EFFECTS OF INFLATION ON CONSUMERS:INFLATION IS TAXATION WITOUT LEGISLATION.” SAYS MILTON FREIDMAN.INFLATION IS DEFINED AS A SUSTRAINED INCREASE IN THE GENERAL LEVEL OF PRICES FOR GOODS AND SERVICES. IT IS MEASURED AS AN ANNUAL PERCENTAGE INCREASE. AS INFLATION RISES, EVERY RUPEE YOU OWN BUYS A SMALLER PERCENTAGE OF A GOOD OR SERVICE. THE VALUE OF A RUPEE DOES NOT STAY CONSTANT WHEN THERE IS INFLATION. THE VALUE OF A RUPEE IS OBSERVED IN TERMS OF PURCHASING POWER, WHICH IS THE REAL, TANGIBLE GOODS THAT MONEY CAN BUY. WHEN INFLATION GOES UP, THERE IS A DECLINE IN THE PURCHASING POWER OF MONEY. FOR EXAMPLE, IF THE INFLATION RATE IS 2% ANNUALLY, THEN HEORETICALLY A AS-10 PACH OF GUM WILL COST AS-12 IN A YEAR. AFTER INFLATION, YOUR RUPEE CAN’T BUY THE SAME GOODS IT COULD BEFOREHAND.THERE ARE SEVERAL VARIATIONS ON INFLATION DEFLATION: IS WHEN THE GENERAL LEVEL OF PRICES IS FALLING. THIS IS THE OPPOSITE OF INFLATION.HYPER INFLATION: IS UNUSUALLY RAPID INFLATION. IN EXTREME CASES, THIS CAN LEAD TO THE BREAHDOWN OF A NATION’S MONETARY SYSTEM. ONE OF THE MOST NOTABLE EXAMPLES OF HYPERINFLATION OCCURRED IN GERMANY IN 1923, WHEN PRICES ROSE 2,500% IN ONE MONTH!STAGFLATION: IS THE COMBINATION OF HIGH UNEMPLOYMENT AND ECONOMIC STAGNATION WITH INFLATION.IN RECENT YEARS, MOST DEVELOPED CONSTRIES HAVE ATTEMPTED TO SUSTAIN AN INFLATION RATE OF 2-3%.IS INFLATION GOOD OR BAD?ALMOST EVERYONE THINKS INFLATION IS EVIL, BUT IT ISN’T NECESSARILY SO. INFLATION AFFECTS DIFFERENT PEOPLE IN DIFFERENT WAYS. IT ALSO DEPENDS ON WHETHER INFLATION IS ANTICIPATED OR UNANTICIPATED. IF THE INFLATION RATE CORRESPONDS TO WHAT THE MAJORITY OF PEOPLE ARE EXPECTING (ANTICIPATED INFLATION), THEN WE CAN COMPENSATE AND THE COST ISN’T HIGH. FOR EXAMPLE, BANKS CAN VARY THEIR INTEREST RATES AND WORKERS CAN NEGOTIATE CONTRACTS THAT INCLUDE AUTOMATIC WAGE HIKES AS THE PRICE LEVEL GOES UP.  
PROBLEMS ARISE WHEN THERE IS UNANTICIPATED INFLATION: CREDITORS LOSE AND DEBTORS GAIN IF THE LENDER DOES NOT ANTICIPATE INFLATION CORRECTLY. FOR THOSE WHO BORROW, THIS IS SIMILAR TO GETTING AN INTEREST-FREE LOAN. UNCERTAINTY ABOUT WHAT WILL HAPPEN NEXT MAKES CORPORATIONS AND CONSUMERS LESS LIKELY TO SPEND. THIS HURTS ECONOMIC OUTPUT IN THE LONG RUN. PEOPLE LIVING OFF A FIXED-INCOME, SUCH AS RETIREES, SEE A DECLINE IN THEIR PURCHASING POWER AND, CONSEQUENTLY, THEIR STANDARD OF LIVING. MOVING ON, SOME PEOPLE USUALLY RAISE THE QUESTION ABOUT INFLATION BEING GOOD OR BAD? WHEN INFLATION IS TOO HIGH OF COURSE, IT IS NOT GOOD FOR THE ECONOMY OR INDIVIDUALS. INFLATION WILL ALWAYS REDUCE THE VALUE