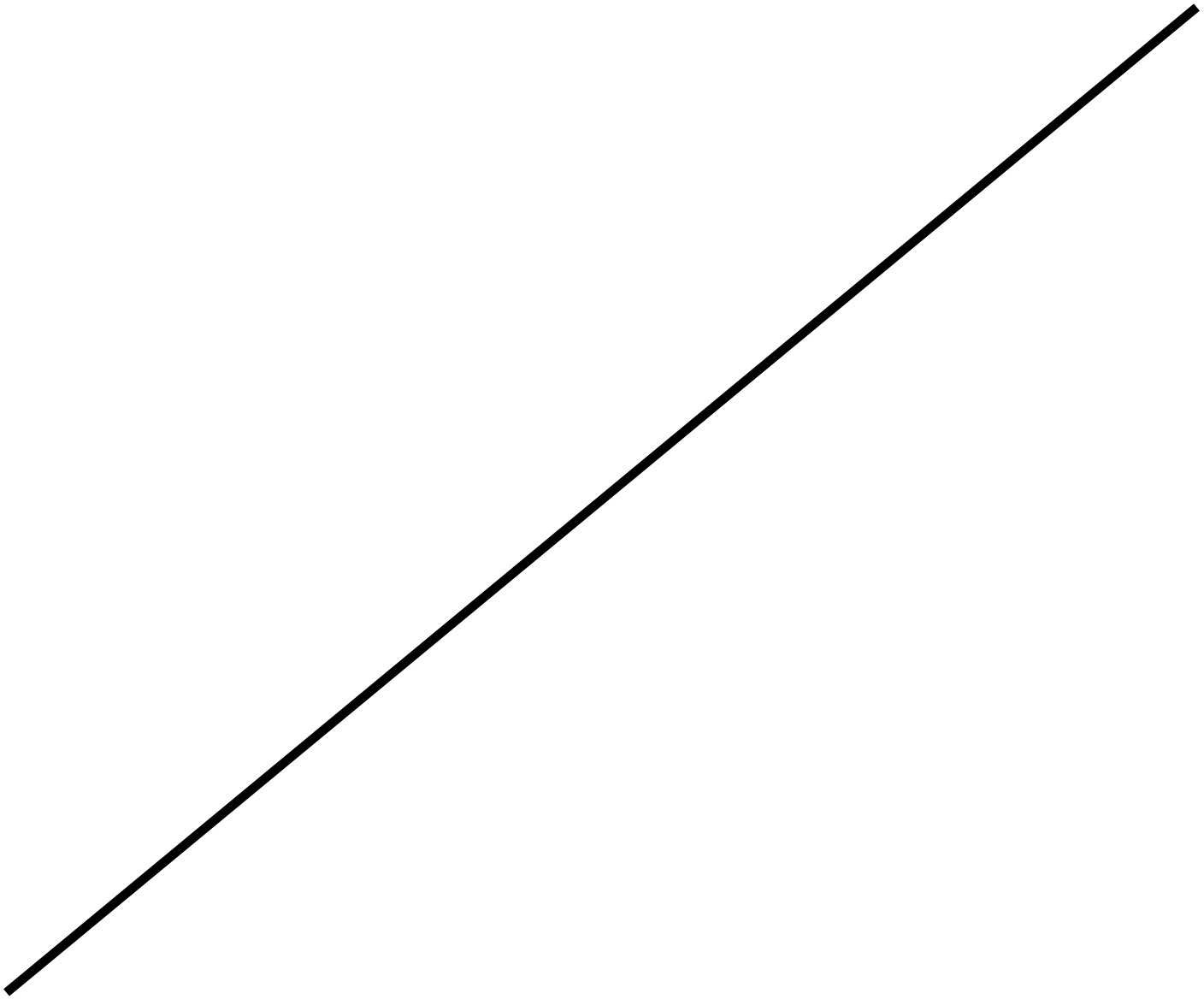


The effect of an Increase in wages





Price Level

Real GDP Supplied

SRRAS(Mages constant)







