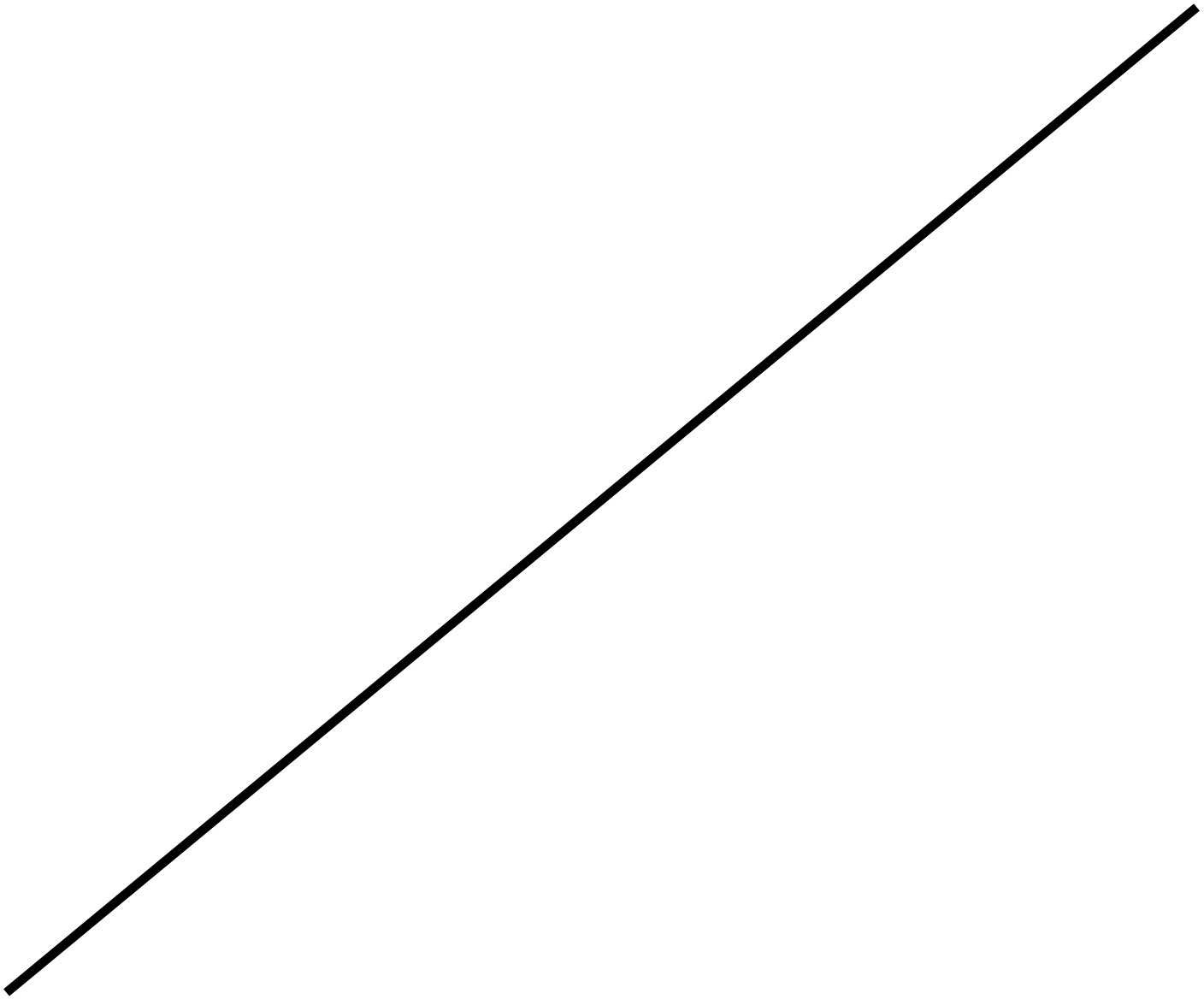




The effect of an Increase in wages







Price Level

Real GDP Supplied

SRRAS(Mages constant)