OF MONEY, UNLESS INTEREST RATES ARE HIGHER THAN INFLATION. AND THE HIGHER INFLATION GETS, THE LESS CHANCE THERE IS THAT SAVERS WILL SEE ANY REAL RETURN ON THEIR MONEY. ALTHOUGH IN THEORY THAT SHOULD BE GOOD FOR THE ECONOMY, BY ENCOURAGING PEOPLE TO SPEND RATHER THAN SAVE. INFLATION IN PAKISTANCORE INFLATION RATE IN PAKISTAN INCREASED 5.20 PERCENT IN DECEMBER OF 2016 OVER THE SAME MONTH IN THE PREVIOUS YEAR. CORE INFLATION RATE IN PAKISTAN AVERAGED 7.85 PERCENT FROM 2010 UNTIL 2016, REACHING AN ALL TIME HIGH OF 11.40 PERCENT IN JUNE OF 2012 AND A RECORD LOW OF 3.40 PERCENT IN SEPTEMBER OF 2015. AFFECTS OF INFLATIONECONOMISTS WAKE UP IN THE MORNING HOPING FOR A CHANCE TO DEBATE THE CAUSES OF INFLATION. THERE IS NO ONE CAUSE THAT’S UNIVERSALLY AGREED UPON, BUT AT LEAST TWO THEORIES ARE GENERALLY ACCEPTED:DEMAND PULL INFLATION – THIS THEORY CAN BE SUMMARIZED AS “TOO MUCH MONEY CHASING TOO FEW GOODS”. IN OTHER WORDS, IF DEMAND IS GROWING FASTER THAN SUPPLY, PRICES WILL INCREASE. THIS USUALLY OCCURS IN GROWING ECONOMIES.COST PUSH INFLATION – WHEN COMPAGNIES’COSTS GO UP, THEY NEED TO INCREASE PRICES TO MAINTAIN THEIR PROFITS MARGIN. INCREASED COSTS CAN INCLUDE THINGS SUCH AS WAGES, TAXES, OR INCREASED COSTS OF IMPORTS.INFLATION AFFECTS DIFFERENT PEOPLE DIFFERENTLY. THIS IS BECAUSE OF THE FALL IN THE VALUE OF MONEY. WHEN PRICE RISES OR THE VALUE OF MONEY FALLS, SOME GROUPS OF THE SOCIETY GAIN, SOME LOSE AND SOME STAND IN-BETWEEN. BROADLY SPEAKING, THERE ARE TWO ECONOMIC GROUPS IN EVERY SOCIETY, THE FIXED INCOME GROUP AND THE FLEXIBLE INCOME GROUP.PEOPLE BELONGING TO THE FIRST GROUP LOSE AND THOSE BELONGING TO THE SECOND GROUP GAIN. THE REASON IS THAT THE PRICE MOVEMENTS IN THE CASE OF DIFFERENT GOODS, SERVICES, ASSETS, ETC. ARE NOT UNIFORM. WHEN THERE IS INFLATION, MOST PRICES ARE RISING, BUT THE RATES OF INCREASE OF INDIVIDUAL PRICES DIFFER MUCH. PRICES OF SOME GOODS AND SERVICES RISE FASTER, OF OTHERS SLOWLY AND OF STILL OTHERS REMAIN UNCHANGED. WE DISCUSS BELOW THE EFFECTS OF INFLATION ON REDISTRIBUTION OF INCOME AND WEALTH, PRODUCTION, AND ON THE SOCIETY AS A WHOLE.EFFECTS ON REDISTRIBUTION OF INCOME AND WEARLTHTHERE ARE TWO WAYS TO MEASURE THE EFFECTS OF INFLATION ON THE REDISTRIBUTION OF INCOME AND WEALTH IN A SOCIETY. FIRST, ON THE BASIS OF THE CHANGE IN THE REAL VALUE OF SUCH FACTOR INCOMES AS WAGES, SALARIES, RENTS, INTEREST, DIVIDENDS AND PROFITS.SECOND, ON THE BASIS OF THE SIZE DISTRIBUTION OF INCOME OVER TIME AS A RESULT OF INFLATION, I.E. WHETHER THE INCOMES OF THE RICH HAVE INCREASED AND THAT OF THE MIDDLE AND POOR