

An Introduction to Short-Run Aggregate Supply

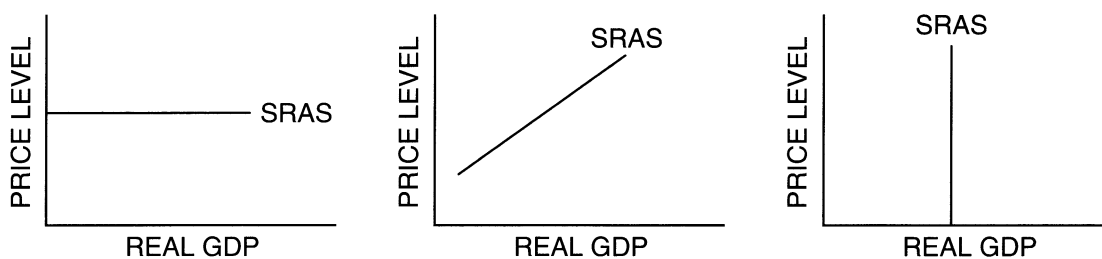
Part A

Why Can the Aggregate Supply Curve Have Three Different Shapes?



Figure 24.1

Possible Shapes of Aggregate Supply Curve



1. Under what conditions would an economy have a horizontal SRAS curve?
2. Under what conditions would an economy have a vertical SRAS curve?
3. Under what conditions would an economy have a positively sloped SRAS curve?

- Assume AD increased. What would be the effect on real GDP and the price level if the economy had a horizontal SRAS curve? A positively sloped SRAS curve? A vertical SRAS curve?
- What range of the SRAS curve do you think the economy is in today? Explain.

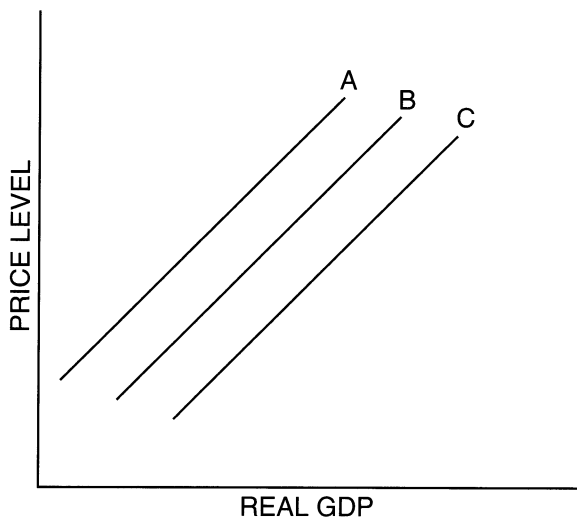
Part B

What Shifts the Short-Run Aggregate Supply Curve?



Figure 24.2

Shifts in Short-Run Aggregate Supply



- Using Figure 24.2, determine whether each situation below will cause an increase, decrease or no change in short-run aggregate supply (SRAS). Always start at curve B. If the situation would cause an increase in SRAS, draw an up arrow in column 1. If it causes a decrease, draw a down arrow. If there is no change, write NC. For each situation that causes a change in SRAS, write the letter of the new curve in column 2. Move only one curve.

Situation	1. Change in SRAS	2. New SRAS Curve
(A) Unions grow more aggressive; wage rates increase.		
(B) OPEC successfully increases oil prices.		
(C) Labor productivity increases dramatically.		
(D) Giant natural gas discovery decreases energy prices.		
(E) Computer technology brings new efficiency to industry.		
(F) Government spending increases.		
(G) Cuts in tax rates increase incentives to save.		
(H) Low birth rate will decrease the labor force in future.		
(I) Research shows that improved schools have increased the skills of American workers and managers.		