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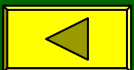
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Extending the Analysis of Aggregate Supply

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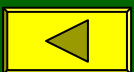
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SHORT-RUN AND LONG-RUN AGGREGATE SUPPLY

Short Run -

Period in which nominal wages (and other input prices) remain fixed as the price level increases or decreases

Long Run -

Period in which nominal wages are fully responsive to previous changes in the price level

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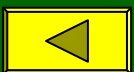
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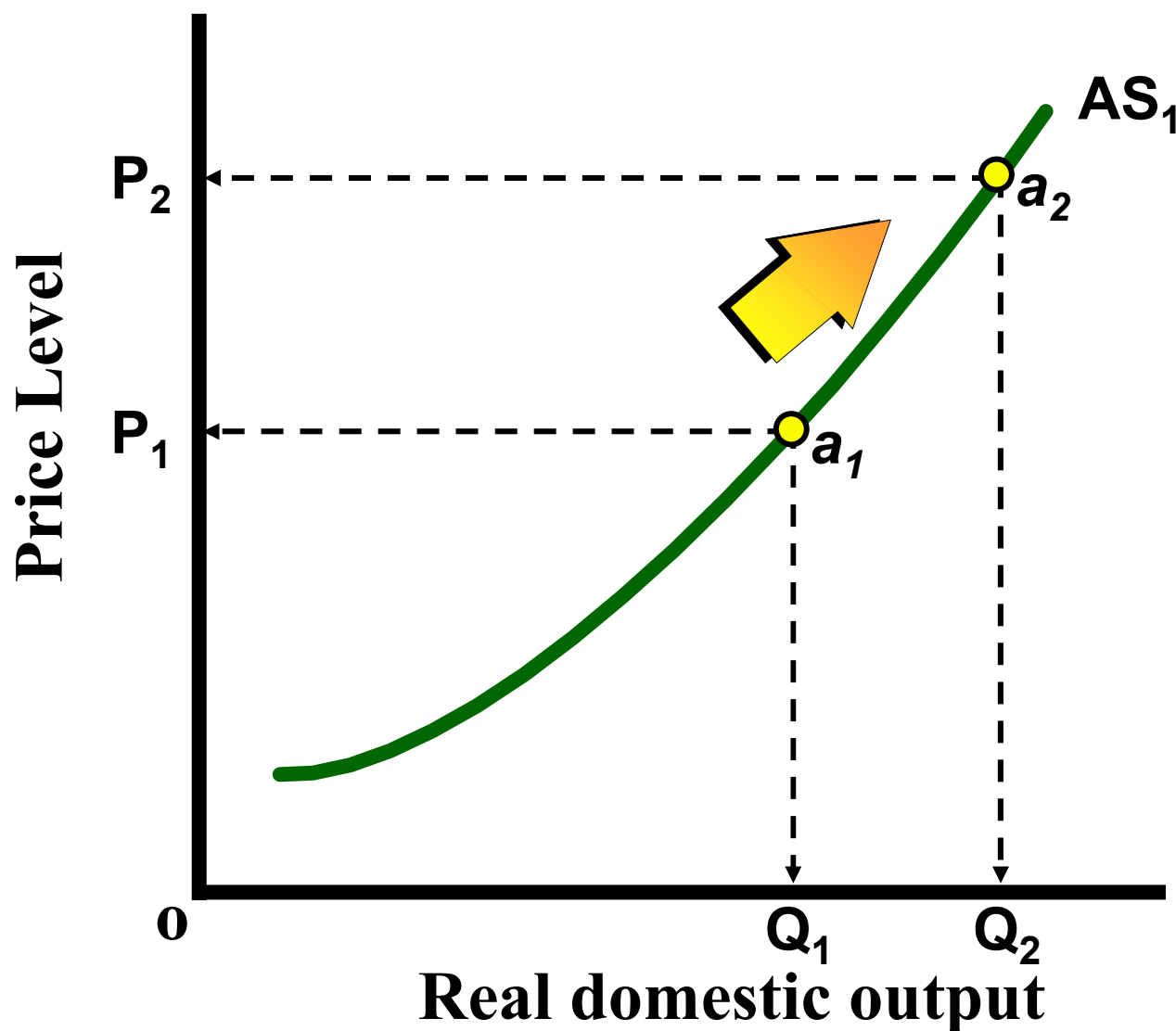
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SHORT-RUN AGGREGATE SUPPLY

A higher price level increases profits and output moving the economy from a_1 to a_2



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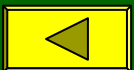
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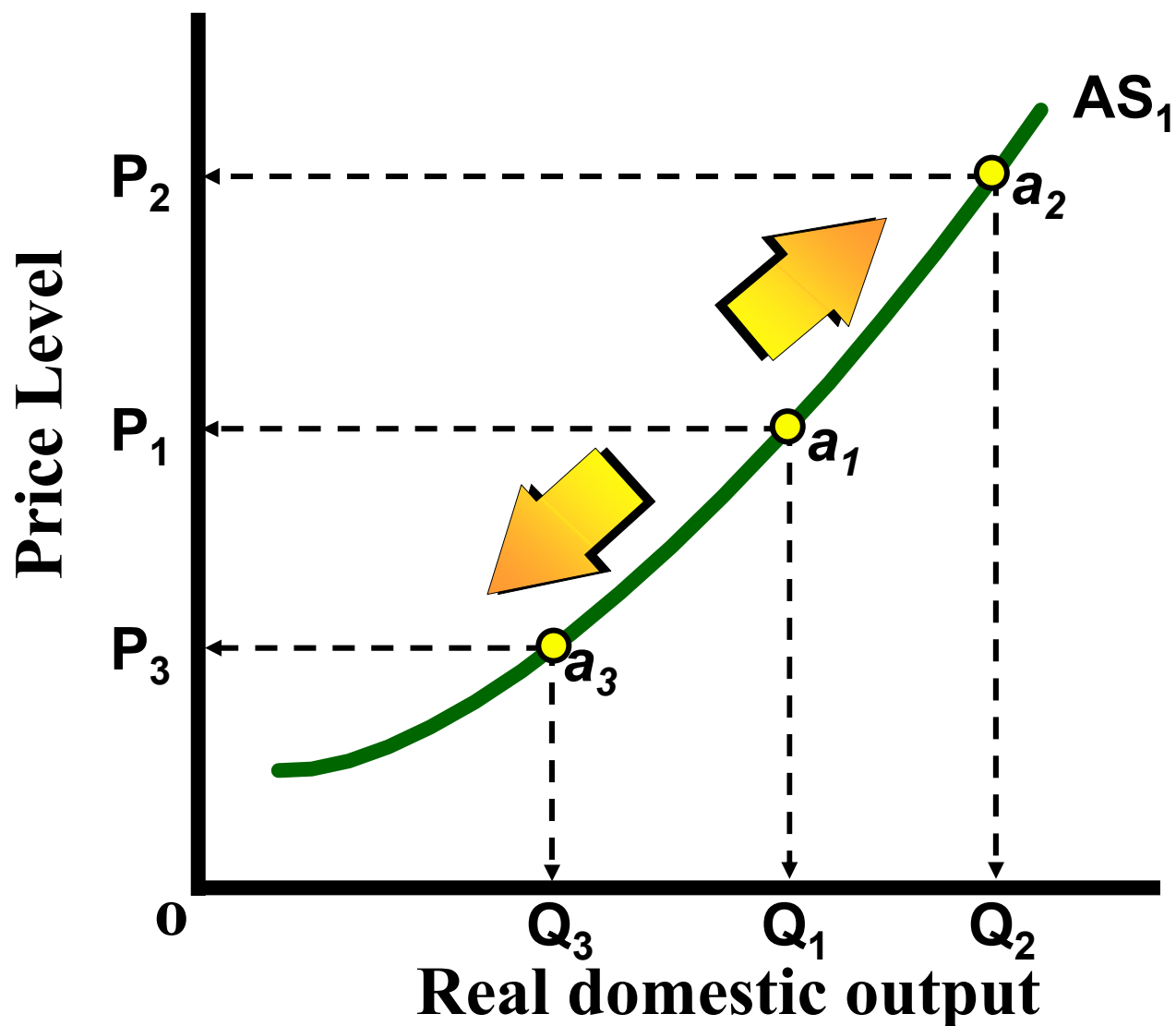
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SHORT-RUN AGGREGATE SUPPLY

A lower price level decreases profits and output moving the economy from a_1 to a_3