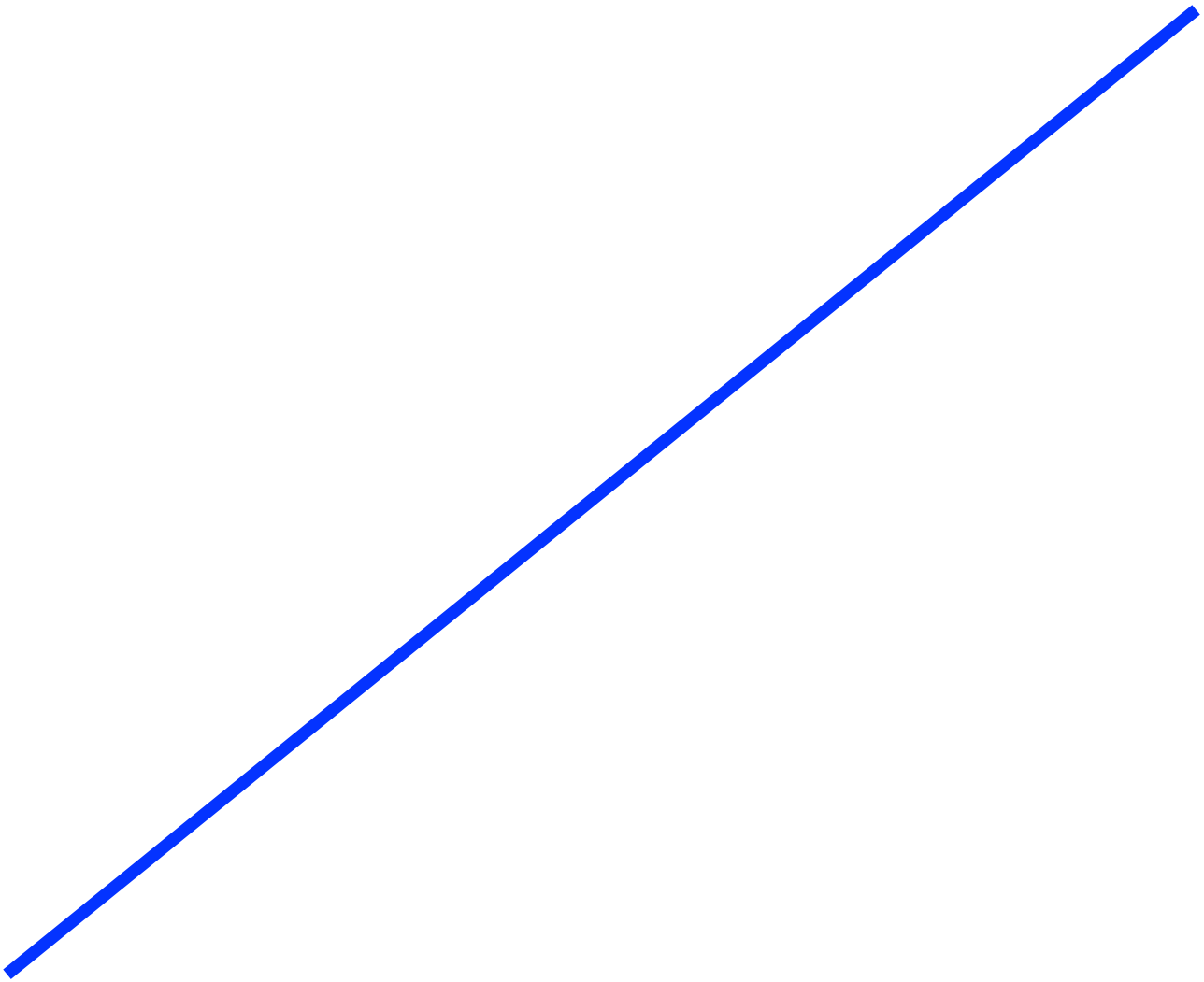
ASO

AS₁

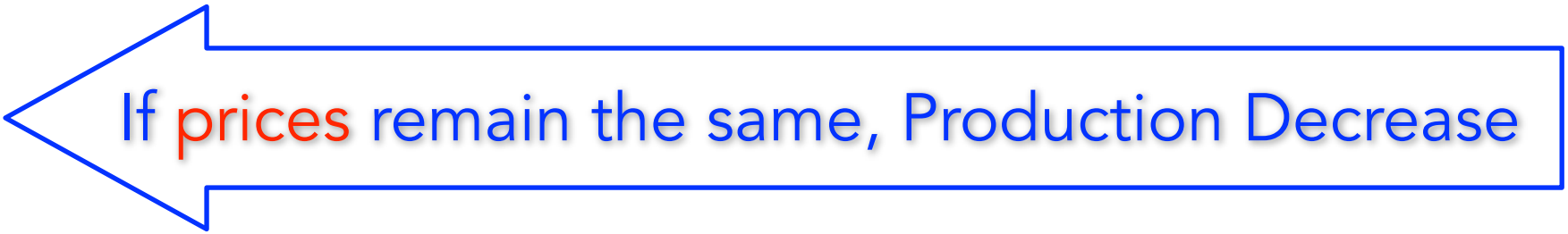
P

O









If prices remain the same, Production Decrease

SRAS(Higher wages)



