



eLearneconomics: Aggregate Supply (1)

Student response _____

(a) Define aggregate supply.

(b) Indicate which direction the aggregate supply curve will shift for the situations given.

Situation	Direction that AS curve will shift inward or outward
(i) New technology is developed	
(ii) Workers' productivity falls as machinery wears out and depreciates	
(iii) Workers' wages rise	
(iv) The dollar appreciates resulting in a fall in the price of imported raw materials	
(v) Costs of production fall	
(vi) Rising oil prices	
(vii) Workers' productivity increases	
(viii) Costs of production increase	
(iv) An increase in indirect tax	
(x) Net migration gain	

(c) Explain the effect on aggregate supply of a net migration gain.

eLearneconomics: Aggregate Supply (1a)



Solution

(a) Define aggregate supply.

Total production of all firms in an economy.

(b) Indicate which direction the aggregate supply curve will shift for the situations given.

Situation	Direction that AS curve will shift inward or outward
(i) New technology is developed	outward
(ii) Workers' productivity falls as machinery wears out and depreciates	inward
(iii) Workers' wages rise	inward
(iv) The dollar appreciates resulting in a fall in the price of imported raw materials	outward
(v) Costs of production fall	outward
(vi) Rising oil prices	inward
(vii) Workers' productivity increases	outward
(viii) Costs of production increase	inward
(iv) An increase in indirect tax	inward
(x) Net migration gain	outward

(c) Explain the effect on aggregate supply of a net migration gain.

The AS curve shifts right (outward) because there is an increase in the supply of workers, so more resources are available. Costs of production to firms will fall. Costs decrease, profits increase, so firms plan to produce more, therefore AS shifts right.



eLearneconomics: Aggregate Supply (2)

Student response _____

(a) Identify and explain the effect of an appreciating exchange rate on aggregate supply.

Effect: Increase Decrease (circle one)

Explanation: _____

(b) Identify and explain the effects of unions getting a wage increase on which direction the aggregate supply curve will shift.

Identify: inward or outward (circle your choice)

Explanation: _____

(c) Explain the effect of a net migration loss on AS.

(d) Explain the effect of falling productivity and a depreciation of the dollar on AS.

eLearneconomics: Aggregate Supply (2a)



Solution

(a) Identify and explain the effect of an appreciating exchange rate on aggregate supply.

Effect:

Increase

Decrease

(circle one)

Explanation: Cheaper price for imported raw materials (which lowers the costs of production for firms). Decreased costs increase profits, so firms plan to produce more, thereby shifting AS to the right.

(b) Identify and explain the effects of unions getting a wage increase on which direction the aggregate supply curve will shift.

Identify:

inward

or

outward

(circle your choice)

Explanation: As unions get workers a wage increase the costs of production for firms will rise. Increased costs decrease profits so firms plan to produce less thereby AS shifts left (inward).

(c) Explain the effect of a net migration loss on AS.

Aggregate supply is the total production of all firms in the economy. A net migration loss will cause the AS curve to shift left (inward) because there is a decrease in the supply of workers, so fewer resources are available. Wages will increase. Costs of production to firms will increase. Costs increase, profits decrease, so firms plan to produce less, therefore AS shifts inward.

(d) Explain the effect of falling productivity and a depreciation of the dollar on AS.

A fall in workers' productivity means that the output per worker has fallen and the production process is not as efficient as it could be. This will cause the costs of production to increase and, consequently, shift the AS curve inward (to the left). A depreciation of the dollar causes a similar effect because it will cause a rise in the price of imported raw materials to firms. As costs increase, profits decrease, so firms plan to produce less, therefore AS shifts inward.