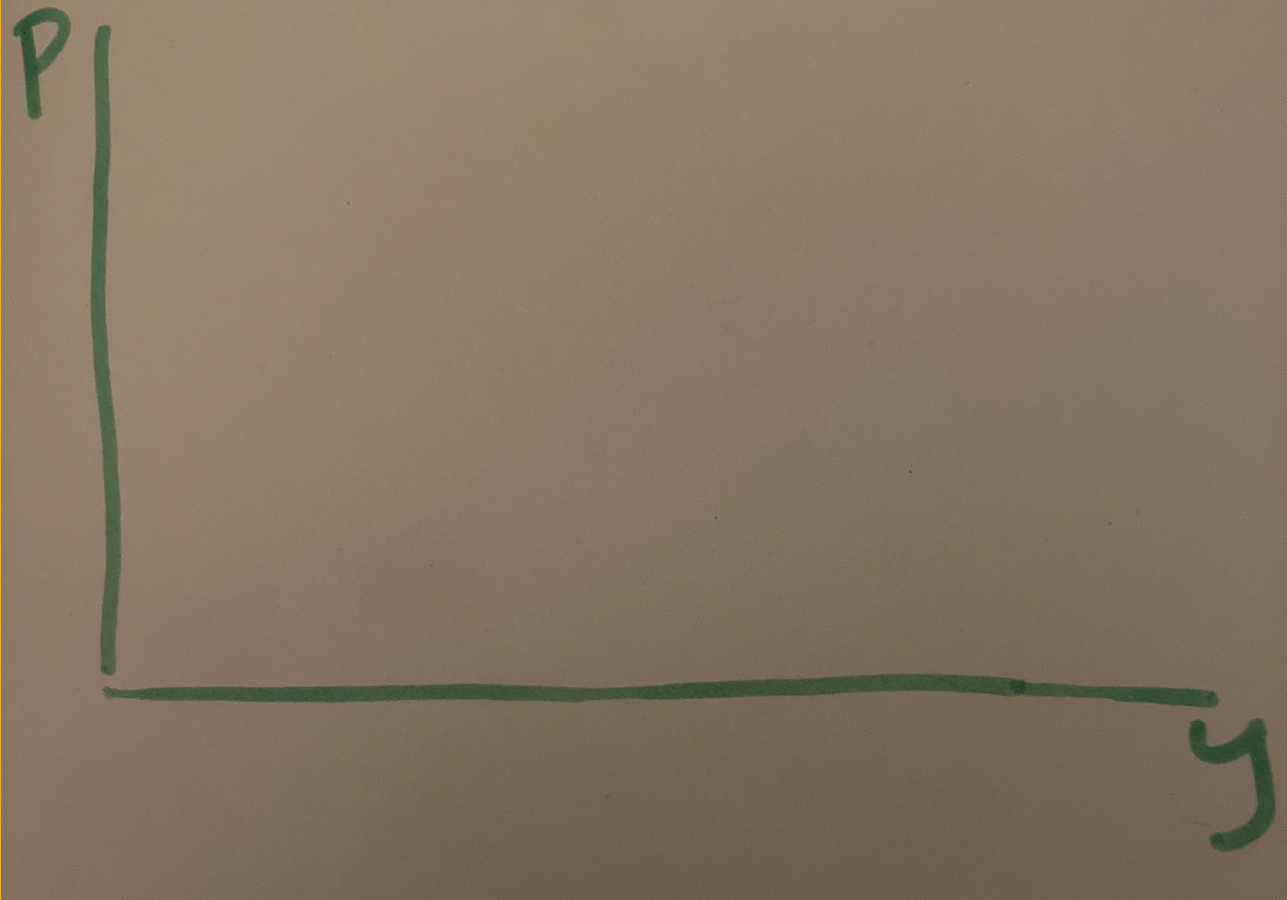


WEEK 15

AD – AS Model

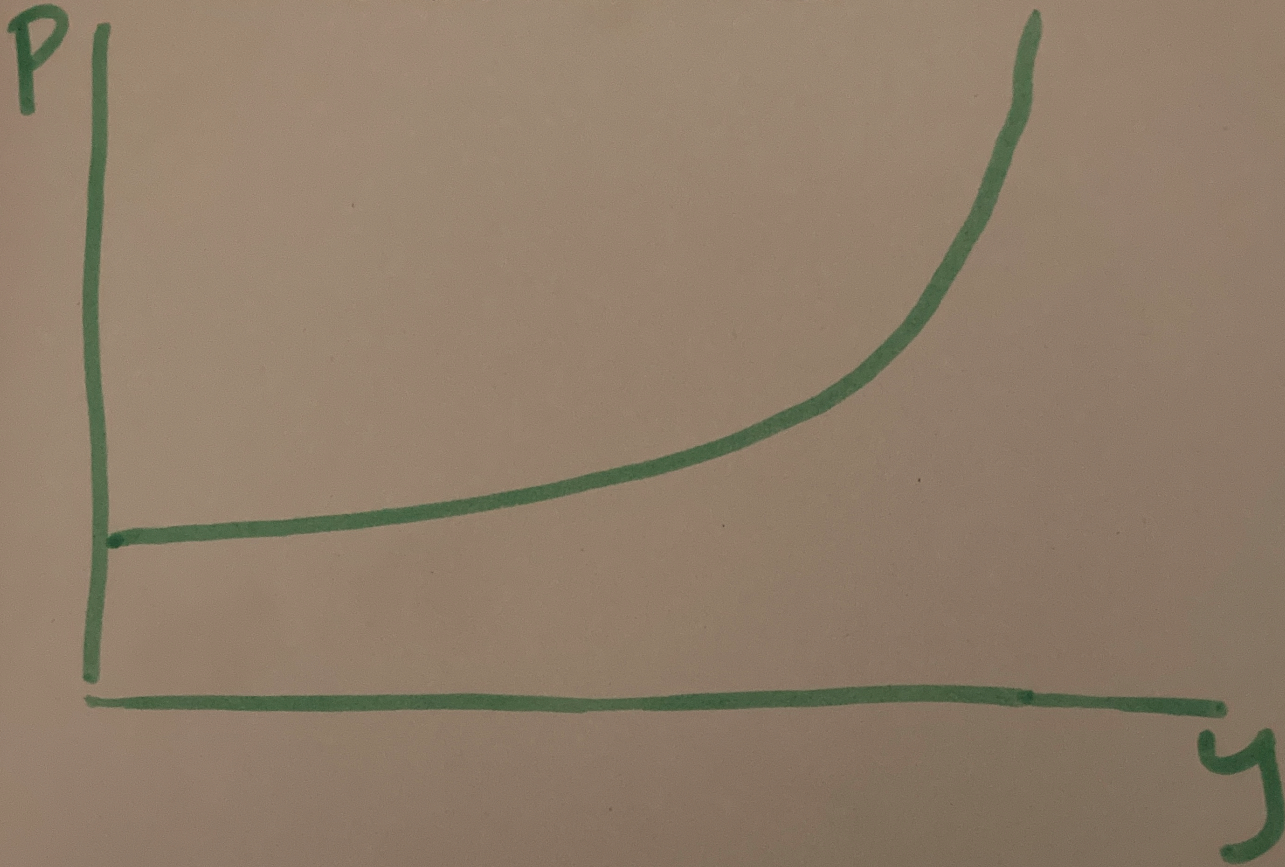
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



