

KEY WORDS stagflation 滞胀 • supply shock 供给冲击 • price level 价格水平

Build the skills to answer exam questions on **changes in the AD–AS model in the short run**.

- analyse how a shift in **aggregate demand** changes the price level and output
- analyse how a **supply shock** 供给冲击 changes the price level and output
- explain **stagflation** 滞胀 as the result of an adverse supply shock

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

- AD **right** $\rightarrow$ higher price level, higher output.
- AD **left** $\rightarrow$ lower price level, lower output.

SRAS left (e.g. costlier oil) → higher price level **and** lower output — the combination called **stagflation**.

Rising prices together with falling output (and rising unemployment), the tell-tale sign of an adverse supply shock.

2.1 State the effect of an increase in AD on the price level and output. [2]

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2.3 State what causes stagflation. [1]

3.1 A fall in AD in the short run causes [1]

3.2 Stagflation is [1]

3.3 A severe drought sharply raises food and input prices across the economy.

(a) State which curve shifts and in which direction. [1]

(b) State the effect on the price level. [1]

(c) Name the resulting condition. [1]

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