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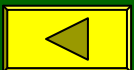
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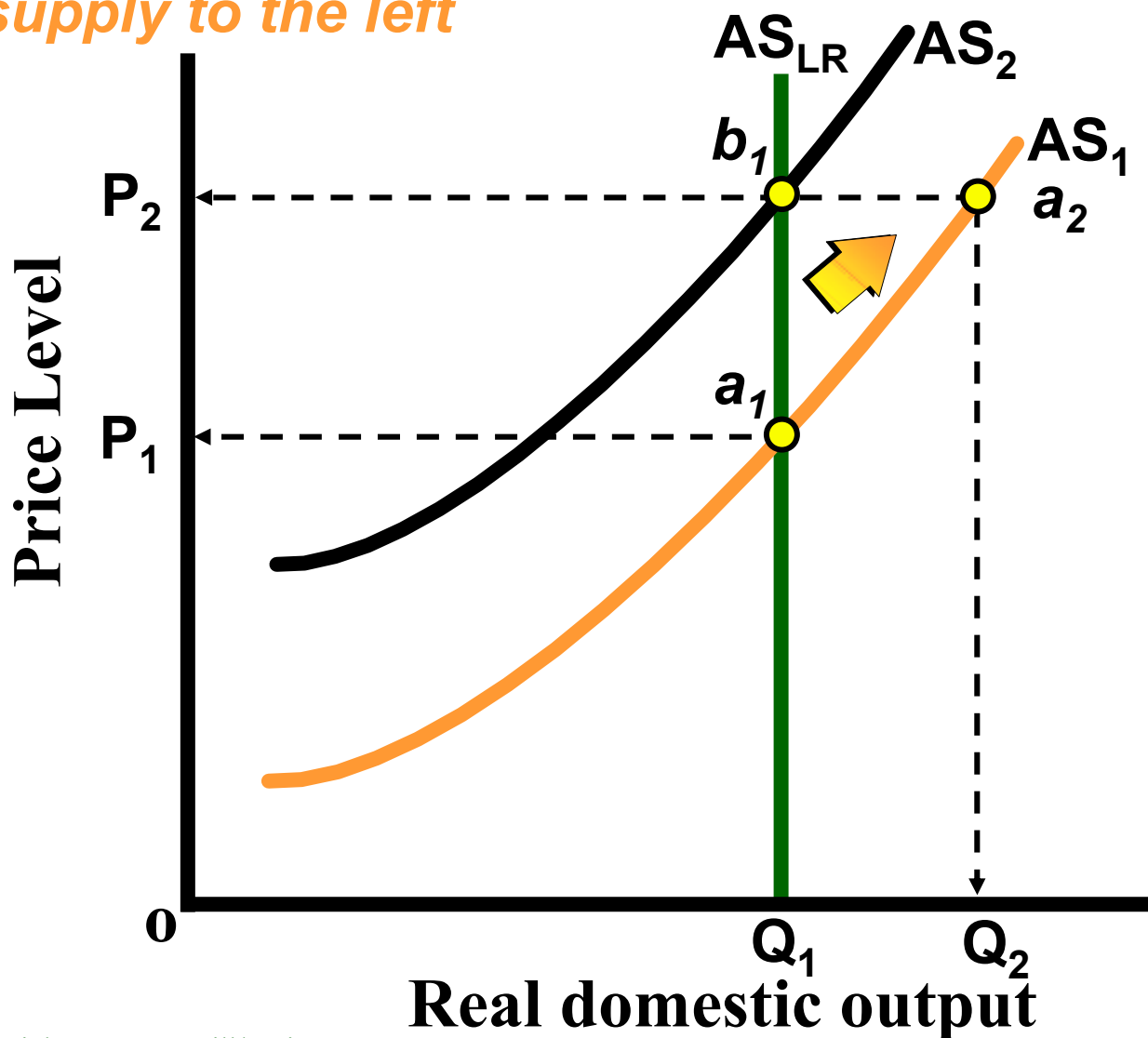
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LONG RUN AGGREGATE SUPPLY

A higher price level results in higher nominal wages and thus shifts the short-run aggregate supply to the left



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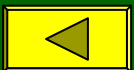
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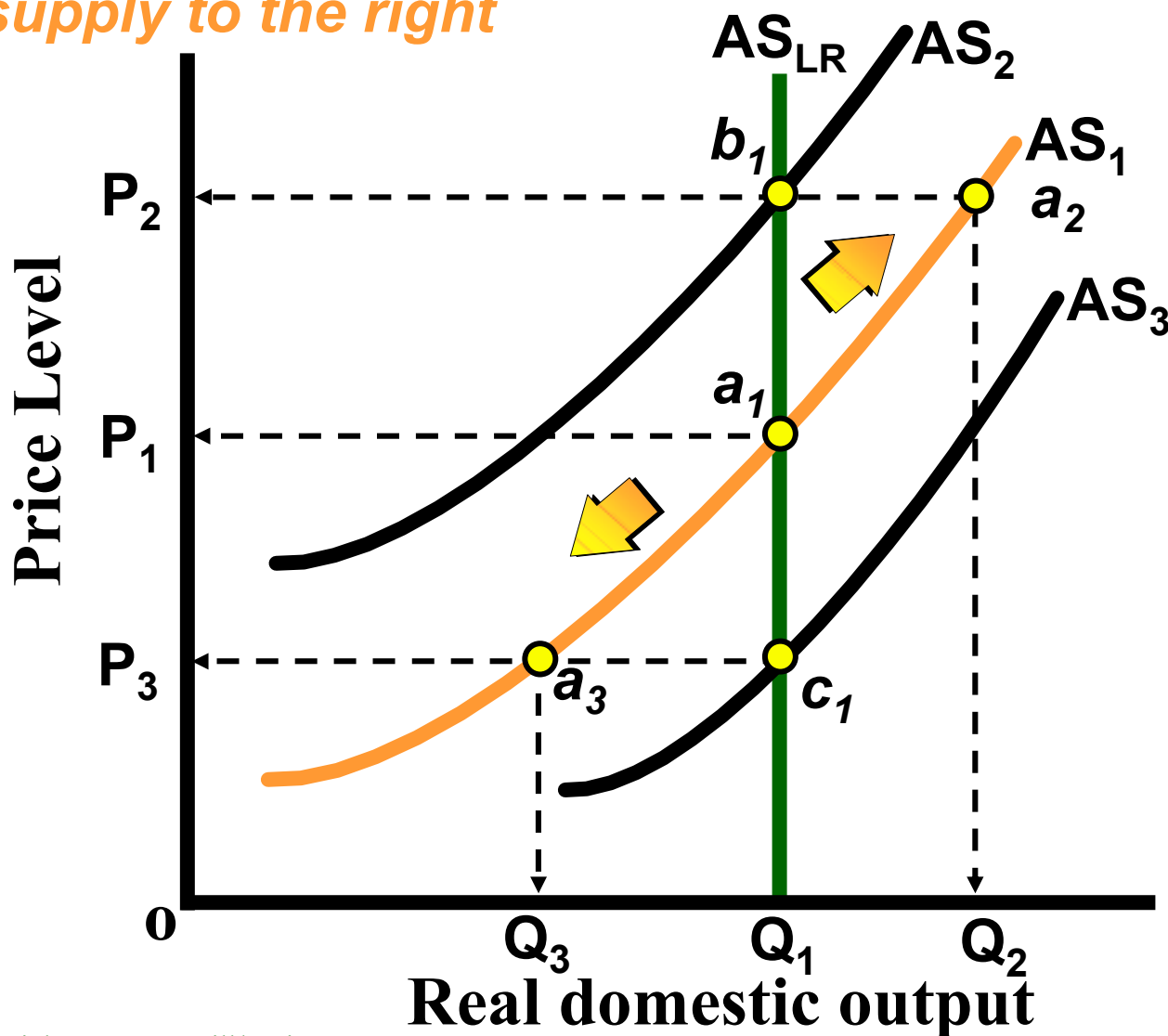
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LONG RUN AGGREGATE SUPPLY

A lower price level results reduces nominal wages and shifts the short-run aggregate supply to the right