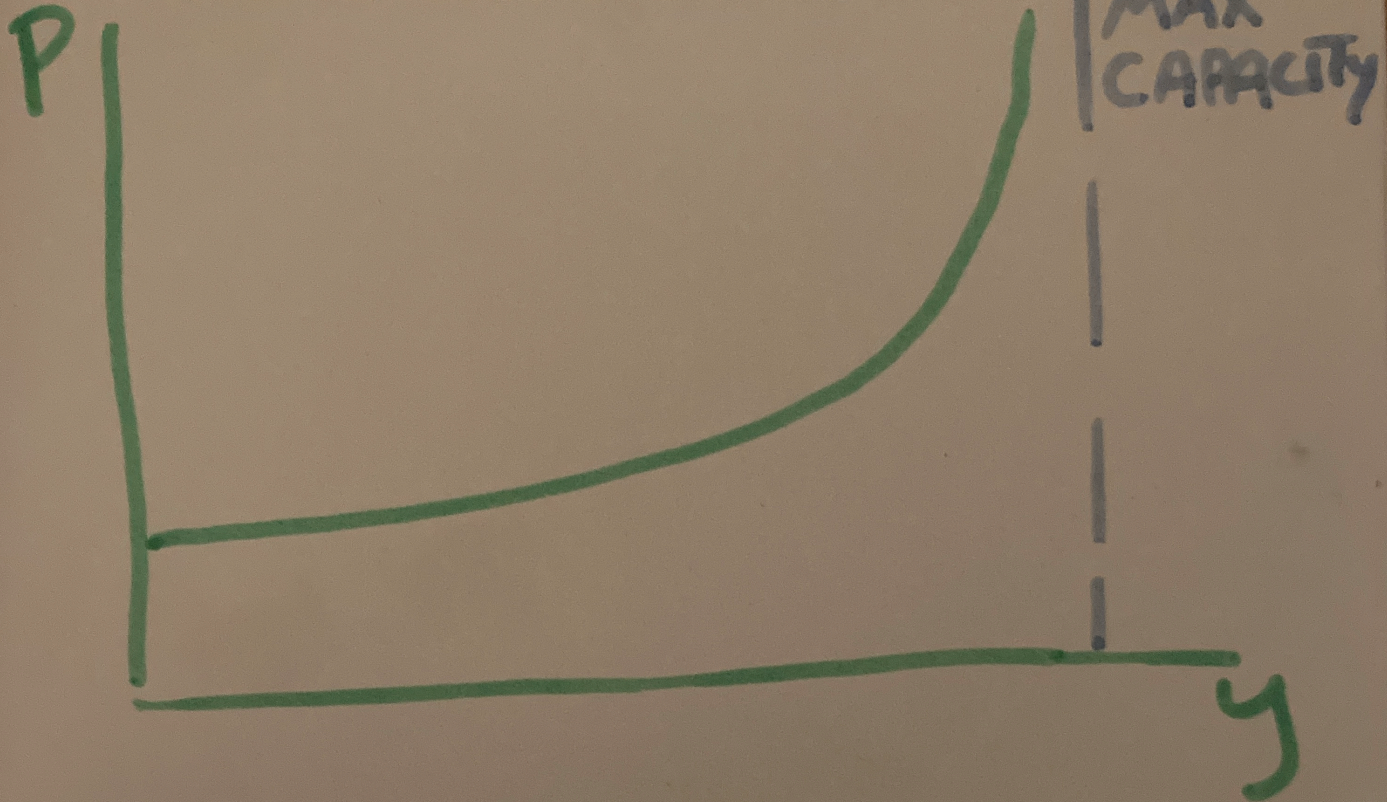
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



