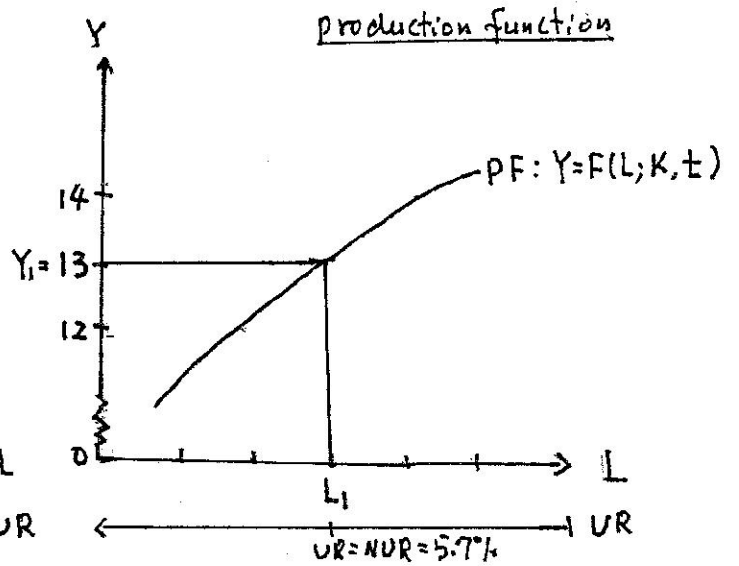
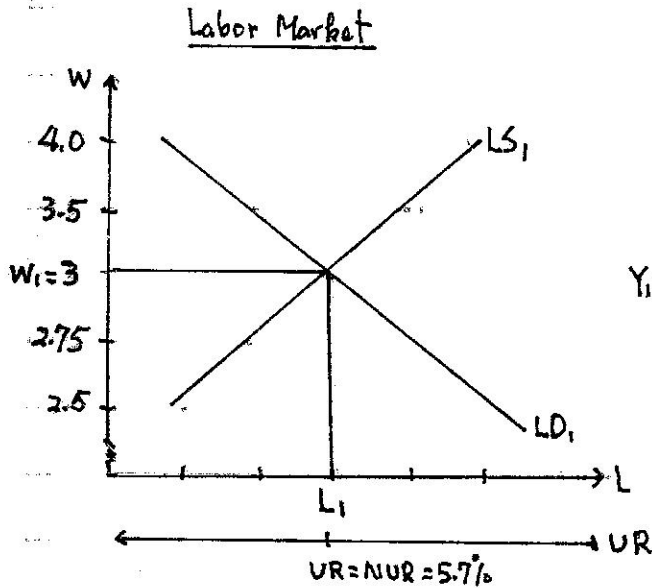


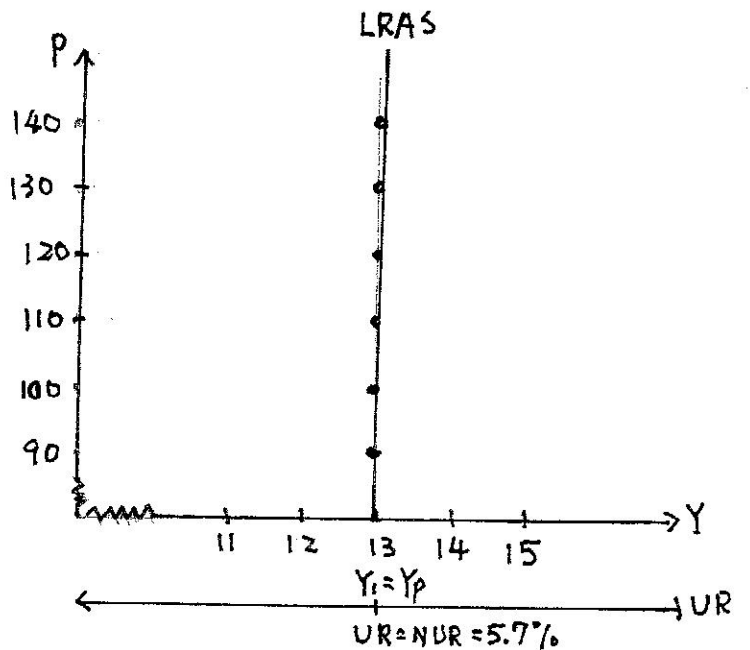
LRAS (Long-run aggregate supply curve)

