

Aggregate Supply

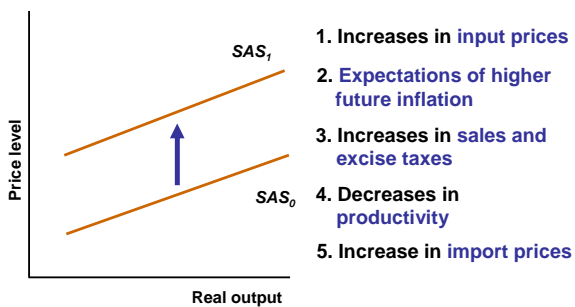
AGGREGATE DEMAND,
AGGREGATE SUPPLY, AND
MODERN MACROECONOMICS

Part 2

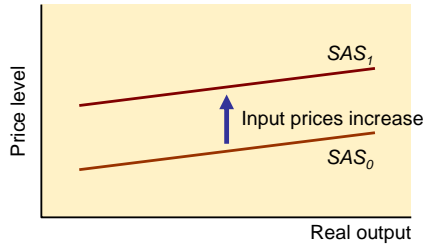
The SAS is positively sloped because

- **Auction markets**
 - Prices are determined by demand and supply
 - \uparrow prices \rightarrow \uparrow profits \rightarrow \uparrow quantity supplied
- **Posted-price markets**
 - Prices are set by producers and don't often change
 - Firms respond to changes in demand by adjusting output instead of prices

The SAS shifts upward for 5 reasons



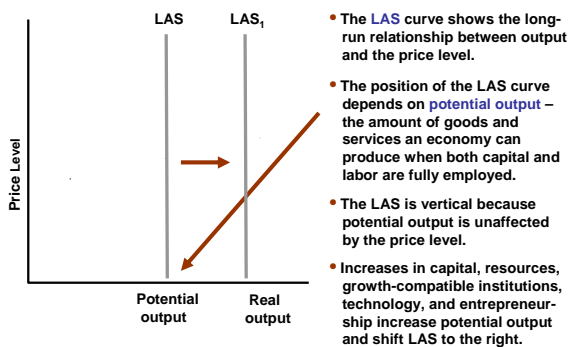
Shifts in the SAS Curve

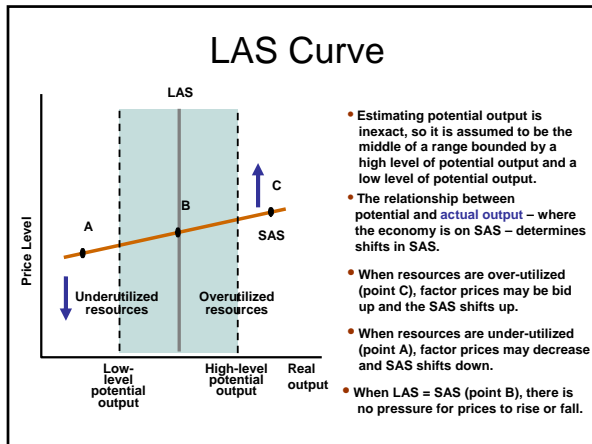


A Range for Potential Output and the LAS Curve

- The position of the long-run aggregate supply curve is determined by potential output.
- **Potential output** – the amount of goods and services an economy can produce when both labor and capital are fully employed.

LAS Curve





Shifts in the LAS Curve

- The LAS curve will shift whenever there is a changes in:
 - Capital.
 - Available resources.
 - Growth-compatible institutions.
 - Technological development.
 - Entrepreneurship.

Do you remember this?