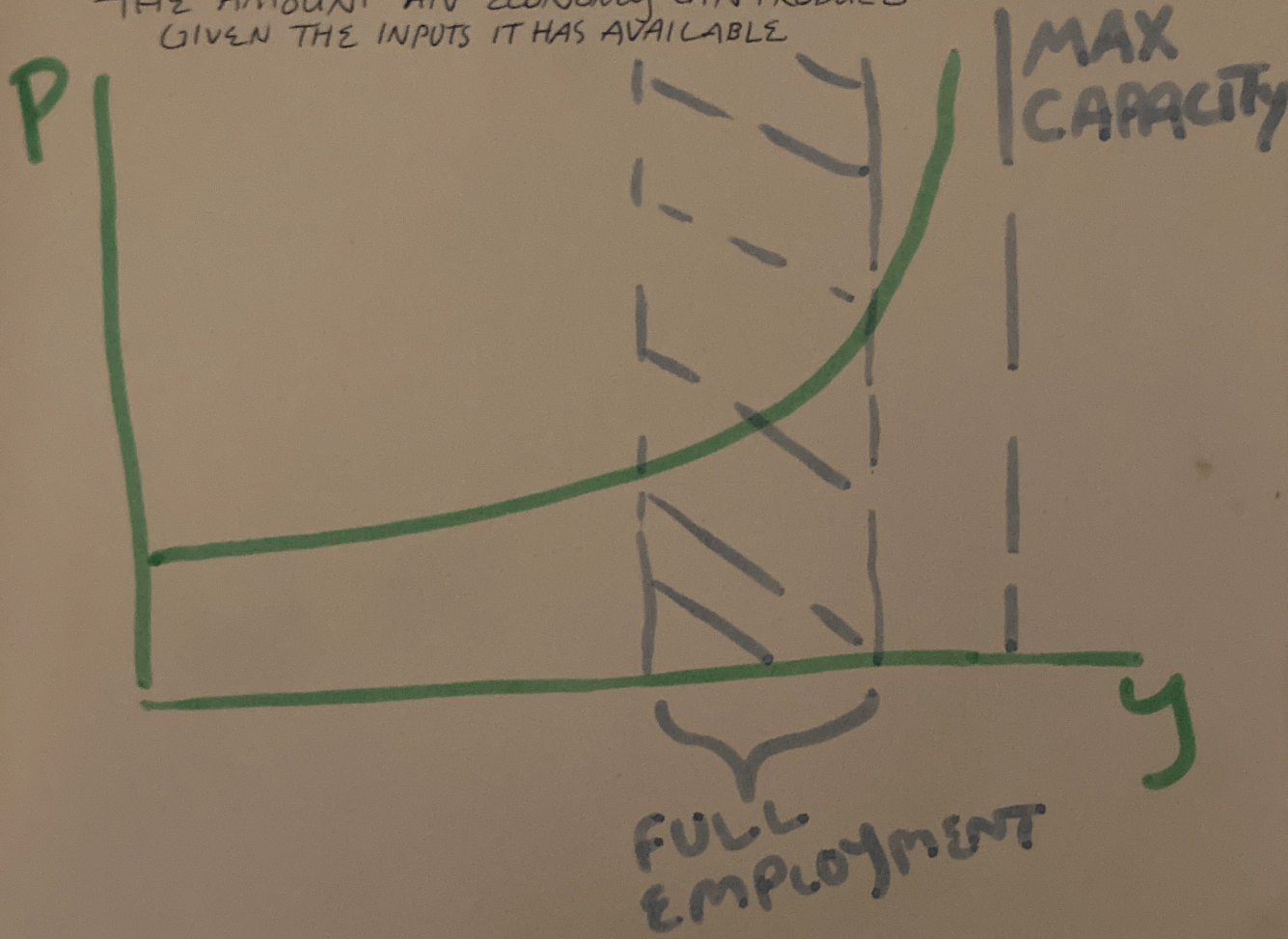
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



