3.5 Equilibrium in the Aggregate Demand–Aggregate Supply (AD–AS) Model

Name: ____________ Class: ________ Date: __________ **Total: 8 marks**

KEY WORDS inflationary gap 通胀缺口 • short-run macroeconomic equilibrium 短期宏观均衡 • recessionary gap 衰退缺口 • price level 价格水平

Objective

Build the skills to answer exam questions on **equilibrium in the AD–AS model**.

You must be able to:

- locate **short-run macroeconomic equilibrium 短期宏观均衡** where AD meets SRAS
- determine the equilibrium **price level** and **real output**
- identify a **recessionary gap** or an **inflationary gap** by comparing with full-employment output

1 Worked examples

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

■ Short-run equilibrium

Where the **AD** curve crosses the **SRAS** curve — this fixes the equilibrium **price level** and **real output**.

■ Spotting a gap

Compare equilibrium output with **full-employment** output (the LRAS line):

- below full employment → **recessionary gap**;
- above full employment → **inflationary gap**.

2 Practice

2.1 State where short-run macroeconomic equilibrium occurs. [1]

2.2 State how to identify a recessionary gap on the AD–AS diagram. [1]

2.3 Define an inflationary gap. [1]

3 Exam-style questions

3.1 Short-run macroeconomic equilibrium is where AD meets [1]

- **A** LRAS
- **B** SRAS
- **C** the price axis
- **D** the origin

3.2 If equilibrium output is below full-employment output, there is a [1]

- **A** inflationary gap
- **B** recessionary gap
- **C** trade surplus
- **D** boom

3.3 An economy's short-run equilibrium output is **above** its potential output.

(a) Name the gap. [1]

(b) State what is likely happening to the price level. [1]

(c) State whether unemployment is above or below the natural rate. [1]

Solutions

2.1 where the AD curve intersects the SRAS curve.

2.2 equilibrium output lies to the left of (below) full-employment output.

2.3 the gap when equilibrium output is above potential (full-employment) output.

3.1 **B**.

3.2 **B**.

3.3 (a) an inflationary gap. (b) it is rising. (c) below the natural rate.