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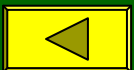
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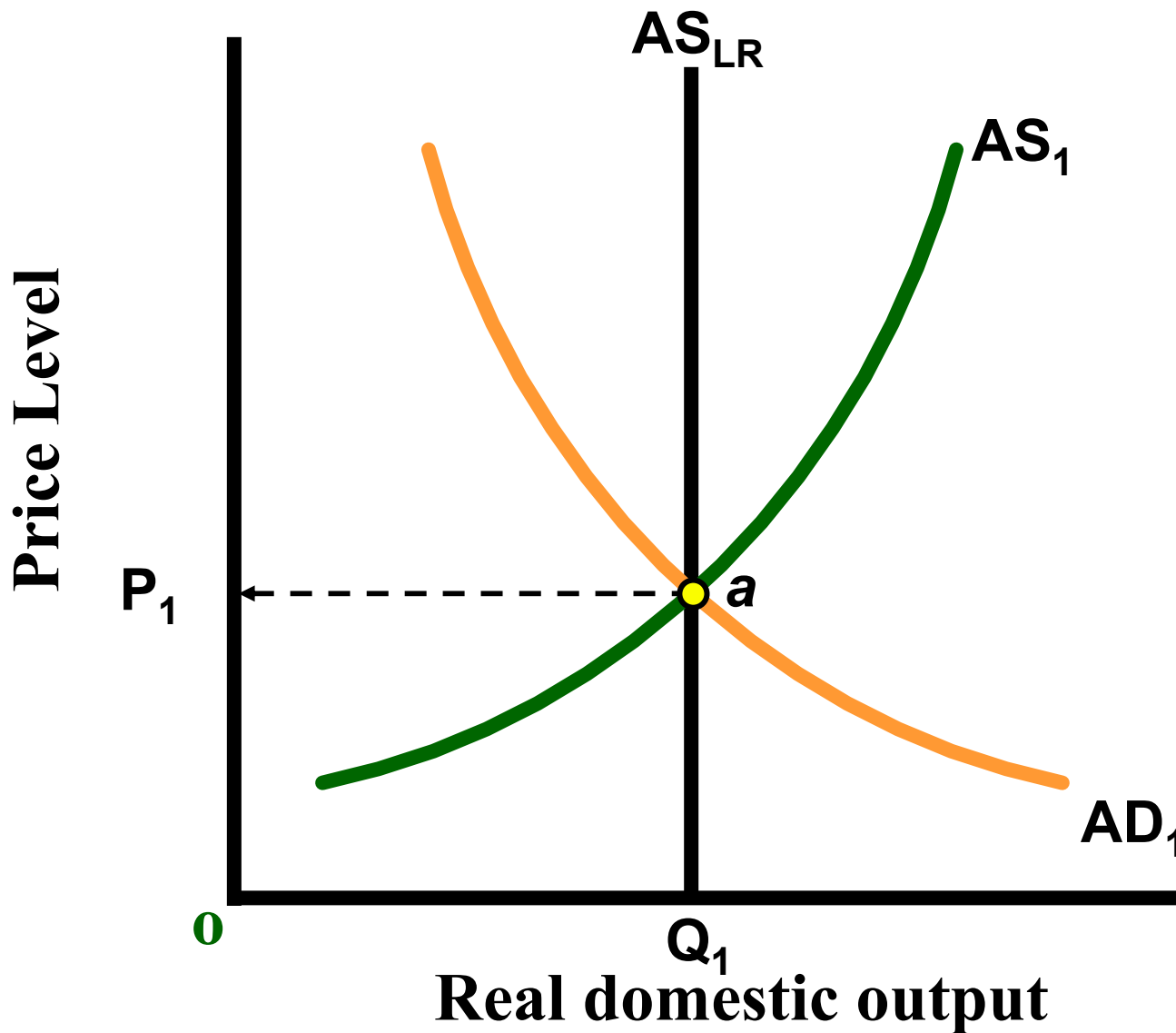
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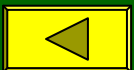
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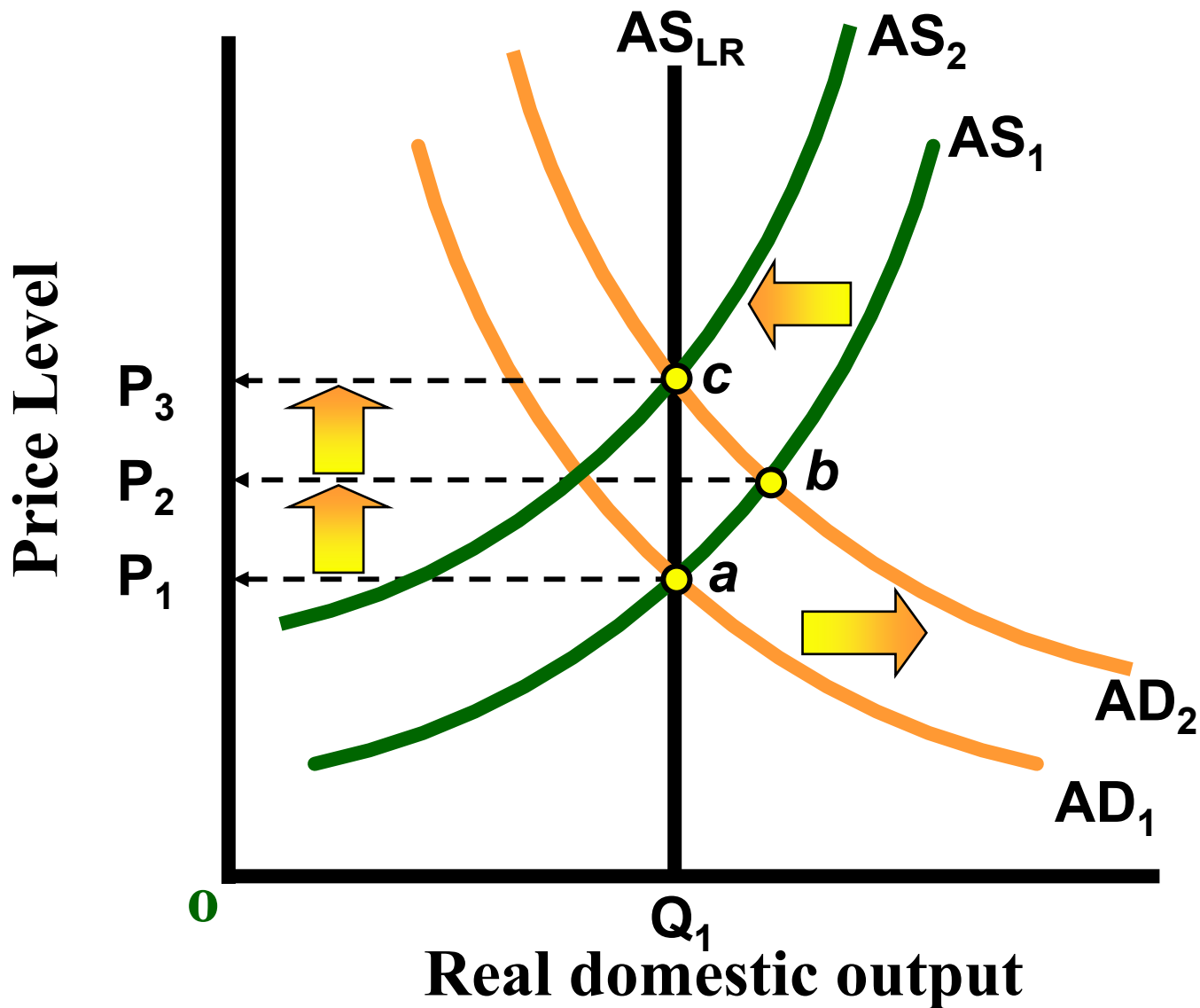
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DEMAND-PULL INFLATION



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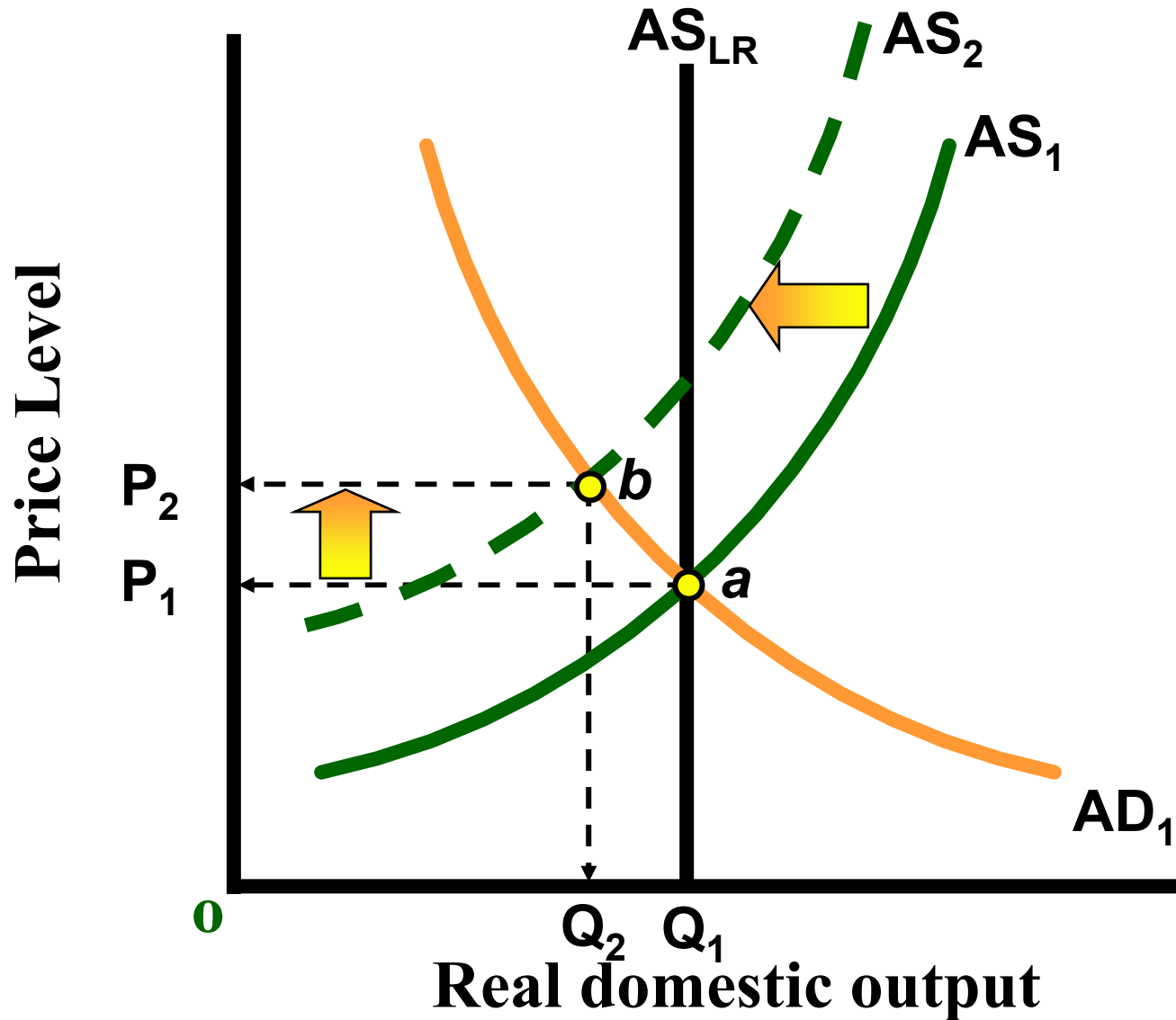
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COST-PUSH INFLATION