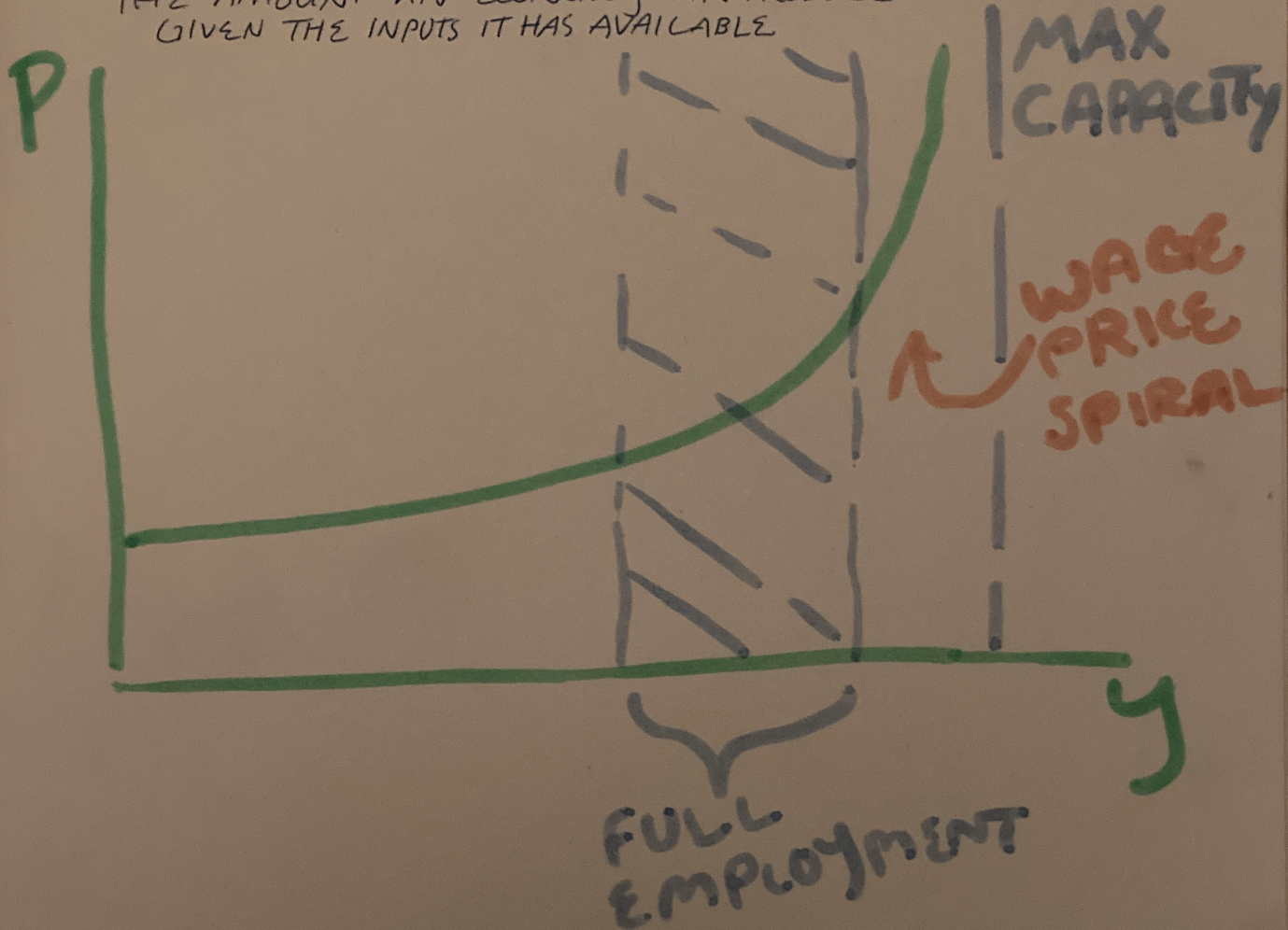
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