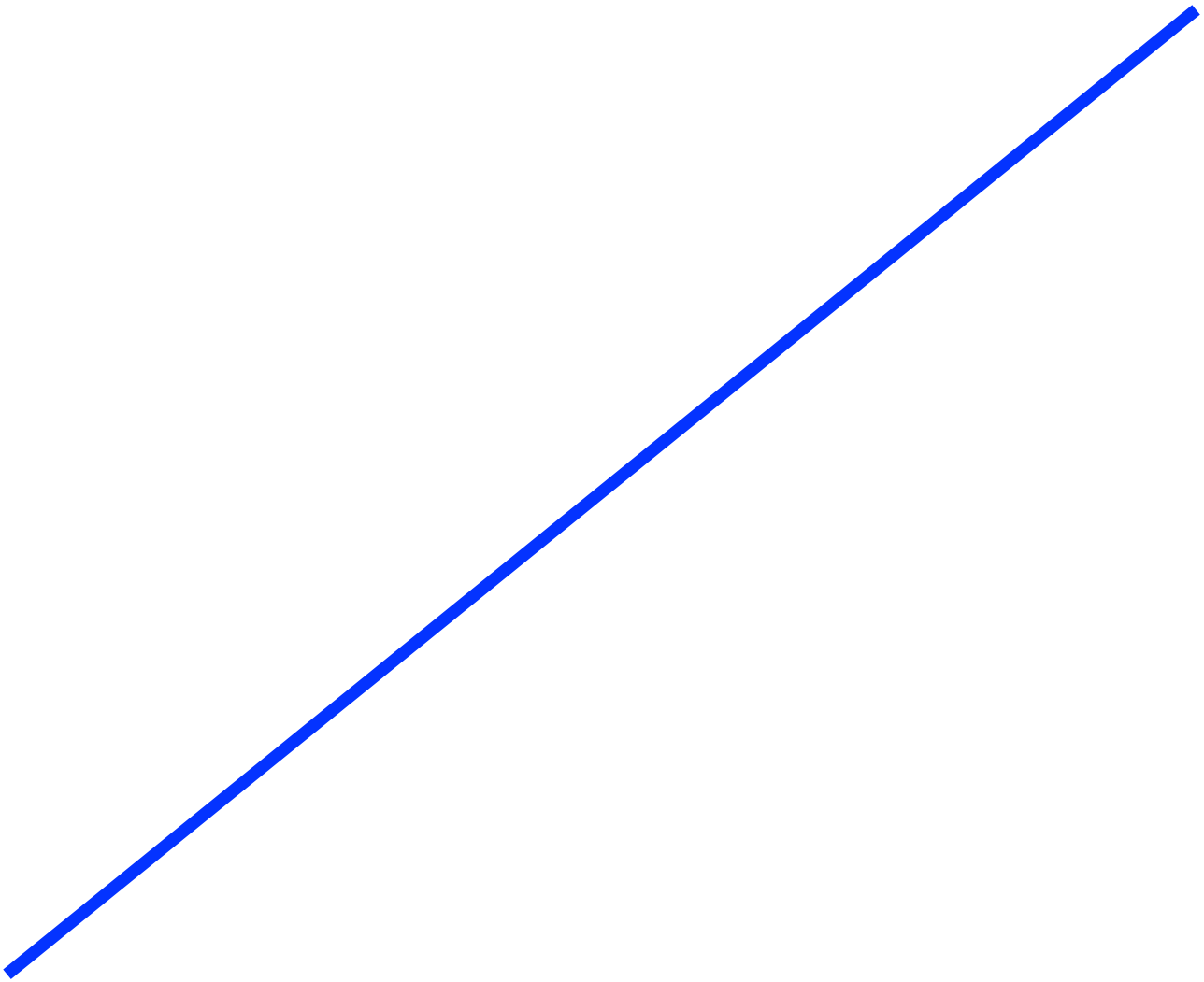
ASO

AS<sub>1</sub>

P

O











If prices remain the same, Production Decrease

SRAS(Higher wages)