Occurs when short-run AS shifts left



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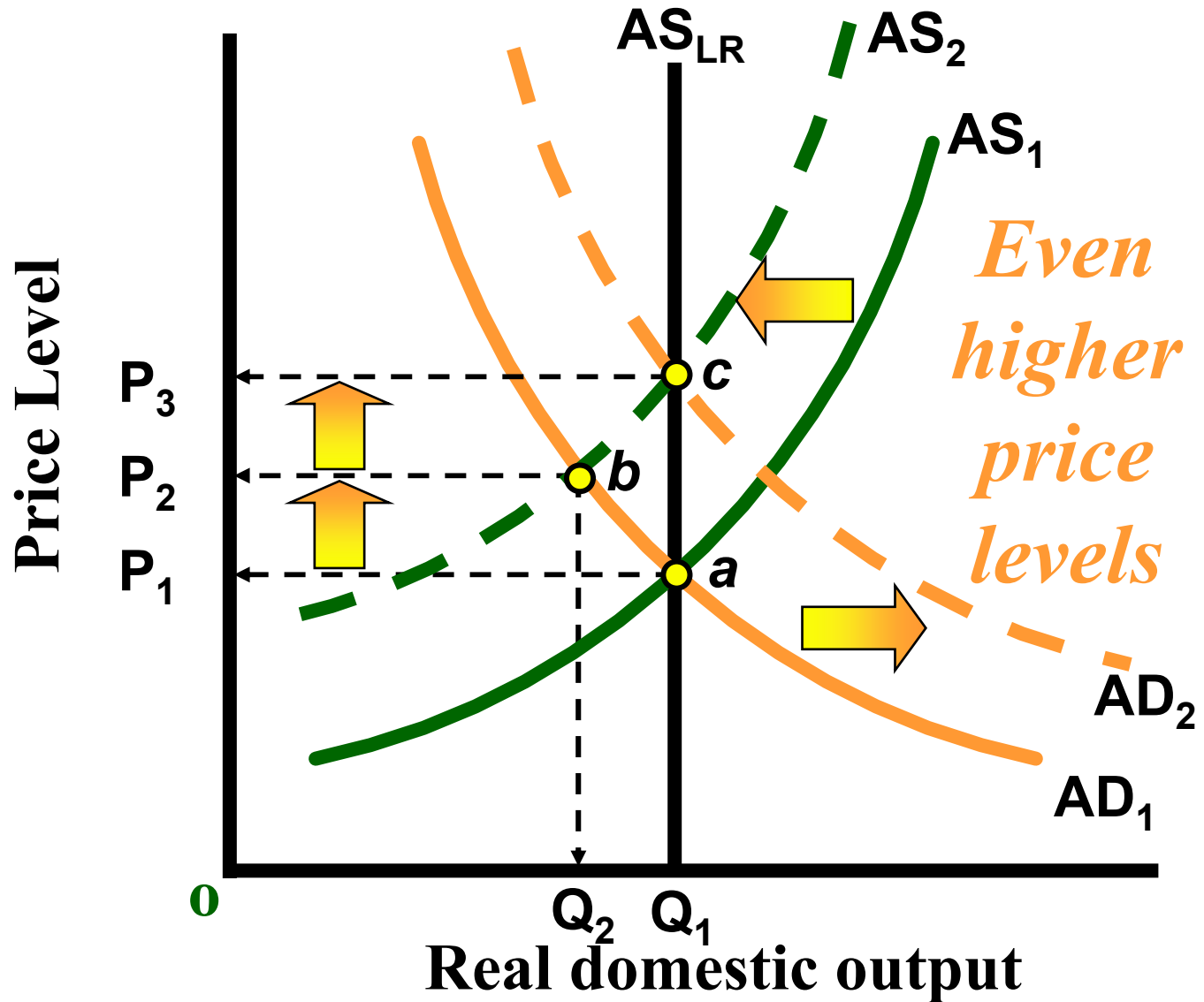
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COST-PUSH INFLATION

Government response with increased AD



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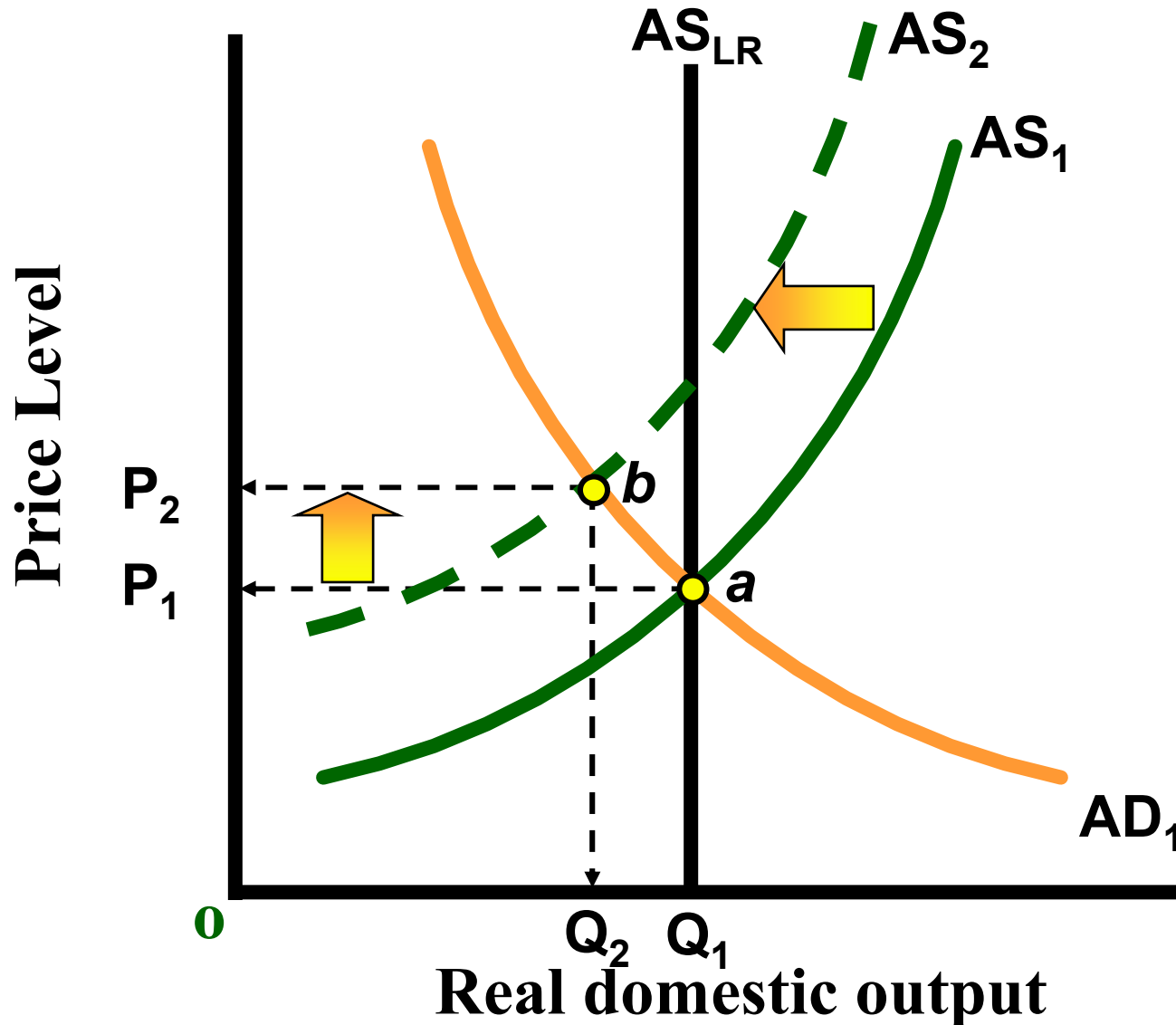
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COST-PUSH INFLATION

If government allows a recession to occur



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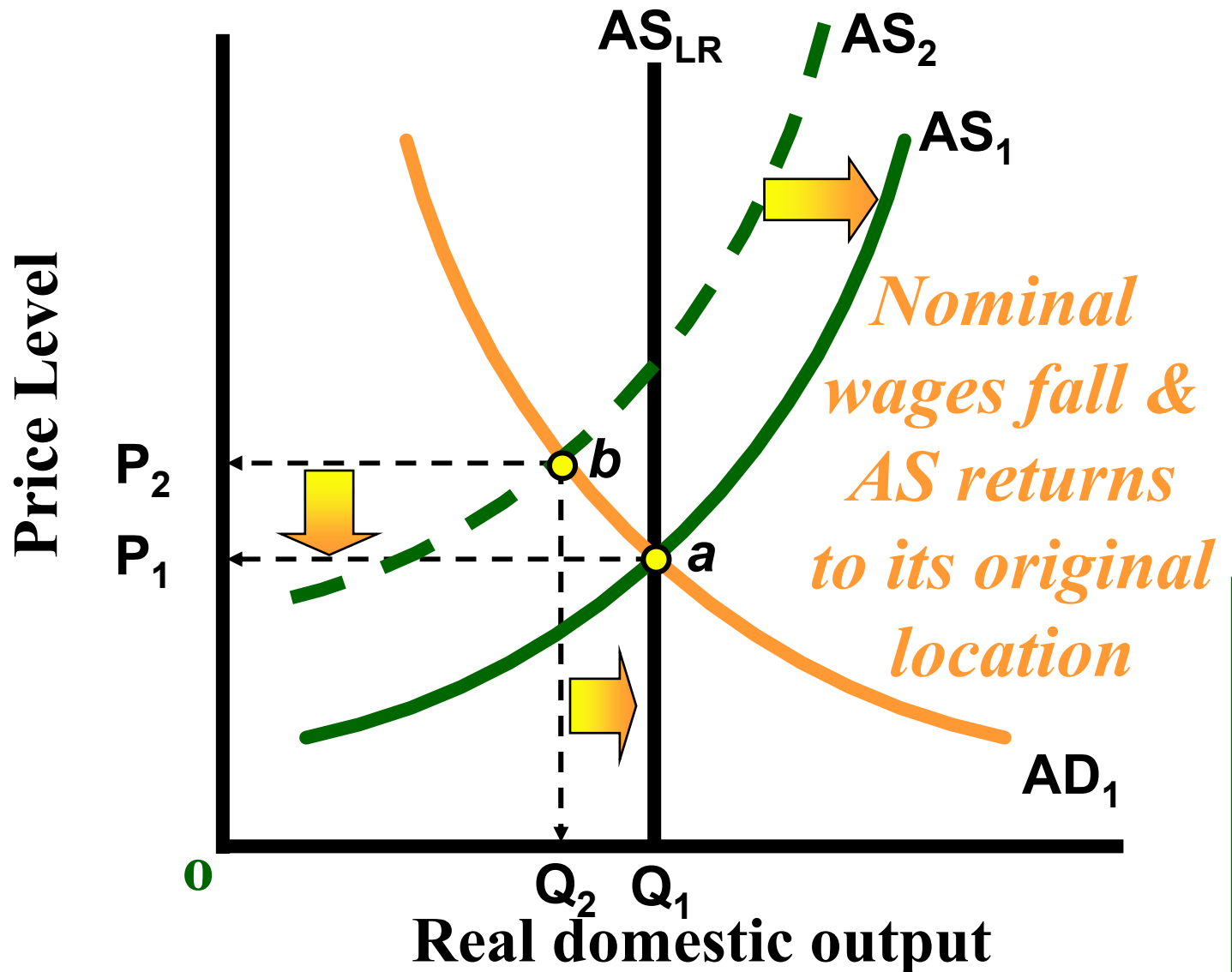
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COST-PUSH INFLATION

