AP MACROECONOMICS • EXERCISE SHEET

3.7 Long-Run Self-Adjustment

Name: ____________ Class: ________ Date: __________ **Total: 9 marks**

KEY WORDS price level 价格水平 • inflationary gap 通胀缺口 • nominal wages 名义工资 • recessionary gap 衰退缺口

Objective

Build the skills to answer exam questions on **long-run self-adjustment**.

You must be able to:

- explain how an economy in a **recessionary** or **inflationary gap** returns to full employment on its own
- describe how changes in **nominal wages** shift SRAS during self-adjustment
- compare the long-run outcome (output back at potential) with the short-run effect on the price level

1 Worked examples

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

■ **Closing a recessionary gap**

High unemployment pushes **nominal wages down**, lowering costs, so SRAS shifts **right** until output returns to potential — at a **lower** price level.

■ **Closing an inflationary gap**

Low unemployment pushes **nominal wages up**, raising costs, so SRAS shifts **left** until output returns to potential — at a **higher** price level.

■ **Long-run outcome**

Either way, output returns to **potential**; only the price level is permanently changed.

2 Practice

2.1 Explain how an economy in a recessionary gap self-corrects. [2]

2.2 State what happens to nominal wages during a recessionary gap. [1]

2.3 State the long-run level of output after self-adjustment. [1]

3 Exam-style questions

3.1 In a recessionary gap, self-correction happens as nominal wages [1]

- **A** rise
- **B** fall
- **C** stay fixed
- **D** disappear

3.2 After long-run self-adjustment, output returns to [1]

- **A** zero
- **B** potential output
- **C** above potential
- **D** below potential

3.3 An economy has an inflationary gap.

(a) State what happens to nominal wages over time. [1]

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

(c) State the long-run level of output. [1]

Solutions

2.1 high unemployment lowers nominal wages, which lowers costs and shifts SRAS right until output is back at potential.

2.2 they fall.

2.3 potential (full-employment) output.

3.1 B.

3.2 B.

3.3 (a) they rise. (b) to the left. (c) potential output.