CLASSES HAVE DECLINED WITH INFLATION. INFLATION BRINGS ABOUT SHIFTS IN THE DISTRIBUTION OF REAL INCOME FROM THOSE WHOSE MONEY INCOMES ARE RELATIVELY INFLEXIBLE TO THOSE WHOSE MONEY INCOMES ARE RELATIVELY FLEXIBLE.OTHER THAN THAT INFLATION AFFECTS COMMON PEOPLE’S LIVES IN FOLLOWING MENTIONED WAYS;WAGE EARNERS: WAGE EARNERS MAY GAIN OR LOSE DEPENDING UPON THE SPEED WITH WHICH THEIR WAGES ADJUST TO RISING PRICES. IF THEIR UNIONS ARE STRONG, THEY MAY GET THEIR WAGES LINKED TO THE COST OF LIVING INDEX. IN THIS WAY, THEY MAY BE ABLE TO PROTECT THEMSELVES FROM THE BAD EFFECTS OF INFLATION.BUT THE PROBLEM IS THAT THERE IS OFTEN A TIME LAG BETWEEN THE RAISING OF WAGES BY EMPLOYEES AND THE RISE IN PRICES. SO WORKERS LOSE BECAUSE BY THE TIME WAGES ARE RAISED, THE COST OF LIVING INDEX MAY HAVE INCREASED FURTHER. BUT WHERE THE UNIONS HAVE ENTERED INTO CONTRACTUAL WAGES FOR A FIXED PERIOD, THE WORKERS LOSE WHEN PRICES CONTINUE TO RISE DURING THE PERIOD OF CONTRACT.ON THE WHOLE, THE WAGE EARNERS ARE IN THE SAME POSITION AS THE WHITE COLLAR PERSONS.FIXED INCOME GROUPTHE RECIPIENTS OF TRANSFER PAYMENTS SUCH AS PENSIONS, UNEMPLOYMENT INSURANCE, SOCIAL SECURITY, ETC. AND RECIPIENTS OF INTERSEST AND RENT LIVE ON FIXED INCOMES. PENSIONERS GET FIXED PENSIONS. SIMILARLY THE RENTIER CLASS CONSISTING OF INTEREST AND RENT RECEIVERS GET FIXED PAYMENTS.THE SAME IS THE CASE WITH THE HOLDERS OF FIXED INTEREST BEARING SECURITIES, DEBENTURES AND DEPOSITS. ALL SUCH PERSONS LOSE BECAUSE THEY RECEIVE FIXED PAYMENTS, WHILE THE VALUE OF MONEY CONTINUES TO FALL WITH RISING PRICES.AMONG THESE GROUPS, THE RECIPIENTS OF TRANSFER PAYMENTS BELONG TO THE LOWER INCOME GROUP AND THE RENTIER CLASS TO THE UPPER INCOME GROUP. INFLATION REDISTRIBUTES INCOME FROM THESE TWO GROUPS TOWARD THE MIDDLE INCOME GROUP COMPRISING TRADERS AND BUSINESSMEN.BUSINESSMEN:BUSINESSMEN OF ALL TYPES, SUCH AS PRODUCERS, TRADERS AND REAL ESTATE HOLDERS GAIN DURING PERIODS OF RISING PRICES. TAKE PRODUCERS FIRST. WHEN PRICES ARE RISING, THE VALUE OF THEIR INVENTORIES (GOODS IN STOCH) RISE IN THE SAME PROPORTION. SO THEY PROFIT MORE WHEN THEY SELL THEIR STORED COMMODITIES.THE SAME IS THE CASE WITH TRADERS IN THE SHORT RUN. BUT PRODUCERS PROFIT MORE IN ANOTHER WAY. THEIR COSTS DO NOT RISE TO THE EXTENT OF THE RISE IN THE PRICES OF THEIR GOODS. THIS IS BECAUSE PRICES OF RAW MATERIALS AND OTHER INPUTS AND WAGES DO NOT RISE IMMEDIATELY TO THE LEVEL OF THE PRICE RISE. THE HOLDERS OF REAL ESTATE’S ALSO PROFIT DURING INFLATION BECAUSE THE PRICES OF LANDED PROPERTY INCREASE MUCH FASTER THAN THE GENERAL PRICE