If government allows a recession to occur



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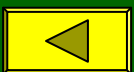
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THE INFLATION-UNEMPLOYMENT RELATIONSHIP

- Normally, there is a short-run trade-off between the rate of inflation and the the rate of unemployment
- Aggregate supply shocks can cause both higher rates of inflation and higher rates of unemployment
- There is no significant trade-off over long periods of time

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EFFECT OF CHANGES IN AGGREGATE DEMAND ON REAL OUTPUT AND THE PRICE LEVEL

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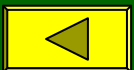
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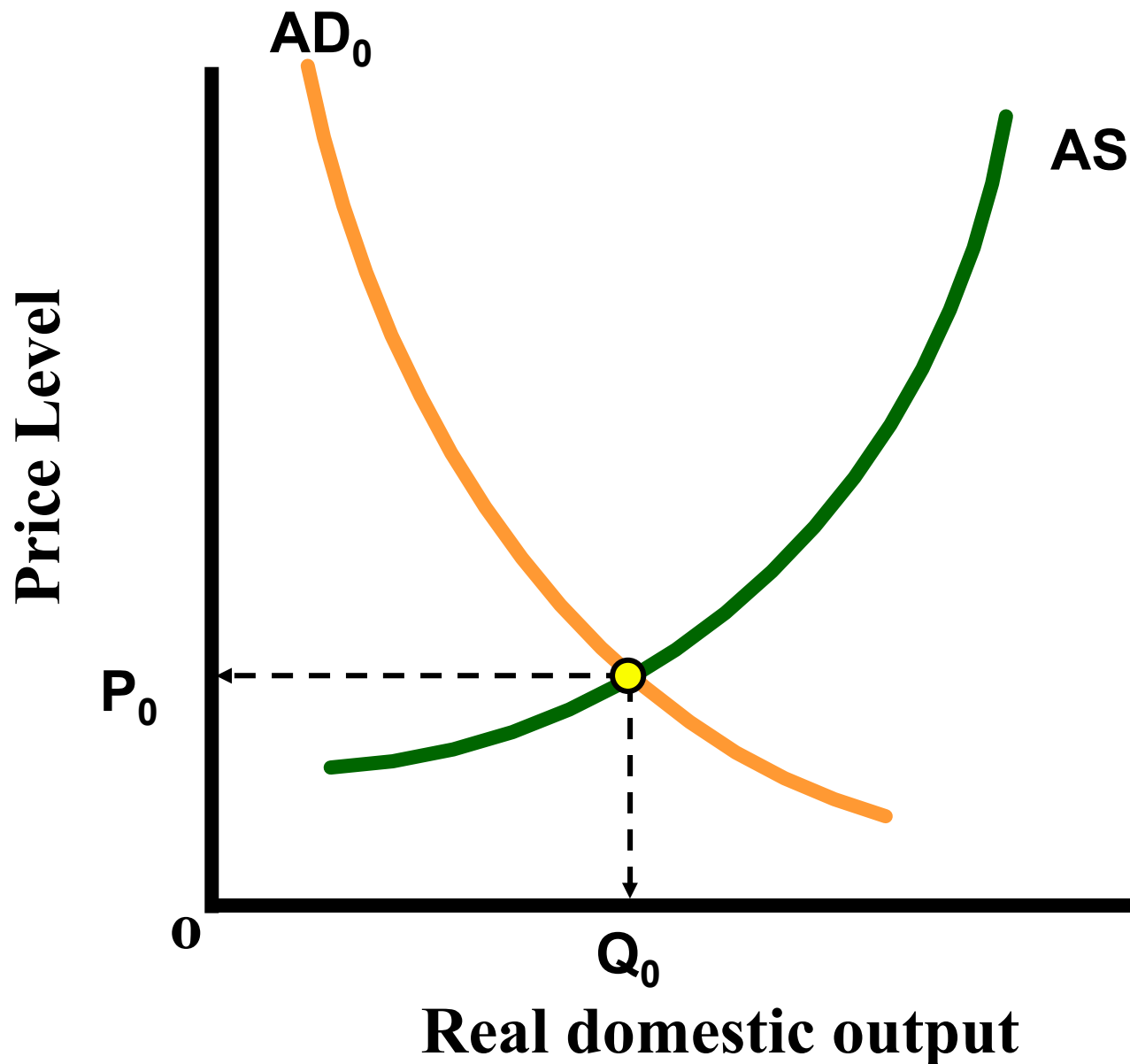
