3.4 Long-Run Aggregate Supply (LRAS)

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

KEY WORDS long-run aggregate supply 长期总供给 • potential gdp 潜在 • price level 价格水平 • sticky 粘性

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]

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3 Exam-style questions

3.1 The LRAS curve is [1]

A upward-sloping
B downward-sloping
C vertical
D horizontal

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

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]