

Each case is a real macroeconomic episode traced through the same graphs the exam asks you to draw. The point is not the history; it is seeing that the model describes something that actually happened, so the chain becomes memorable rather than memorised. 每个案例都用考试要求的模型来分析真实事件。

Supply shocks

The 1970s oil shocks and stagflation — When oil prices rose sharply in 1973 and again in 1979, the cost of energy rose for almost every producer. In the AD-AS model this is a leftward shift of short-run aggregate supply: output fell and the price level rose at the same time – stagflation, which a demand-side story cannot produce, since a fall in AD lowers both. The episode is the standard illustration of why supply shocks are harder for policy than demand shocks: expansionary policy restores output but worsens inflation, while contractionary policy does the reverse. It is also the historical reason economists distinguish the short-run Phillips curve, which shifted outward as inflation expectations rose, from the long-run curve at the natural rate.

The 2020 pandemic – a shock to both curves — The pandemic reduced aggregate demand as households stopped travelling and spending on services, and simultaneously disrupted aggregate supply through factory closures and broken shipping links. Because both curves moved left, output fell unambiguously while the effect on the price level was ambiguous – which is exactly the “indeterminate” answer the exam sometimes wants, and the reason it is a valid full-credit response when justified. The unusually large fiscal transfers that followed shifted AD sharply right while supply was still constrained, and the resulting inflation is a live illustration of the AD-AS diagram’s prediction.

Monetary policy

The Volcker disinflation, 1979-1982 — Facing double-digit inflation, the US central bank sharply contracted the money supply. Trace the chain: money supply shifts left, the nominal interest rate rises steeply – it exceeded 19 per cent – investment and interest-sensitive consumption fall, aggregate demand shifts left, and both output and inflation fall. Unemployment rose above ten per cent before inflation broke. The episode is the clearest real example of the short-run trade-off along the Phillips curve, and of the argument that credibility matters: once expectations of low inflation were established, the short-run curve shifted back inward and the economy could return to the natural rate at a much lower inflation rate.

Quantitative easing after 2008 — With the policy rate already near zero, conventional open-market operations had little room left, so central banks bought long-term assets directly. The money-market chain still applies, but the episode shows its limits: the money supply expanded enormously while inflation stayed low, because banks held the new reserves rather than lending them, and demand for money was extremely elastic. This is the liquidity-trap case, and it explains why the exam’s standard chain assumes an interest rate that can still fall.

Fiscal policy and the international link

Crowding out and the 1980s US deficits — Large sustained deficits increased the government’s demand for loanable funds, raising the real interest rate. Two consequences followed, and both are exam chains. First, private investment was displaced – crowding out. Second, the higher real return attracted foreign financial capital, which increased demand for the dollar; the dollar appreciated strongly, exports became more expensive abroad, and the trade deficit widened. The pairing of a budget deficit with a trade deficit through the exchange rate is a standard multi-market free-response question, and this is where it comes from.

Greece after 2010 – fiscal policy without monetary policy — Inside a currency union, a member

country cannot devalue or set its own interest rate. Facing a severe recession, Greece could not shift AD through monetary policy or gain competitiveness through depreciation, and fiscal contraction was required by its creditors, shifting AD further left. The case is useful for exam purposes because it isolates what the exchange-rate channel normally contributes: with that channel closed, adjustment had to come through falling domestic wages and prices, which is slow and costly in output.