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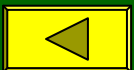
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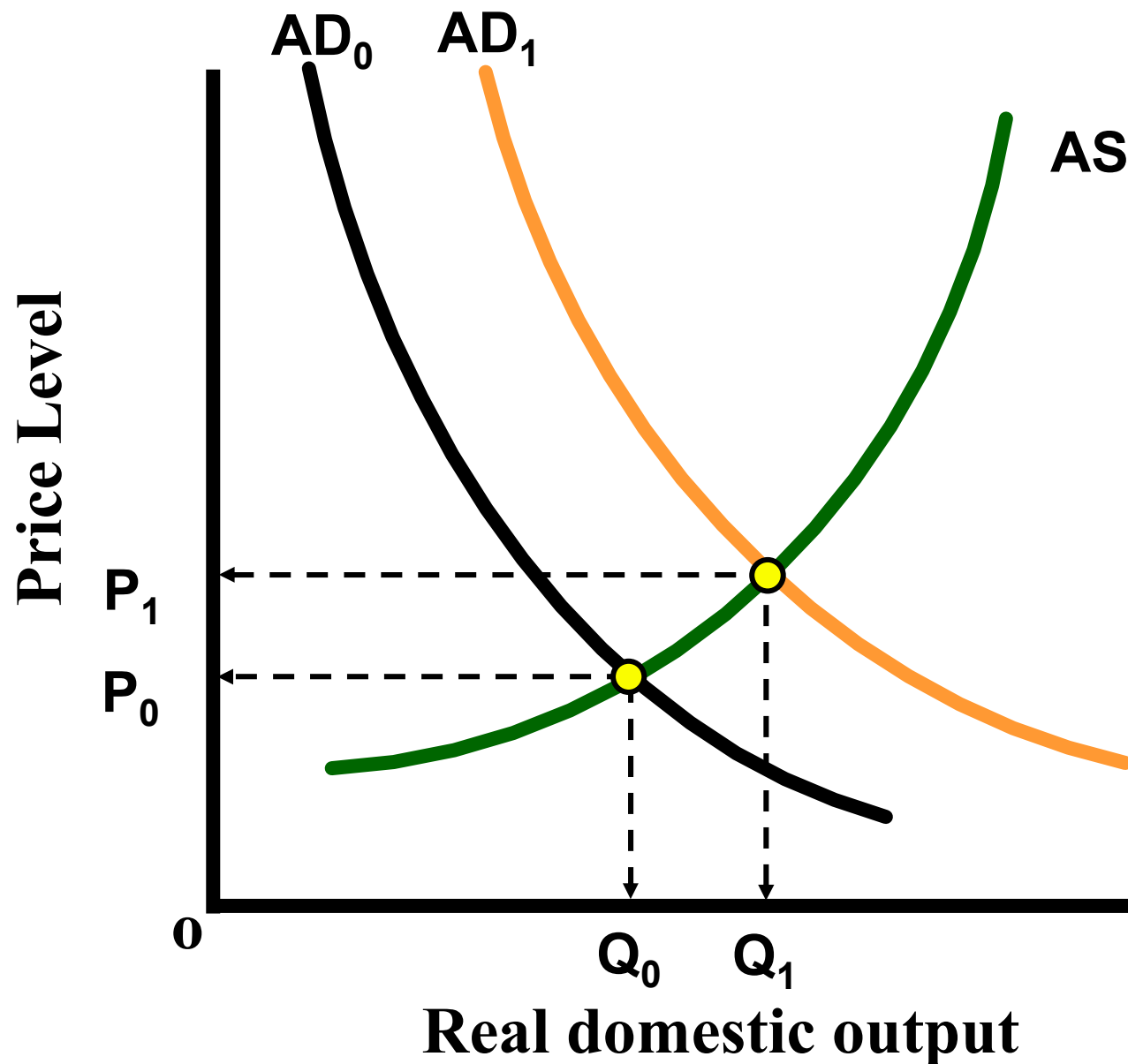
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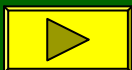
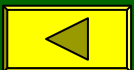
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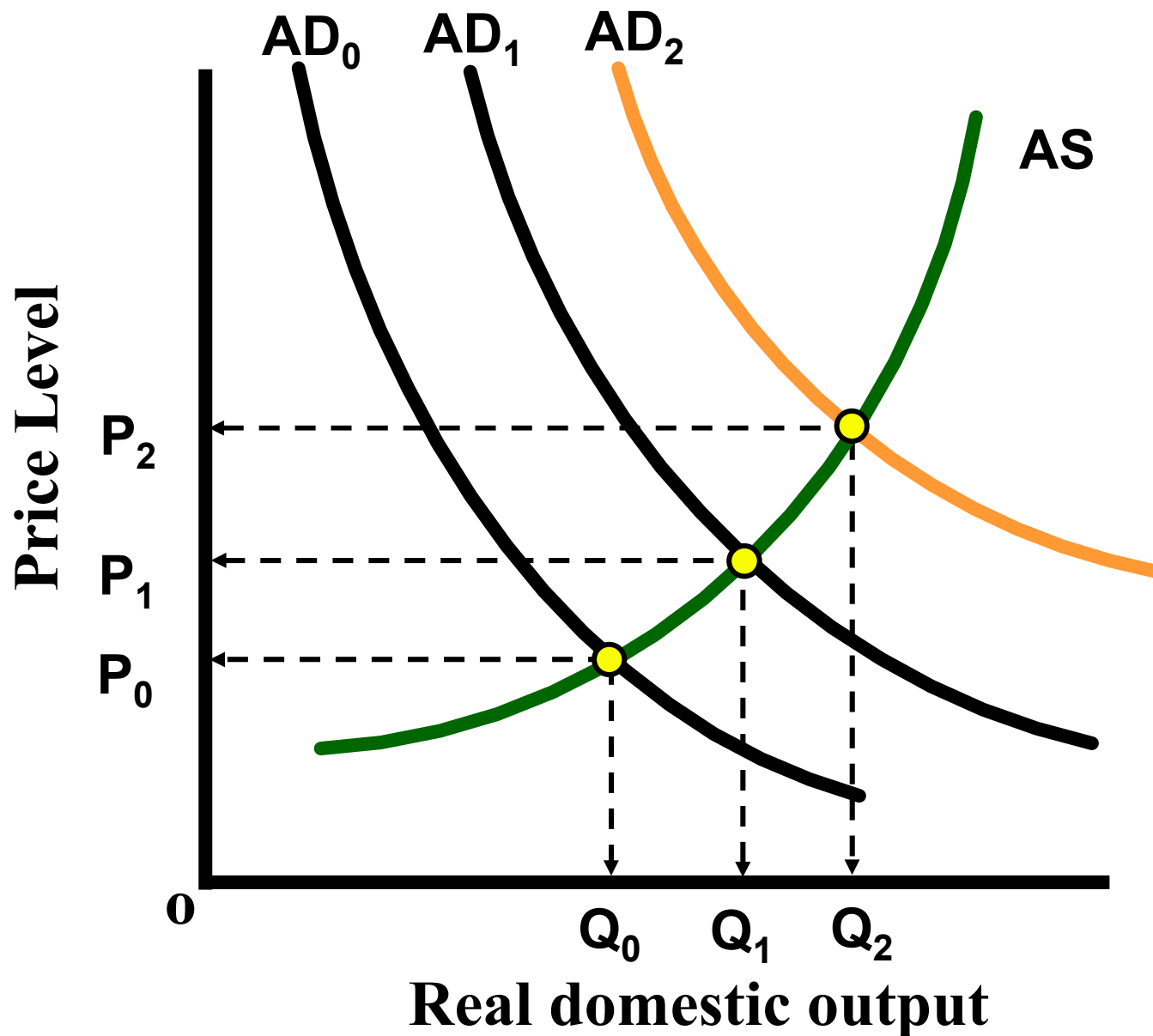
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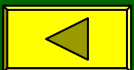
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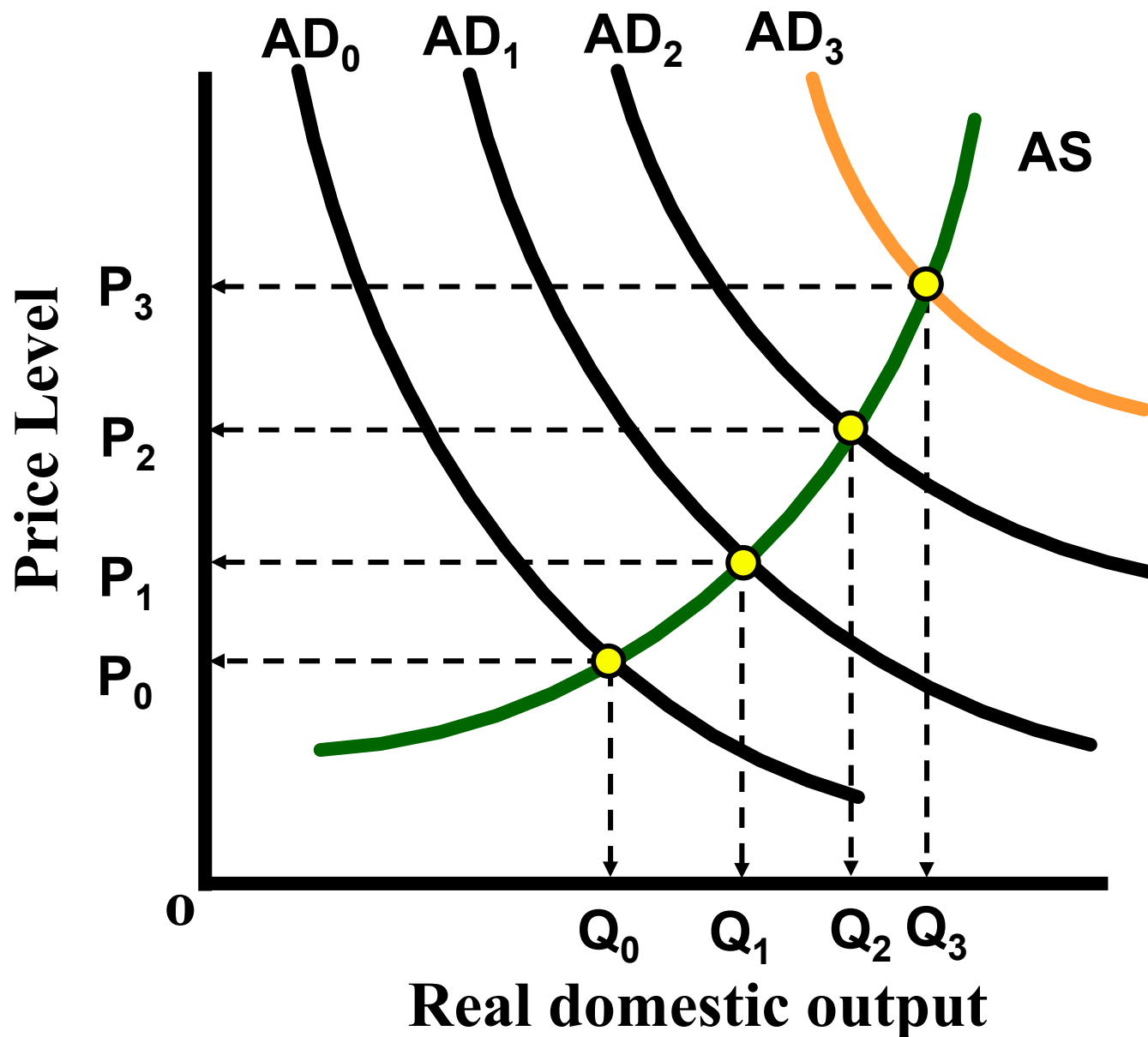
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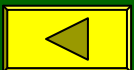
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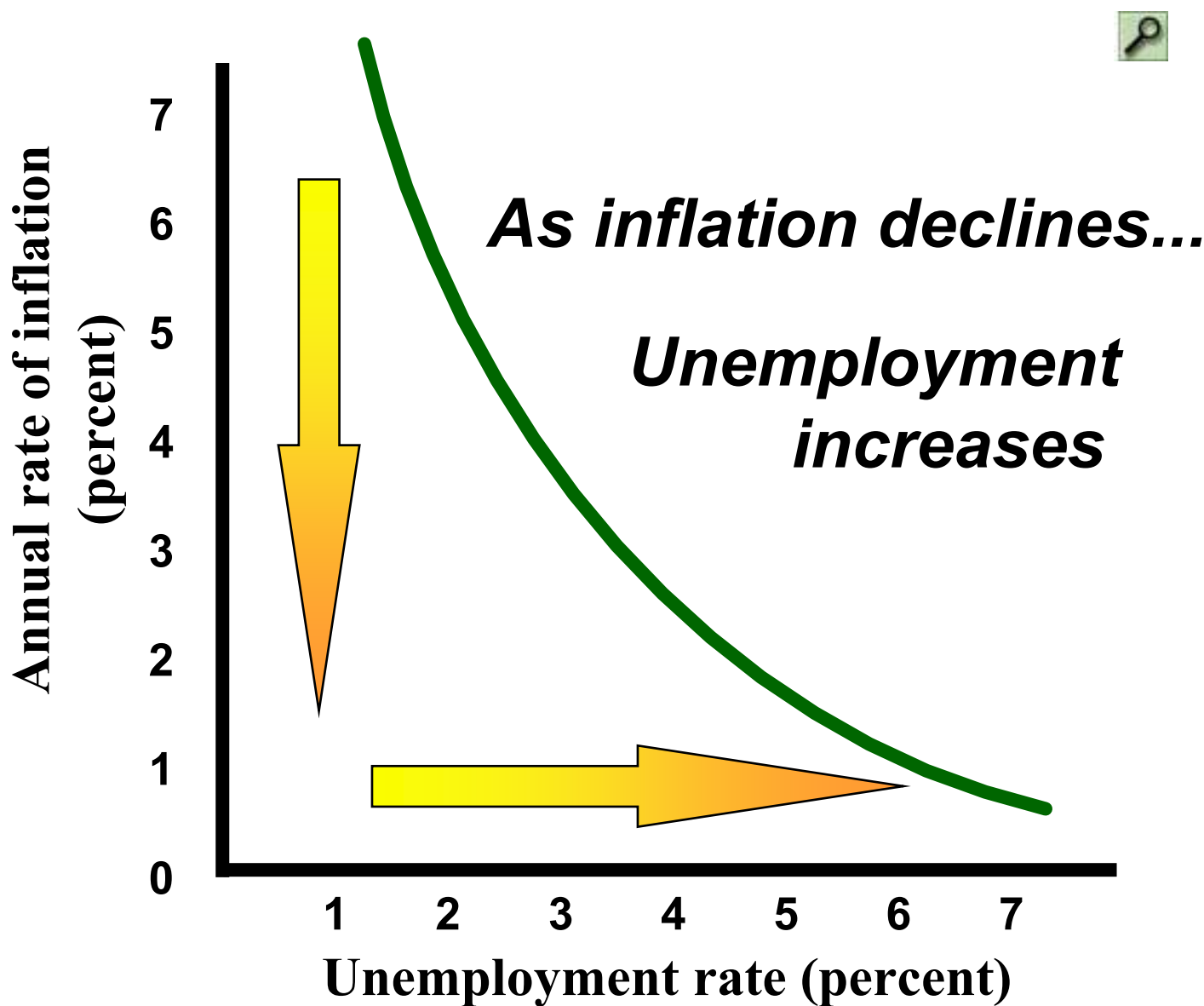
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THE PHILLIPS CURVE CONCEPT



