.

[1]

(b)

- the price level rises

Exercise 3.3 (c)

3.3 The price of oil doubles across the economy.

(c) State the effect on output.

[1]

Exercise 3.3 (c)

3.3 The price of oil doubles across the economy.

(c) State the effect on output.

[1]

(c)

- output falls