

3.4 Long-Run Aggregate Supply (LRAS)

Name: _____ Class: _____ Date: _____

Total: 8 marks

Objective

Build the skills to answer exam questions on **long-run aggregate supply (LRAS)**.

You must be able to:

- define **long-run aggregate supply** 长期总供给 as vertical at full-employment output
- explain why LRAS is independent of the **price level** (flexible wages and prices)
- relate LRAS to **potential GDP** 潜在 GDP and the natural rate of unemployment
- analyse how **economic growth** shifts LRAS rightward

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ LRAS is vertical

In the long run, wages and prices are **fully flexible**, so output returns to its **full-employment** (potential) level regardless of the price level—a **vertical** line.

■ Determinants

The quantity and quality of **resources**, the **capital stock**, and **technology**.

■ Growth

An increase in any of these shifts LRAS **rightward**—long-run economic growth.

2 Practice

2.1 State the shape of the LRAS curve. [1]

2.2 State what determines the position of the LRAS curve. [1]

2.3 State the effect of economic growth on LRAS. [1]

3 Exam-style questions

3.1 The LRAS curve is [1]

- A upward-sloping
 - B downward-sloping
 - C vertical
 - D horizontal
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3.2 LRAS is vertical because, in the long run, wages and prices are [1]

- A sticky
 - B fully flexible
 - C fixed by law
 - D zero
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3.3 A country's capital stock and technology both improve.

(a) State the effect on LRAS. [1]

(b) State the direction LRAS shifts. [1]

(c) Name this process. [1]

4 Go further

- work through the **3.4 Long-Run Aggregate Supply (LRAS)** lesson on the **Learn** page;
- read the **National Income and Price Determination** section of the AP Macroeconomics handout on the **Know** page.

Solutions

2.1 vertical (at potential output).

2.2 the quantity and quality of resources, the capital stock, and technology.

2.3 it shifts LRAS to the right.

3.1 C.

3.2 B.

3.3 (a) LRAS increases. (b) to the right. (c) (long-run) economic growth.