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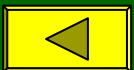
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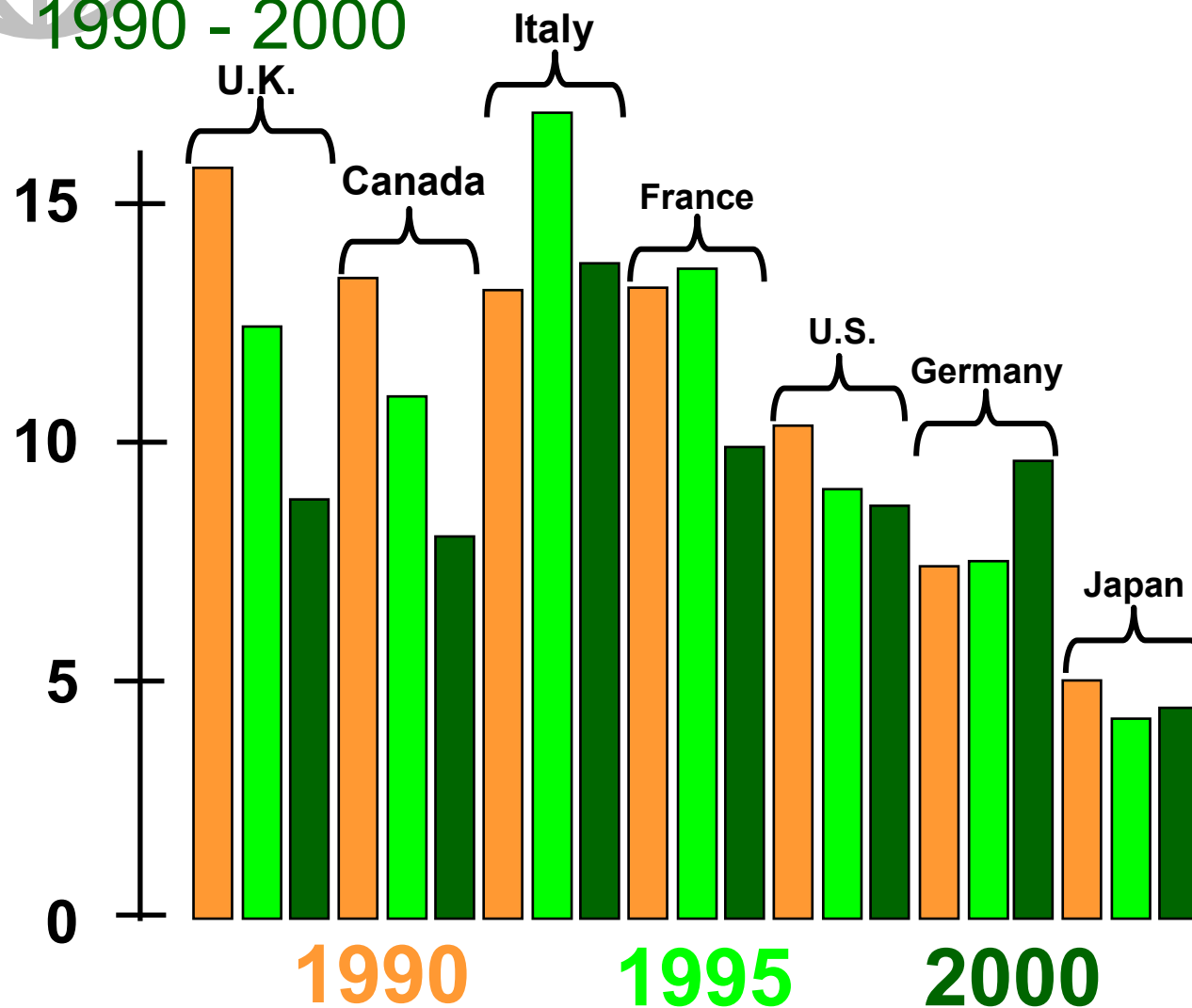


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GLOBAL PERSPECTIVE

The Misery Index, Selected Nations 1990 - 2000



Source: Bureau of Labor Statistics

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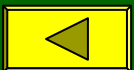
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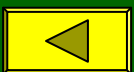
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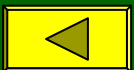
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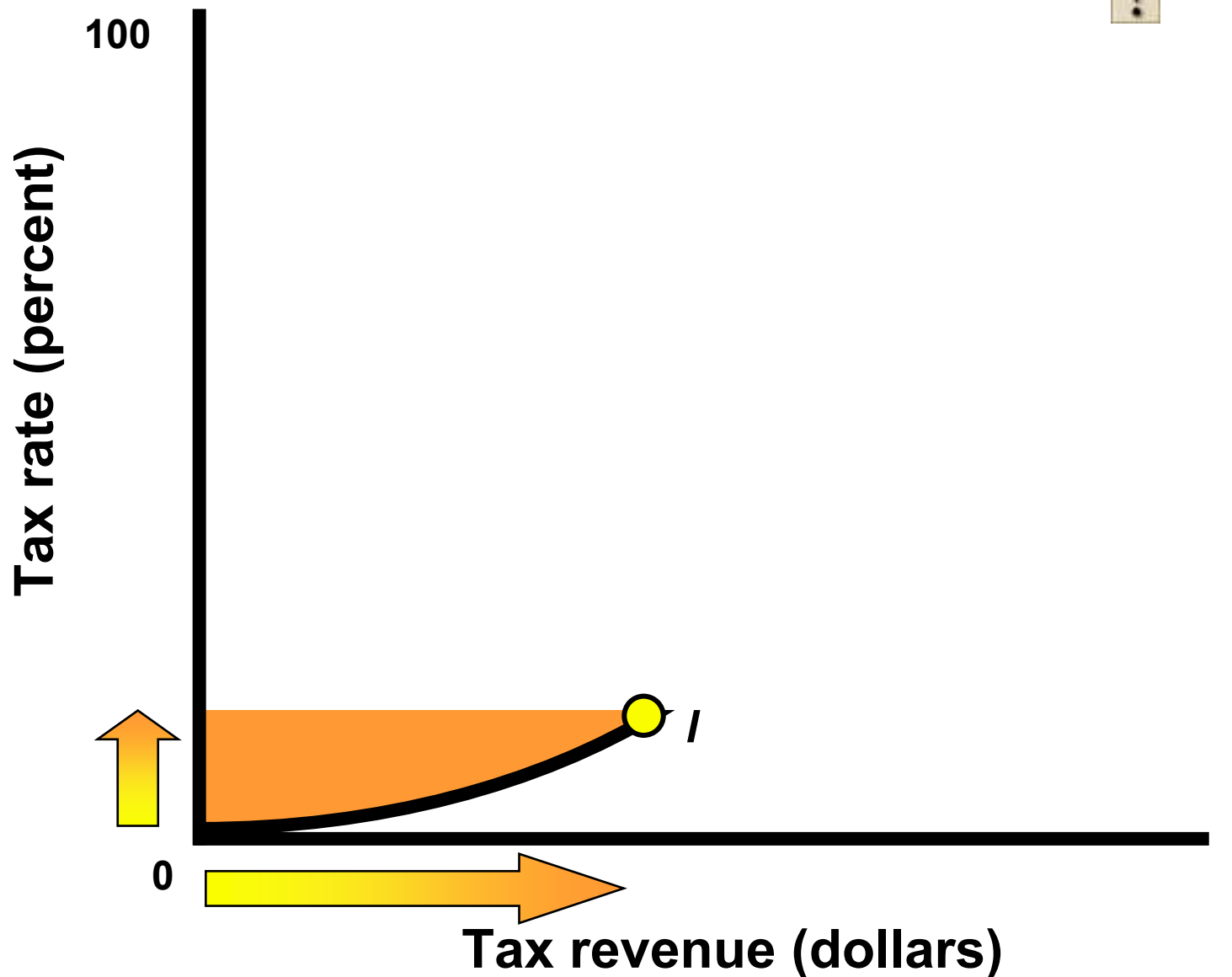
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THE LAFFER CURVE