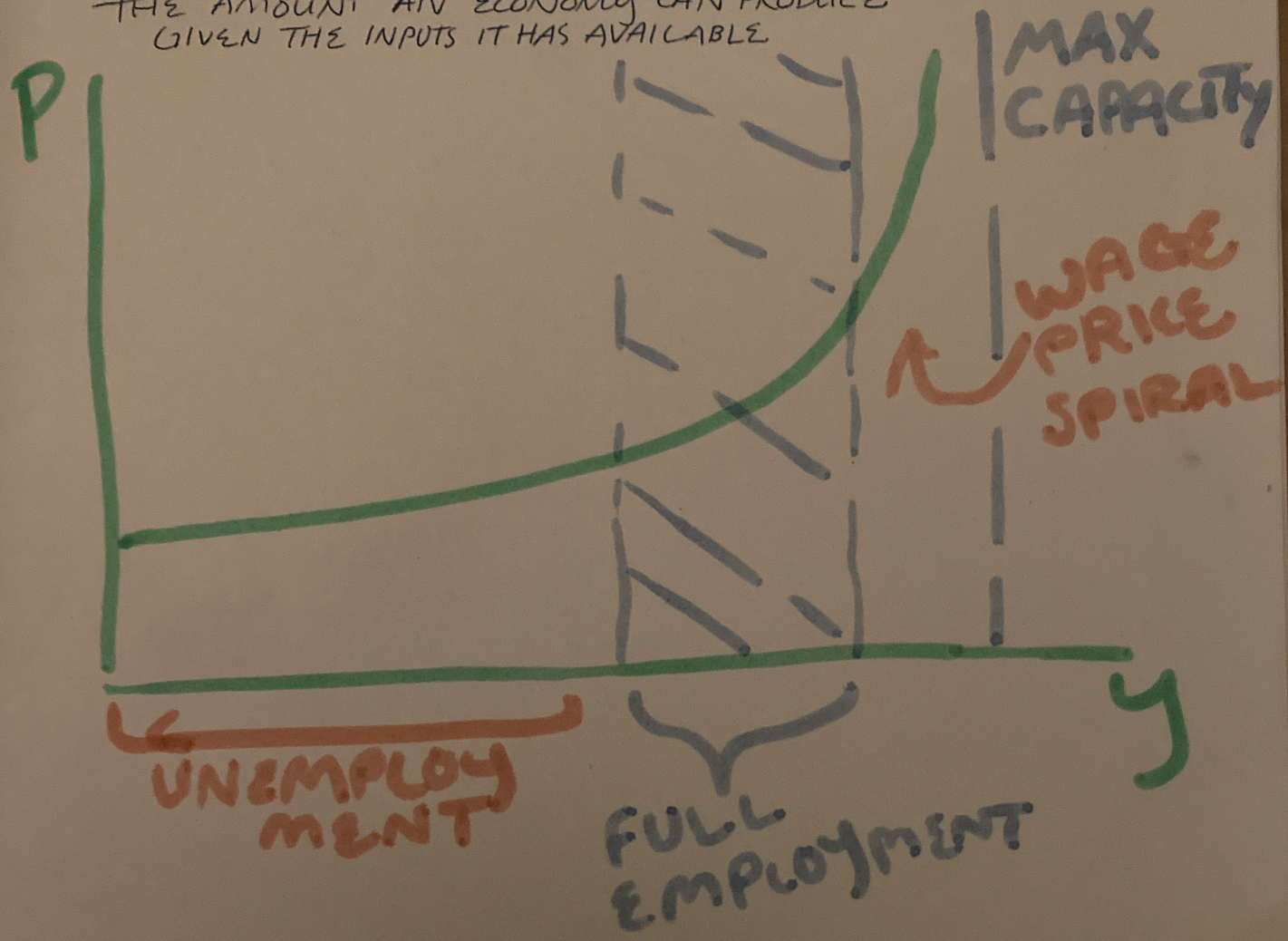
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