LEVEL.GOVERNMENT:THE VOVERNMENT AS A DEBTOR GAINS AT THE EXPENSE OF HOUSEHOLDS WHO ARE ITS PRINCIPAL CREDITORS. THIS IS BECAUSE INTEREST RATES ON GOVERNMENT BONDS ARE FIXED AND ARE NOT RAISED TO OFFSET EXPECTED RISE IN PRICES. THE GOVERNMENT, IN TURN, LEAVES LESS TAXES TO SERVICE AND RETIRE ITS DEBT.WITH INFLATION, EVEN THE REAL VALUE OF TAXES IS REDUCED. THUS REDISTRIBUTION OF WEALTH IN FAVOR OF THE GOVERNMENT ACCRUES AS A BENEFIT TO THE TAX-PAYERS. SINCE THE TAX-PAYERS OF THE GOVERNMENT ARE HIGH-INCOME GROUPS, THEY ARE ALSO THE CREDITORS OF THE GOVERNMENT BECAUSE IT IS THEY WHO HOLD GOVERNMENT BONDS.ONCE LENDERS CAN’T BE ASSURED OF GETTING REPAID THEY WILL STOP LENDING (OR HAVE TO CHARGE EXORBITANT INTEREST RATES) AND AS INTEREST RATES INCREASE THE ECONOMY GRINDS TO A HALT. SO EVEN THE “GOOD” SIDE OF INFLATION IS REALLY “BAD” FOR THE ECONOMY IN THE LONG RUN. HOW DOES AGGREGATE SUPPLY AFFECT EMPLOYEES:ECONOMICS, AGGREGATE SUPPLY (AS) OR DOMESTIC FINAL SUPPLY (DFS) IS THE TOTAL SUPPLY OF GOODS AND SERVICES THAT FIRMS IN A NATIONAL ECONOMY PLAN ON SELLING DURING A SPECIFIC TIME PERIOD. IT IS THE TOTAL AMOUNT OF GOODS AND SERVICES THAT FIRMS ARE WILLING AND ABLE TO SELL AT A GIVEN PRICE LEVEL IN AN ECONOMY.ANOTHER DEFINITION OF AGGREGATE SUPPLY IS THAT IT IS DEFINED AS THE TOTAL AMOUNT OF GOODS AND SERVICES (REAL OUTPUT) PRODUCED AND SUPPLIED BY AN ECONOMY’S FIRMS OVER A PERIOD OF TIME. IT INCLUDES THE SUPPLY OF A NUMBER OF TYPES OF GOODS AND SERVICES INCLUDING PRIVATE, PUBLIC AND GOODS FOR OVERSEAS MARKETS.TO UNDERSTAND THE COMPLEXITY OF ANY TOPIC WE FIRST HAVE TO DISCUSS IT’S COMPONENTS OR FACTORS TO MAKE IT SIMPLE. THUS DISCUSSING THE COMPONENTS,CONSUMER GOODSPRIVATE CONSUMER GOODS AND SERVICES, SUCH AS MOTOR VEHICULES, COMPUTERS, CLOTHES AND ENTERTAINMENT, ARE SUPPLIED BY THE PRIVATE SECTOR AND CONSUMED BY HOUSEHOLDS. FOR A DEVELOPED ECONOMY, THIS IS THE SINGLE LARGEST COMPONENT OF AGGREGATE SUPPLY.CAPITAL GOODSCAPITAL GOODS, SUCH AS MACHINERY, EQUIPMENT, AND PLANT, ARE SUPPLIED TO OTHER FIRMS. THESE INVESTMENT GOODS ARE SIGNIFICANT IN THAT THEIR USE ADDS TO CAPACITY, AND INCREASES THE ECONOMY’S ABILITY TO SUPPLY PRIVATE CONSUMER GOODS IN THE FUTURE.PUBLIC AND MERIT GOODSGOODS AND SERVICES PRODUCED BY PRIVATE FIRMS FOR USE BY CENTRAL OR LOCAL GOVERNMENT, SUCH AS EDUCATION AND HEALTHCARE, ARE ALSO A SIGNIFICANT COMPONENT OF AGGREGATE SUPPLY. MANY PRIVATE FIRMS SUCH AS THOSE IN CONSTRUCTION, IT AND PHARMACEUTICALS, RELY ON CONTRACTS TO SUPPLY TO THE PUBLIC SECTOR.TRADED GOOGSGOODS AND SERVICES FOR EXPORT, SUCH AS