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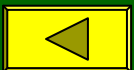
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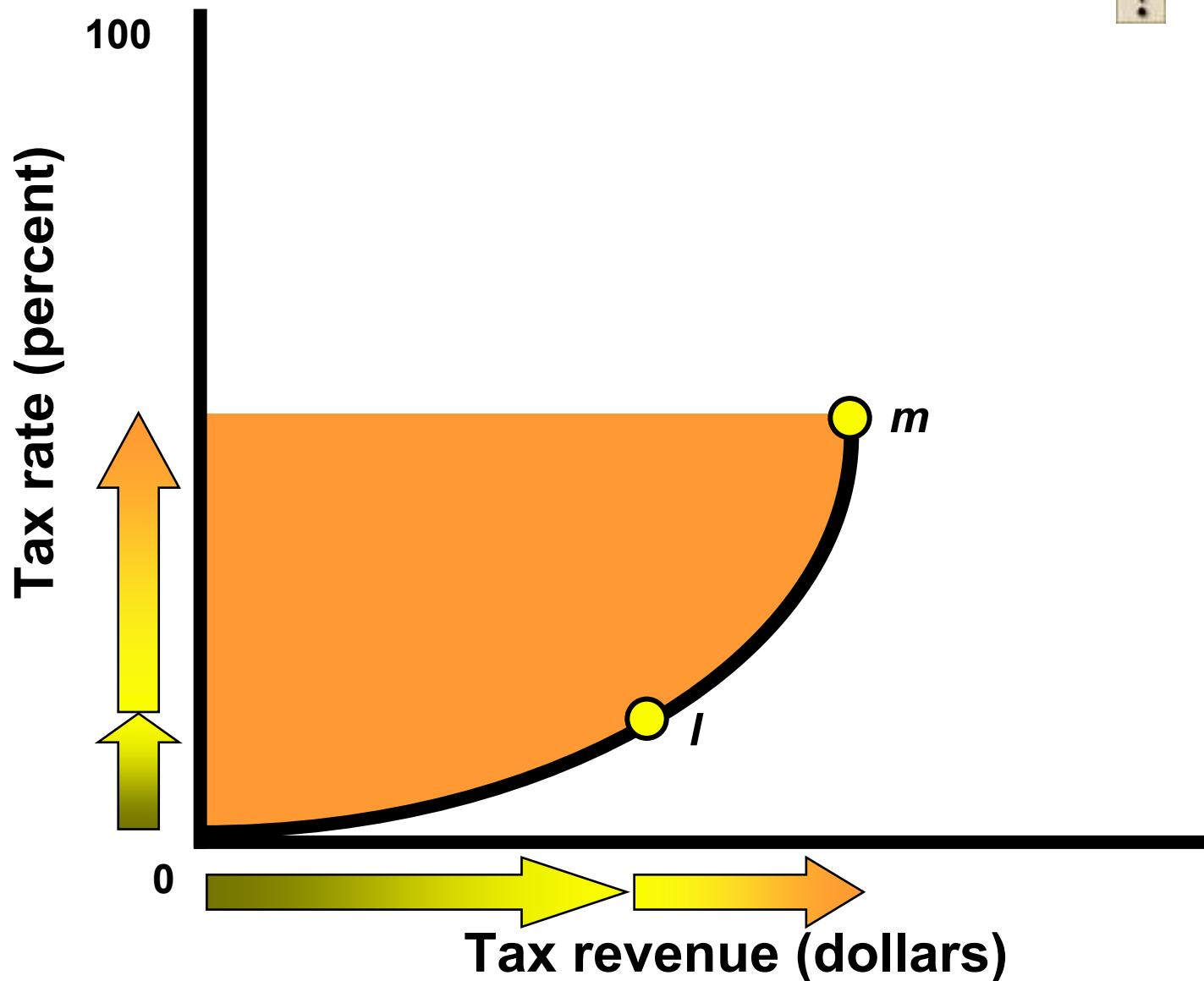
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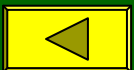
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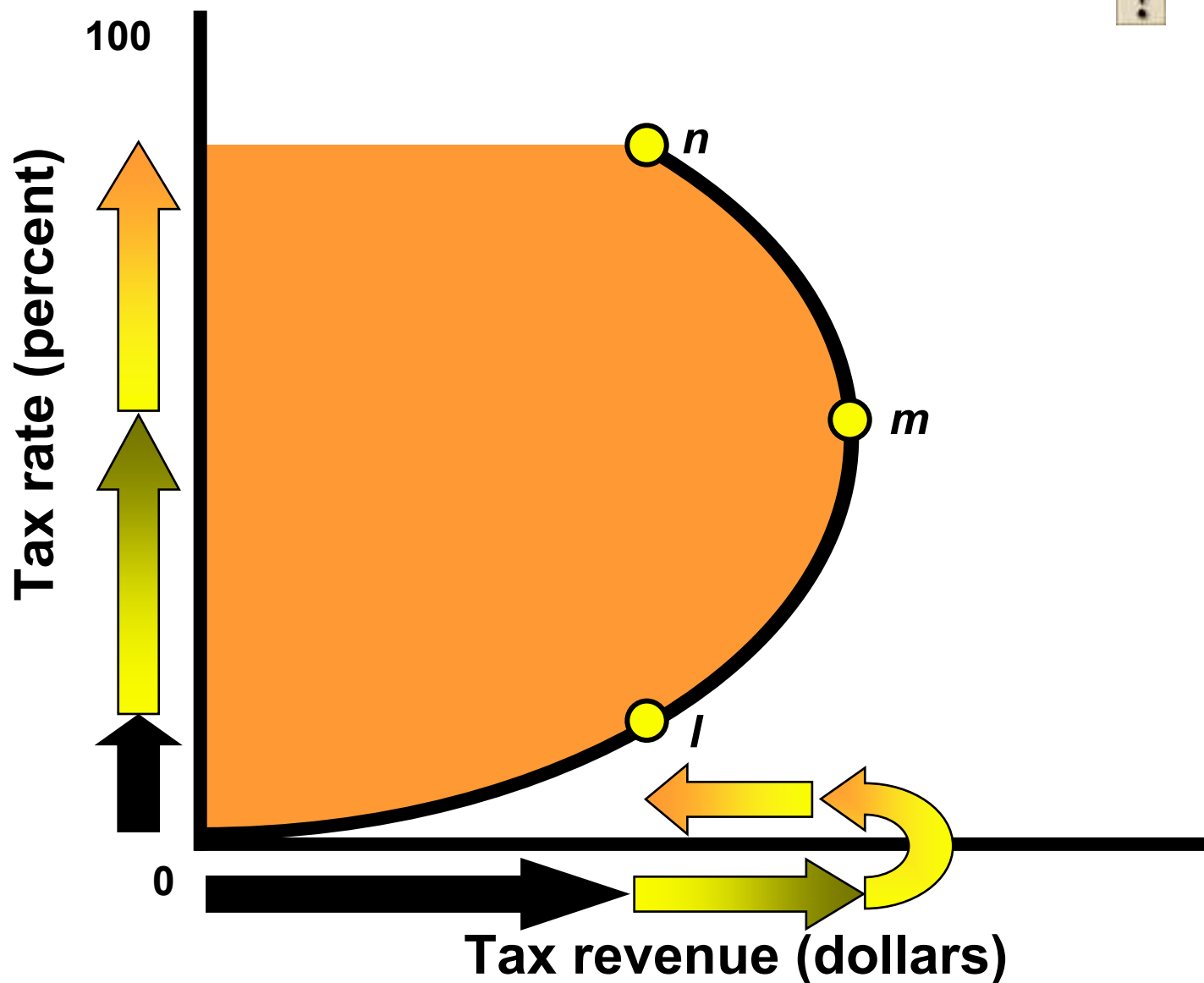
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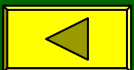
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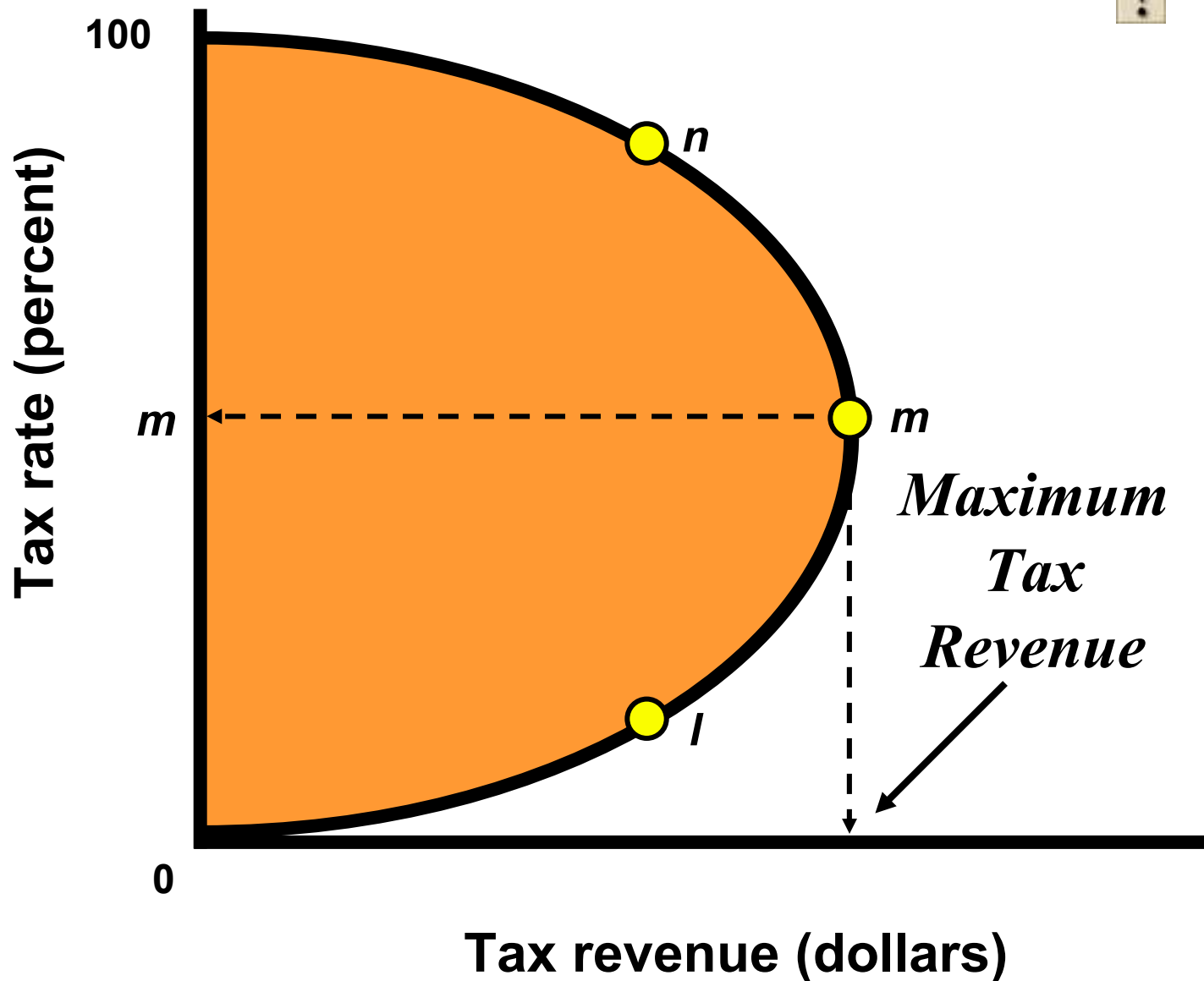
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long run

short-run aggregate supply curve

long-run aggregate supply curve

Phillips Curve

stagflation

aggregate supply shocks

long-run vertical Phillips curve

disinflation

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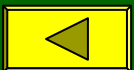
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