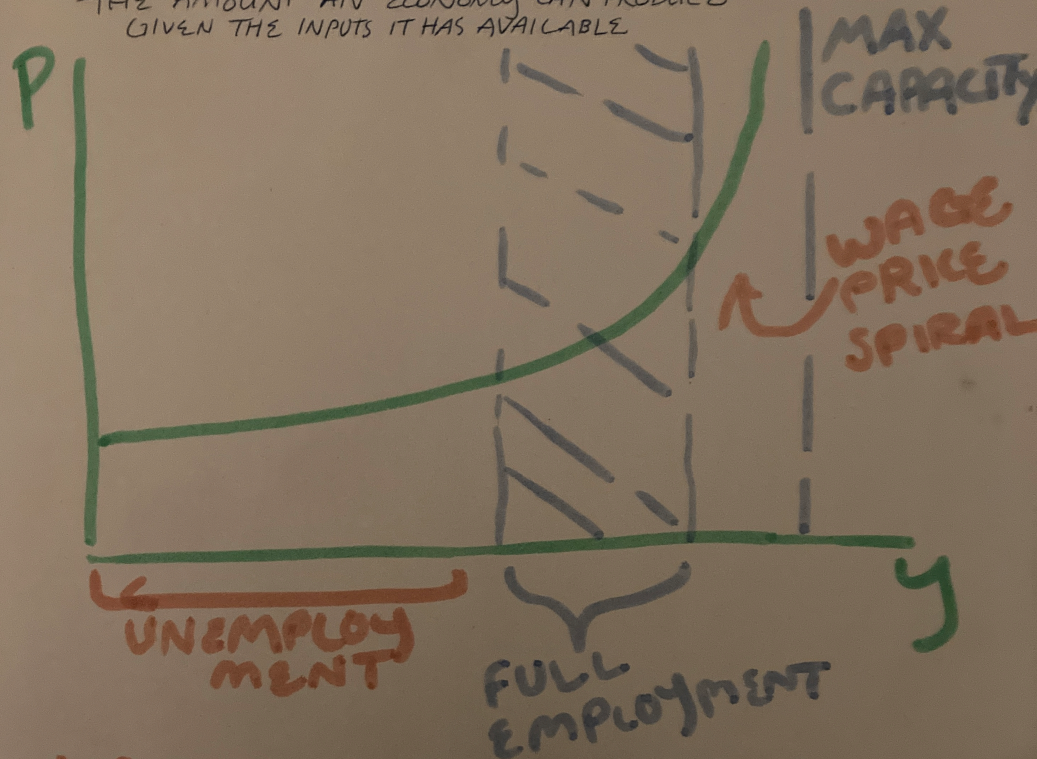
AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