CHEMICALS, ENTERTAINMENT, AND FINANCIAL SERVICES ARE ALSO A HEY COMPONENT OF AGGREGATE SUPPLY.AGGREGATE SUPPLY CURVEAN AGGREGATE SUPPLY CURVE SHOWS THE QUANTITY OF ALL THE GOODS AND SERVICES THAT BUSINESSES IN AN ECONOMY WILL SELL AT A PARTICULAR PRICE LEVEL. IN THE LONG RUN, THE AGGREGATE SUPPLY CURVE IS VERTICAL, BUT THE AGGREGATE SUPPLY CURVE WILL BE UPWARD SLOPING IN THE SHORT RUN.AS I MENTIONED EARLIER, THE AGGREGATE SUPPLY CURVE IS COMPLETELY VERTICAL IN THE LONG RUN. YOU’RE PROBABLY ASKING YOURSELF WHY. THE TOTAL PRODUCTION OF GOODS AND SERVICES IN AN ECONOMY IS ITS REAL GROSS DOMESTIC PRODUCT (GDP). IN THE LONG-RUN, GDP DEPENDS ON THE SUPPLY OF LABOR, CAPITAL, LAND, NATURAL RESOURCES, AND THE AVAILABILITY OF TECHNOLOGY TO TURN THESE RESOURCES INTO GOODS AND SERVICES. IN THE LONG RUN, THESE FACTORS OF PRODUCTION DETERMINE THE QUANTITY OF GOODS AND SERVICES THAT ARE SUPPLIED IN AN ECONOMY. THIS QUANTITY IS THE SAME REGRARDLESS OF A PRICE LEVEL.BUT, MANY TIMES WHEN YOU STUDY A CURVE, YOU MAY BE ASKING YOURSELF WHY THE SUPPLY CURVES FOR INDIVIDUAL GOODS OR SERVICES ARE UPWARD SLOPING INSTEAD OF VERTICAL. THE UPWARD SLOPE OF THE SUPPLY CURVE FOR SPECIFIC GOODS OR SERVICES HAS TO DO WITH RELATIVE PRICES, WHICH ARE SIMPLY THE PRICES OF GOODS AND SERVICES COMPARED TO OTHER GOODS AND SERVICES. A BUSENESS CAN TAKE ADVANTAGE OF RELATIVE PRICES TO INCREASE PRODUCTION OF A SPECIFIC GOOD OR SERVICE.LET’S SAY THAT YOU OWN AN INDUSTRIAL BAKERY WHERE YOU MASS-PRODUCE DONUTS AND PASTRIES. THE MARKET PRICE OF DONUTS HAS INCREASED. ASSUMING THAT THE OTHER PRICES IN THE ECONOMY REMAIN CONSTANT, YOU CAN SHIFT YOUR LABOR AND INGREDIENTS AWAY FROM PRODUCTION OF PASTRIES TO DONUTS.IN CONTRAST, AN ENTIRE ECONOMY’S PRODUCTION IS LIMITED BY AVAILABLE LABOR, CAPITAL, LAND,AND NATURAL RESOURCES. WHEN PRICES RISE AT THE SAME TIME IN ECONOMY, THERE CAN BE NO CHANGE IN THE OVERALL QUANTITY OF GOODS OR SERVICE PRODUCED; YOU CAN SHIFT PRODUCTION AROUND, BUT THE NUMBERS REMAIN THE SAME BECAUSE WE ARE DEALING WITH AGGREGATES.AFFECTS OF AGGREGATE SUPPLYWHILE ALL ECONOMISTS AGREE THAT FIRMS WILL ONLY PRODUCE OUTPUT THAT THEY EXPECT TO SELL, EXPECTED SALES MAY NOT ALWAYS BE WHAT ACTUALLY DETERMINES THE LEVEL OF PRODUCTION AND EMPLOYMENT. ALTERNATIVELY, A FIRM’S PRODUCTION MAY BE CONSTRAINED BY ITS CAPACITY AND RESOURCES TO PRODUCE OUTPUT. IF THERE WERE NOT ENOUGH FOOD, HITCHEN EQUIPMENT, OR EXPERIENCED COOKS TO PREPARE THE FOOD FOR EVERYONE WHO WAS WILLING TO PAY FOR A MEAL, THEN THE NUMBER OF MEALS PROCUCED WOULD BE LIMITED BY THE QUANTITY THE RESTAURANT IS ABLE