Notes — Week 6

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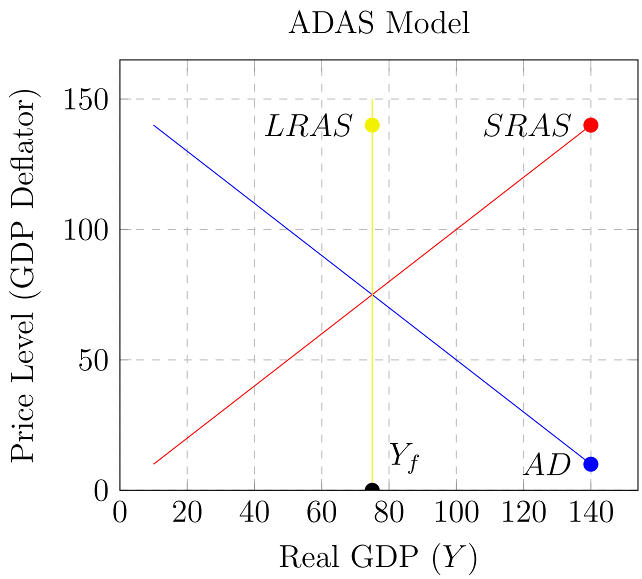
Period 3

1. Real GDP is abbreviated Y
2. LRAS is purely a function of land, labor, and capital, and how efficiently it could be utilized
3. Producing on the LRAS line is the same as producing on the PPC curve, while producing to the left of LRAS is the same as producing in the PPC curve, and producing to the right of LRAS is the same as producing outside of the PPC curve
4. An economy at which the Aggregate Demand and both Aggregate Supply curves intersect is at equilibrium ("home base") and at full employment
5. When SRAS and Aggregate Demand intersect below the LRAS:
   - Economy is in recession
   - Distance between intersection point of SRAS and AD curve and LRAS curve is known as the recessionary outgap
   - Equivalent to producing below the PPC
   - Unemployment rate is above the natural rate
   - Output is less than full employment output
6. When SRAS and Aggregate Demand intersect above the LRAS:
   - Economy is in expansion
   - Distance between intersection point of SRAS and AD curve and LRAS curve is known as the inflationary outgap
   - Equivalent to producing outside the PPC
   - Unemployment rate is below the natural rate
   - Output is greater than full employment output



7. Recessions put downward pressure on wages and other input costs (employees will often take a wage cut during a recession)
8. When the economy is running hot, it puts upward pressure on wages and other input costs
9. A “supply shock” occurs with a leftward shift in the SRAS, such as when oil prices tripled
10. Returns to equilibrium always occur through shift in SRAS