shift

An increase in wages shifts

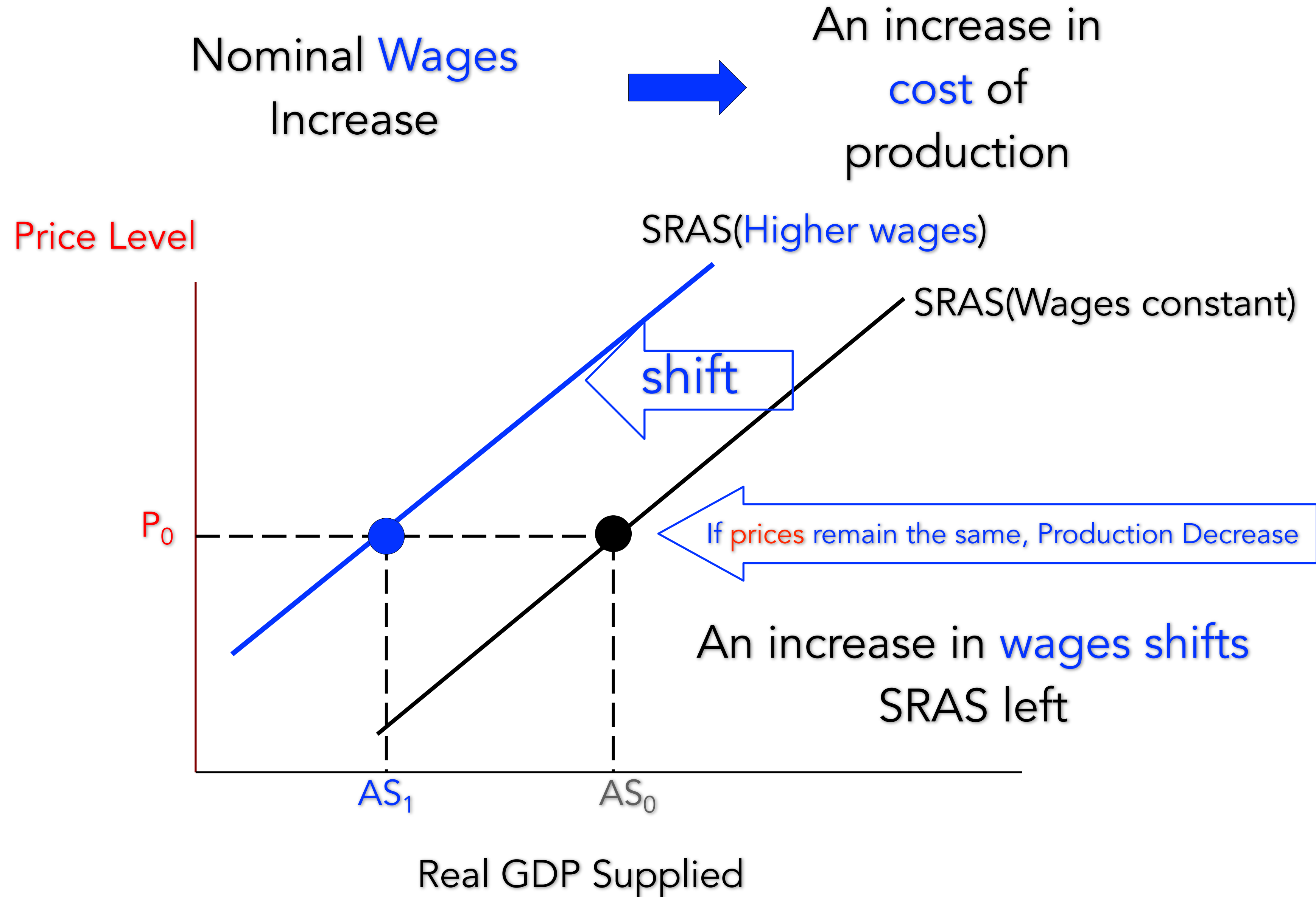
SRAS left

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**