TO SUPPLY, REGARDLESS OF HOW MUCH CUSTOMERS DEMAND.FINALLY STARTING ON WITH THE VERY MAIN POINT, THE EFFECTS. FOR THAT WE MAY HAVE TO STUDY NEW THINGS AS WELL.THE LONG-RUN AGGREGATE SUPPLY CURVE CAN BE SHIFTED, WHEN THE FACTORS OF PRODUCTION CHANGE IN QUANTITY. FOR EXAMPLE, IF THERE IS AN INCREASE IN THE NUMBER OF AVAILABLE WORKERS OR LABOR HOURS IN THE LONG RUN, THE AGGREGATE SUPPLY CURVE WILL SHIFT OUTWARD (IT IS ASSUMED THE LABOR MARKET IS ALWAYS IN EQUILIBRIUM AND EVERYONE IN THE WORKFORCE IS EMPLOYED). SIMILARLY, CHANGES IN TECHNOLOGY CAN SHIFT THE CURVE BY CHANGING THE POTENTIAL OUTPUT FROM THE SAME AMOUNT OF INPUTS IN THE LONGTERM.FOR THE SHORT-RUN AGGREGATE SUPPLY, THE QUANTITY SUPPLIED INCREASES AS THE PRICE RISES. THE AGGREGATE SUPPLY CURVE IS DRAWN GIVEN SOME NOMINAL VARIABLE, SUCH AS THE NOMINAL WAGE RATE. IN THE SHORT RUN, THE NOMINAL WAGE RATE IS TAKEN AS FIXED. THEREFORE, RISING INPUT IMPLIES HIGHER PROFITS THAT JUSTIFY EXPANSION OF OUTPUT. HOWEVER, IN THE LONG RUN, THE NOMINAL WAGE RATE VARIES WITH ECONOMIC CONDITIONS (HIGH UNEMPLOYMENT LEADS TO FALLING NOMINAL WAGES AND VICE-VERSA).AGGREGATE SUPPLY DESCRIBES THE RELATIONSHIP BETWEEN THE OUTPUT THAT BUSINESS WILLINGLY PRODUCE AND THE OVERALL PRICE LEVEL, OTHER THINGS BEING CONSTANT. THE FACTORS UNDERLYING AGGREGATE SUPPLY ARE POTENTIAL OUTPUT, DETERMINED BY THE INPUTS OF LABOR, CAPITAL, AND NATURAL RESOURCES AVAILABLE TO AN ECONOMY, ALONG WITH THE TECHNOLOGY OR EFFICIENCY WITH WHICH THESE INPUTS ARE USED, AND INPUT COSTS, SUCH AS WAGES AND OIL PRICES. CHANGES IN THESE UNDERLYING FACTORS WILL SHIFT THE AGGREGATE SUPPLY CURVE.A CENTRAL DISTINCTION IN AGGREGATE SUPPLY ANALYSIS IS BETWEEN THE LONG RUN AND THE SHORT RUN. THE SHORT RUN, CORRESPONDING TO THE BEHAVIOR IN BUSINESS CYCLES OF A FEW MONTHS TO A FEW YEARS, INVOLVES THE SHORT-RUN AGGREGATE SUPPLY SCHEDULE. IN THE SHORT RUN, PRICES AND WAGES HAVE ELEMENTS OF INFLEXIBILITY. AS A RESULT, HIGHER PRICES ARE ASSOCIATED WITH INCREASES IN THE PRODUCTION OF GOODS AND SERVICES. THIS IS SHOWN AS AN UPWARD-SLOPING AGGREGATE SUPPLY CURVE. THE SHORT-RUN AGGREGATE SUPPLY ANALYSES ARE USED IN KEYNESIAN ANALYSIS OF THE BUSINESS CYCLE.THE LONG RUN REFERS TO PERIODS ASSOCIATED WITH ECONOMIC GROWTH, AFTER MOST OF THE ELEMENTS OF BUSINESS CYCLES HAVE DAMPED OUT. IN THE LONG RUN, PRICES AND WAGES ARE PERFECTLY FLEXIBLE; OUTPUT IS DETERMINED BY POTENTIAL OUTPUT AND IS INDEPENDENT OF THE PRICE LEVEL. THE LONG-RUN AGGREGATE SUPPLY SCHEDULE IS VERTICAL. THE LONG-RUN AGGREGATE SUPPLY ANALYSES ARE USED IN THE CLASSICAL ANALYSIS OF