AGGREGATE SUPPLY

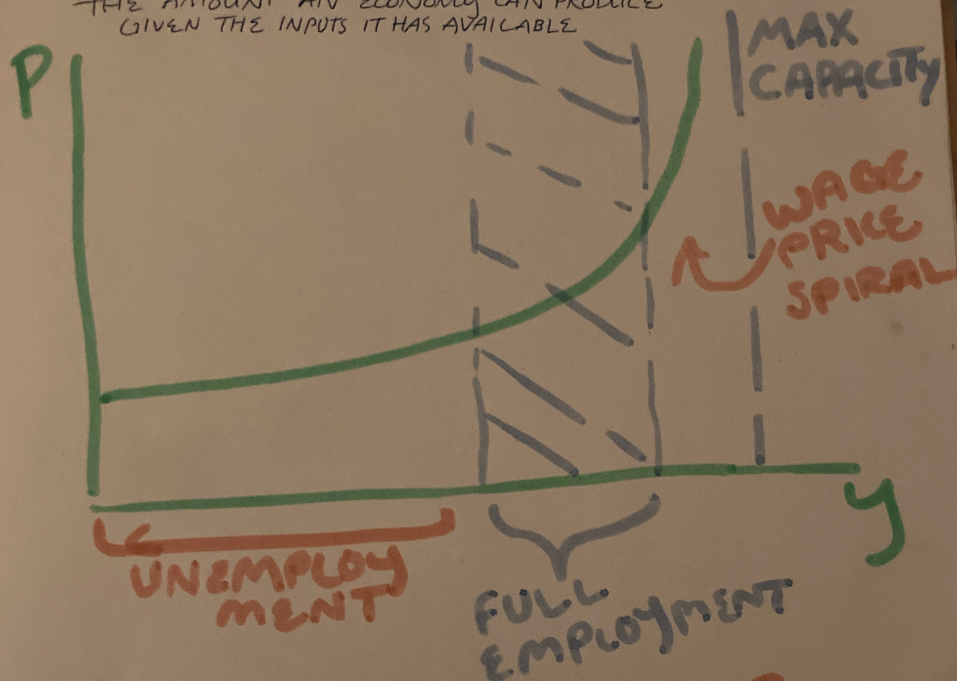
THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



WHAT SHIFTS AS CURVE?

AGGREGATE SUPPLY

THE AMOUNT AN ECONOMY CAN PRODUCE
GIVEN THE INPUTS IT HAS AVAILABLE



WHAT SHIFTS AS CURVE?

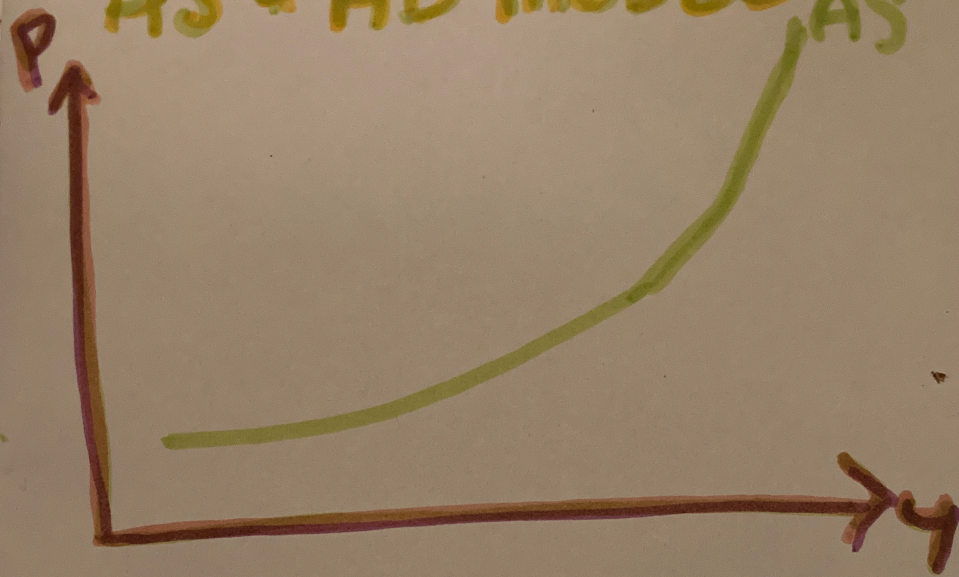
• INFLATION EXPECTATIONS

- expected price level built into contracts
 - ↳ self-fulfilling expectations
 - ↳ shifts curve up and down