shift

An increase in wages shifts

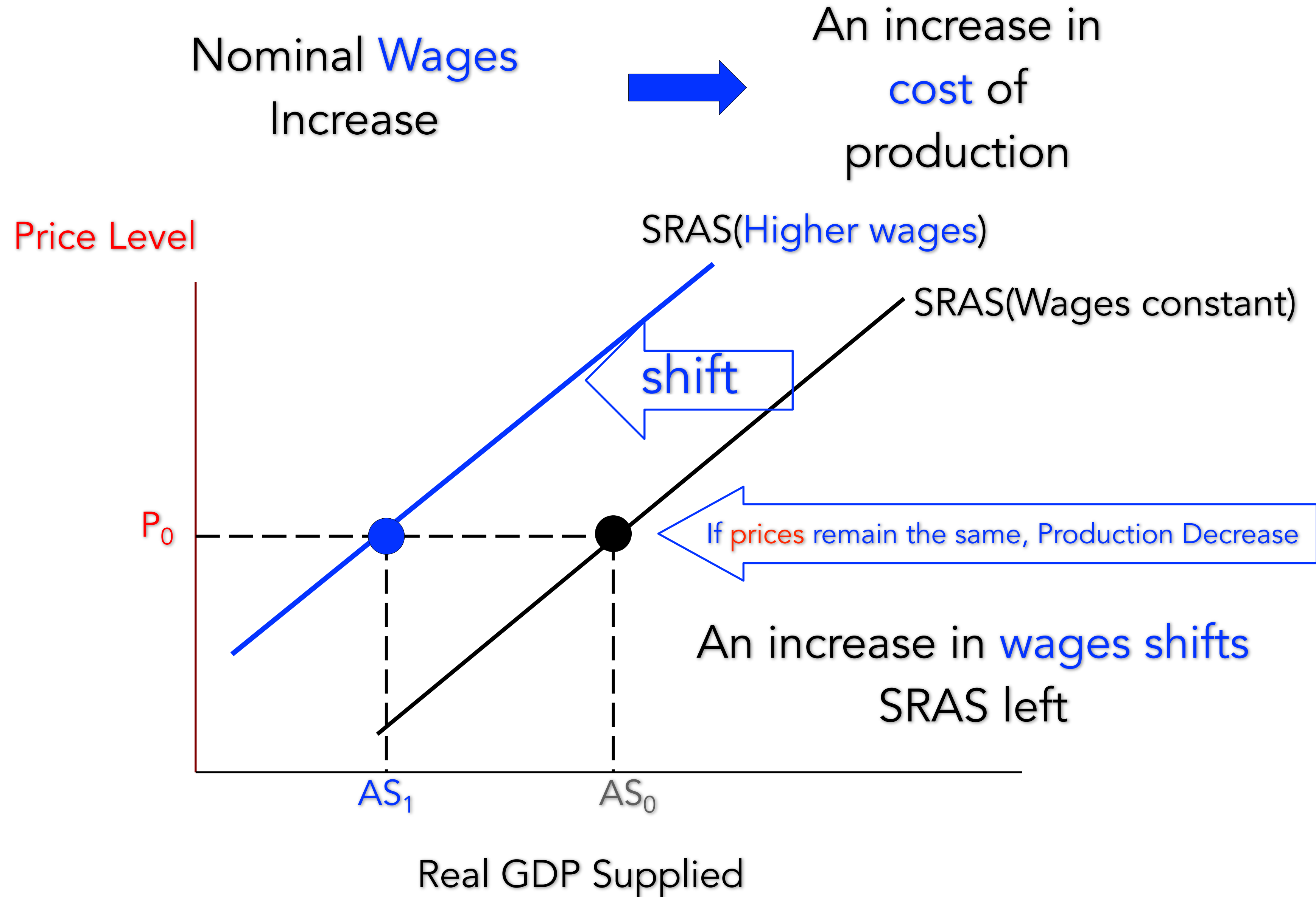
SRAS left

Nominal **Wages**  
Increase



An increase in  
**cost** of  
production

# The effect of an Increase in wages



# Determining Prices and Output: **Aggregate Supply** and **Aggregate Demand**