ECONOMIC GROWTH.MOVING ON, AGGREGATE SUPPLY DOES POSSESS SOME MAJOR AFFECTS ON EMPLOYEES WHICH I HAVE DISCUSSED BELOW.UNEMPLOYMENTTHE GOVERNMENT GATHERS MONTHLY STATISTICS ON UNEMPLOYMENT, EMPLOYMENT, AND THE LABOR FORCE IN A SAMPLE SURVEY OF THE POPULATION. PEOPLE WITH JOBS ARE CATEGORIZED AS EMPLOYED; PEOPLE WITHOUT JOBS WHO ARE LOOKING FOR WORK ARE SAID TO BE UNEMPLOYED; PEOPLE WITHOUT JOBS WHO ARE NOT LOOKING FOR WORK ARE CONSIDERED OUISIDE THE LABOR FORCE.THERE IS A CLEAR CONNECTION BETWEEN MOVEMENTS IN OUTPUT AND THE UNEMPLOYMENT RATE OVER THE BUSINESS CYCLE. ACCORDING TO OKUN’S LAW, FOR EVERY 2 PERCENT THAT ACTUAL GDP DECLINES RELATIVE TO POTENTIAL GDP, THE UNEMPLOYEMENT RATE RISES 1 PERCENTAGE POINT. THIS RULE IS USEFUL IN TRANSLATING CYCLICAL MOVEMENTS OF GDP INTO THEIR EFFECTS ON UNEMPLOYMENT.ECONOMISTS DISTINGUISH BETWEEN EQUILIBRIUM AND DISEQUILIBRIUM UNEMPLOYMENT. EQUILIBRIUM UNEMPLOYEMENT ARISES WHEN PEOPLE BECOME UNEMPLOYED VOLUNTARILY AS THEY MOVE FROM JOB TO JOB OR INTO AND OUT OF THE LABOR FORCE. WE ALSO CALL IT FRICTIONAL UNEMPLOYMENT. DISEQUILIBRIUM UNEMPLOYMENT OCCURS WHEN THE LABOR MARQUET OR THE MACRO ECONOMY IS NOT FUNCTIONING PROPERLY AND SOME QUALIFIED PEOPLE WHO ARE WILLING TO WORK AT THE GOING WAGE CANNOT FIND JOBS. TWO EXAMPLES OF DISSEQUILIBRIUM ARE STRUCTURAL AND CYCLICAL UNEMPLOYMENT. STRUCTURAL UNEMPLOYMENT ARRISES FOR WORKERS WHO ARE IN REGIONS OR INDUSTRIES THAT ARE IN A PERSISTENT SLUMP BECAUSE OF LABOR MARKET IMBALANCES OR HIGH REAL WAGES. CYCLICAL UNEMPLOYMENT IS A SITUATION WHERE WORKERS ARE LAID OFF WHEN THE OVERALL ECONOMY SUFFERS A DOWNTURN.UNDERSTANDING THE CAUSES OF UNEMPLOYMENT HAS PROVED TO BE ONE OF THE MAJOR CHALLENGES OF MODERN MACROECONOMICS. THE DISCUSSION HERE EMPHASIZES THAT INVOLUNTARY UNEMPLOYMENT ARISES BECAUSE THE SLOW ADJUSTMENT OF WADES PRODUCES SURPLUSES (UNEMPLOYMENT) AND SHORTAGES (VACANCIES) IN INDIVIDUAL LABOR MARKETS. IF INFLEXIBLE WAGES ARE ABOUE MARKET-CLEARING LEVELS, SOME WORKERS ARE EMPLOYED BUT OTHER EQUALLY QUALIFIED WORKERS CANNOT FIND JOBS.WAGES ARE INFLEXIBLE BECAUSE OF THE COSTS INVOLVED IN ADMINISTERING THE COMPENSATION SYSPEM. FREQUENT CHANGES OF COMPENSATION FOR MARKET CONDITIONS WOULD COMMAND TOO LARGE A SHARE OF MANAGEMENT TIME, WOULD UPSET WORKERS’ PERCEPTIONS OF FAIRNESS, AND WOULD UNDERMINE WORKER MORALE AND PRODUCTIVITY.THIS IS NOT THE END, THERE ARE MANY CAUSES TO BE DISCUSSED BUT THIS IS AN ARTICLE NOT A BOOH.ANYWAY, AGGREGATE SUPPLY CAN HAVE MUCH BETTER AFFECTS ON EMPLOYEES AND ON EVERYONE. ALL WE NEED IS TO USE OUR BRAIN TO FIGURE OUT HOW.