Short Run Aggregate Supply

\[ \begin{array}{c|c|c|c|c|}
\text{Point a} & \text{Point b} & \text{Note this} \\
\hline
P_0 & P_1 & \\
W_0 & W_0 & \\
K_0 & K_0 & \\
W_0/P_0 & W_0/P_1 & \\
\end{array} \]
Shift in SRAS

\( \Delta w > 0 \)
then \( \Delta N < 0 \)
then \( \Delta \Phi < 0 \)

\[ w = w_1 \]
\[ w = w_0 \]

\( \Delta k > 0 \)
then \( \Delta \Phi > 0 \)

\[ k = k_0 \]
\[ k = k_1 \]
\[ k > k_0 \]
Short-Run Aggregate Supply

LAS = "full employment line" or $\bar{Y} = Y_{GDP}$

SAS: $P = f(Y, \bar{K}, \bar{W}, t)$

- Real GDP below potential GDP
- Real GDP above potential GDP

Price level (GDP deflator, 1992 = 100)

Real GDP (trillions of 1992 dollars)
Synonyms

- LRAS
- Long Run Aggregate Supply Curve
- The full employment line
- Potential RGDP line

How Derived?

- full employment RGDP
- potential RGDP
Movements Along The Aggregate Supply Curves

Price level rises and money wage rate rises by the same percentage

Price level rises and money wage rate is unchanged
why does SRAS shift
- what happens to P; RGDP

why does AD shift
- what happens to P; RGDP
SRAS

Events that shift the SRAS curve

- Wage rate
- Resource prices
- Capital stock
- Technology

AD

Events that shift the AD curve

- Private sector
- Expected future income
- Foreign income
- Exchange rate

- Public sector
  - G
  - T
  - H
\[ \text{Y} = T \cdot F(K, N) \]

1. **Ultra short run!**
   - \( T = \bar{T} \)
   - \( K = \bar{K} \)
   - \( N = \bar{N} \)
   - Therefore, \( Y = \bar{Y} \)
   - A constant

2. **The full employment assumption**
   - \( K = \bar{K} \)
   - \( N = \bar{N} \)
   - \( T = \bar{T} \)
   - Therefore, \( Y = \bar{Y} = \bar{Y} \cdot F(e) \)

3. **Potential GDP**
   - \( \text{Pot. GDP} = \bar{Y} \cdot F(e) \)