Unit 6, Lesson 38

Activity 2

Introducing Aggregate Supply

The aggregate supply (AS) curve shows the total amounts of goods and services that suppliers will produce at each and every price level. In the short run, the aggregate supply curve is upward-sloping. This means that during a period of a year or two, a higher price level increases the quantity of goods and services supplied. A decrease in the price level reduces the quantity of goods and services provided.

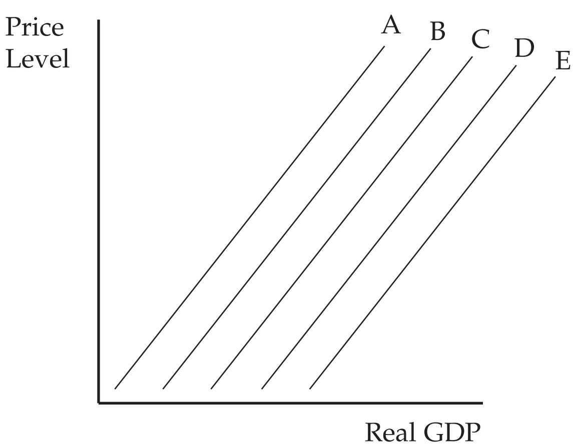
Economists and textbooks illustrate short-run aggregate supply in different ways. In general, short-run aggregate supply becomes more vertical at higher price levels. This is because at higher levels of real GDP, businesses have more difficulty in increasing their output even if the price level is higher.

Shifts in Aggregate Supply

Many events can shift short-run AS, but here is a simple way to analyze the effects of these events. Anything that changes production costs shifts aggregate supply. An increase in production costs decreases AS, and a decrease in production costs increases AS. For example, an increase in the price of oil would increase the cost of energy, an important production cost. This would decrease AS. An increase in productivity reduces the costs of production, which would increase AS.

Now see if you can analyze how events shift the AS curve. The key is whether the event increases or decreases the costs of production.

Shifts in Aggregate Supply



This Activity is similar to Activity 1, but it shows shifts in aggregate supply. For each situation described below, determine whether the event will increase or decrease AS. Start with AS curve *C*. If you think the first situation would increase AS, write "increase" and move to curve *D*. If you think the first situation would decrease AS, write "decrease" and move to curve *B*. Move only one curve at a time. Do not skip a curve even if you think the situation will cause a huge increase or decrease in AS. If you think a situation will not cause AS to shift, write "no change." Do not go beyond the five curves. If you need to go beyond the five curves, you should rethink your answer!

1. Unions grow more aggressive; wage rates increase.

   AD__________________ Curve_____________

2. OPEC successfully increases oil prices.

   AD__________________ Curve_____________

3. Labor productivity increases dramatically.

   AD__________________ Curve_____________

4. A giant natural gas discovery decreases energy prices.

   AD__________________ Curve_____________

5. Computer technology brings new efficiency to industry.

   AD__________________ Curve_____________

6. Government spending increases.

   AD__________________ Curve_____________

7. Cuts in tax rates increase incentives to work, save, and invest.

   AD__________________ Curve_____________

8. The low birth rate will decrease the labor force in the future.

   AD__________________ Curve_____________

9. Research shows that improved schools have increased the skills of American workers and managers.

   AD__________________ Curve_____________