Long-Run: All prices are fully flexible and change in same proportion.



$$w = \frac{W}{P}$$

W	P	$w = \frac{W}{P}$
270	90	$\frac{270}{90} = 3$
300	100	$\frac{300}{100} = 3$
330	110	$\frac{330}{110} = 3$
360	120	$\frac{360}{120} = 3$
390	130	$\frac{390}{130} = 3$
420	140	$\frac{420}{140} = 3$



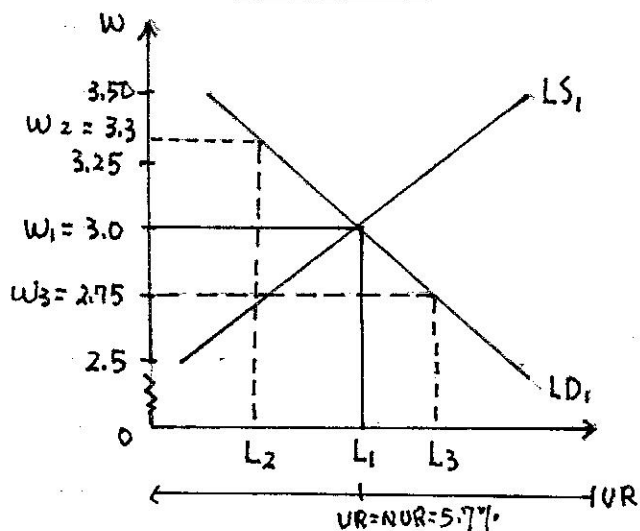
An Important Note

"Over the business cycle, RGDP fluctuates around potential GDP (Y_p) because the quantity of labor employed (L) fluctuates around its full employment level (L_f). The aggregate supply - aggregate demand model (AS-AD model) explains these fluctuations." (Bade - Parkin, P322, Chap. 13).

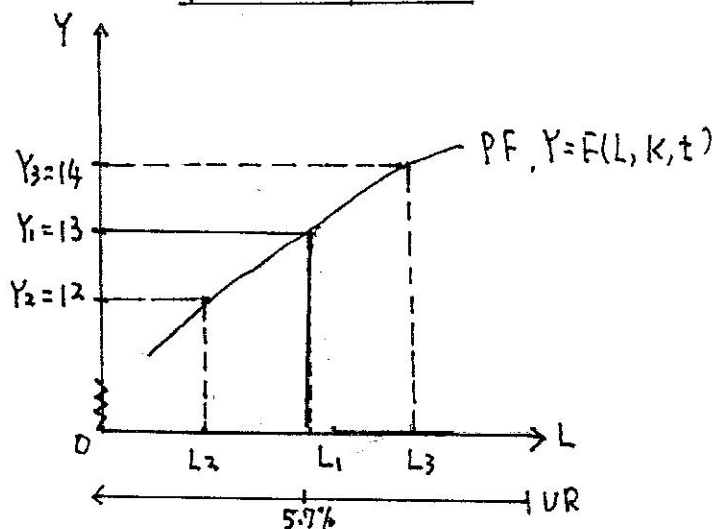
SAS or AS (short-run aggregate supply curve) are sticky

Short-run: Many prices, especially W (money wage) at some predetermined level.

Labor Market



production function



Assume that $\bar{W} = 330$. We obtain (1) $P_1 = 110, w_1 = \frac{\bar{W}}{P_1} = \frac{330}{110} = 3$.

(2) $P_2 = 100, w_2 = \frac{\bar{W}}{P_2} = \frac{330}{100} = 3.3$

(3) $P_3 = 120, w_3 = \frac{\bar{W}}{P_3} = \frac{330}{120} = 2.75$

Aggregate Supply curve (AS)

Short-run aggregate supply curve