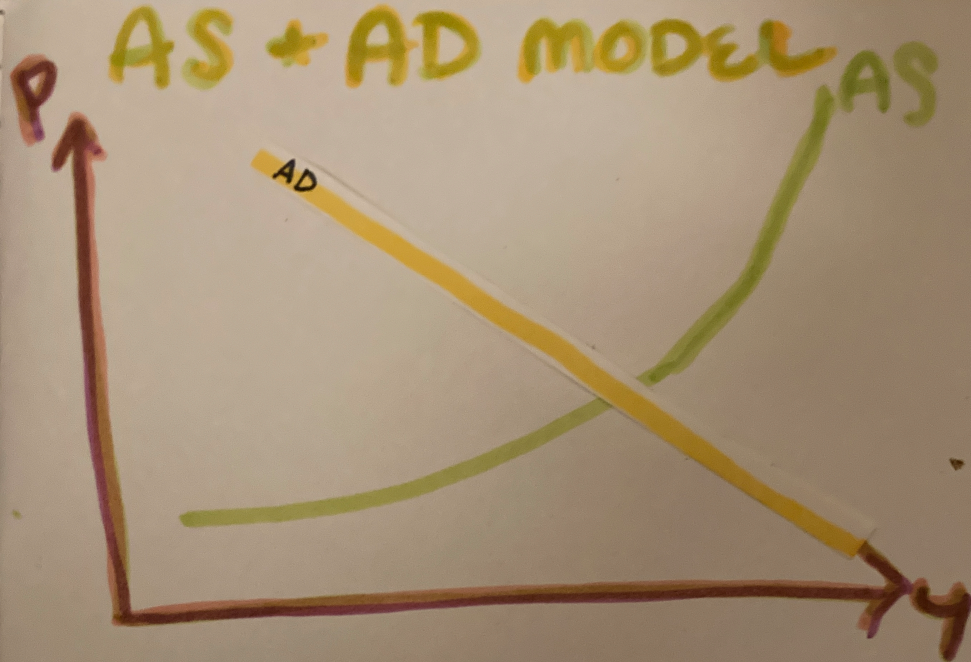
• SUPPLY SHOCKS

- changes in the amount of inputs which changes location of max capacity
 - ↳ shifts curve left and right.

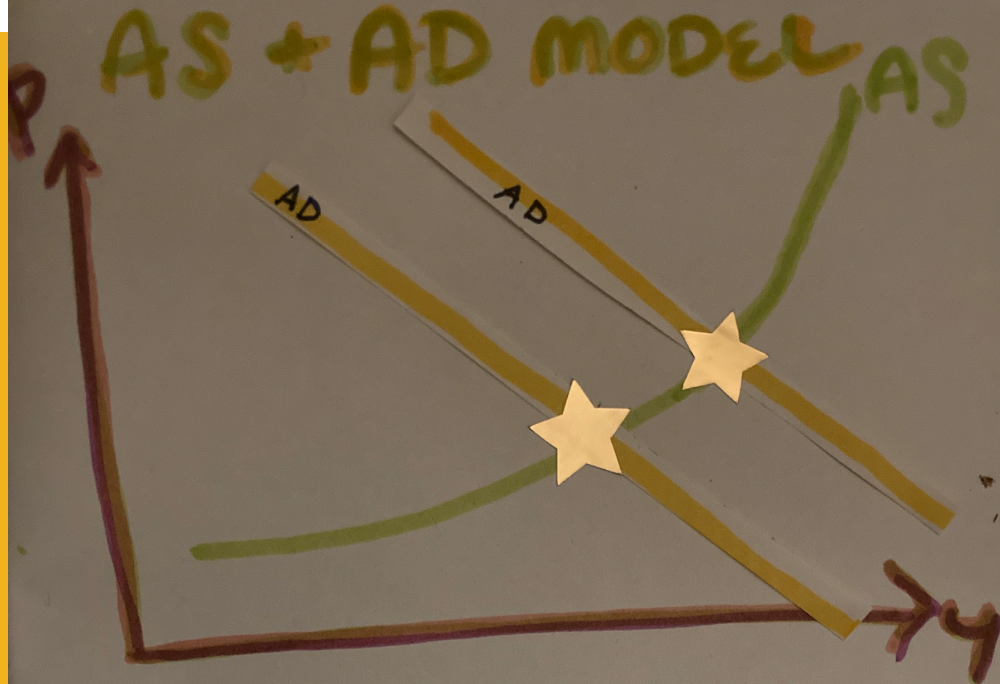
AS + AD MODEL AS



AD, DOWNWARD SLOPING



AD, DOWNWARD SLOPING
WHAT HAPPENS TO OUTPUT ^(Y)
~~AND~~ AND INFLATION ^(P) WHEN
FISCAL POLICY INCREASES?



AD, DOWNWARD SLOPING
 WHAT HAPPENS TO OUTPUT ^(Y)
 AND INFLATION ^(P) WHEN
 FISCAL POLICY INCREASES?

$$AD = C + I + G + NX$$

AD SHIFTS RIGHT (OR UP)
 Y AND P INCREASE



AD, DOWNWARD SLOPING
 WHAT HAPPENS TO OUTPUT ^(Y)
 AND INFLATION ^(P) WHEN
 FISCAL POLICY INCREASES?

$$AD = C + I + G + NX$$

AD SHIFTS RIGHT (OR UP)
 Y AND P INCREASE

HOW MUCH THEY INCREASE
 DEPENDS ON WHERE WE ARE
 IN THE ECONOMY (ALONG AS)