Aggregate Supply

- Long-Run Aggregate Supply

Potential GDP is independent of the price level because the price level, wage rate, and other resource prices all change by the same percentage.

\[ \frac{\Delta P}{P} = \frac{\Delta W}{W} = \frac{\Delta i}{i} \]

\[ \frac{\Delta i}{i} - \frac{\Delta P}{P} = \frac{\Delta r}{r} : \text{change in real interest rate} \]

\[ \frac{\Delta W}{W} - \frac{\Delta P}{P} = \text{change in real wage} \]
Neoclassical foundations of economic value theory: Great Britain

Jevons, William Stanley (1835-1882)

Edgeworth, Francis Ysidro (1845-1926)

Marshall, Alfred (1842-1924)

Electronic Texts and Text Analysis

History of Economic Thought

Economics 3LL3
AkamcHomePage
Akamc E-text Links
Encyclopedia
Adam Smith's Wealth of Nations
Back to Micro 101

\[ e_{Q,P}: \text{ quantity-price elasticity} \]

\[ \frac{\Delta Q}{Q} = e_{Q,P} \frac{\Delta P}{P} \]

↑ percent change in dependent variable
↑ elasticity coefficient
↑ percent change in independent variable
- Extension
  - the supply side
    - a 2 commodity world
      - apples
      - bananas

<table>
<thead>
<tr>
<th>Supply</th>
<th>( \frac{\Delta P_A}{P_A} )</th>
<th>( \frac{\Delta P_B}{P_B} )</th>
<th>( \frac{\Delta R}{R} )</th>
<th>composite factor of product.</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \frac{\Delta Q_A}{Q_A} )</td>
<td>+1</td>
<td>-1</td>
<td>+1</td>
<td></td>
</tr>
<tr>
<td>( \frac{\Delta Q_B}{Q_B} )</td>
<td>-1</td>
<td>+1</td>
<td>+1</td>
<td></td>
</tr>
</tbody>
</table>

Inflation: \( \frac{\Delta P_A}{P_A} = \frac{\Delta P_B}{P_B} \)

Further assumption: \( \frac{\Delta R}{R} = 0 \)

Therefore: \( \frac{\Delta Q_A}{Q_A} - \frac{\Delta Q_B}{Q_B} = \frac{\Delta RDGP}{RDGP} = 0 \)
Classical and Neo-Classical Economics

Chap. 6

P

AS

RGDP

Chap. 6

P

AD

RGDP

Expenditure = Income

Chap. 4:

As = AD

Say's Law

Does Chapter 6 subscribe to Say's Law?
Aggregate Supply

- Potential GDP changes as a result of:
  1) Changes in the full-employment quantity of labor: $\Delta n$
  2) Changes in the quantity of capital: $\Delta k$
  3) Advances in technology: $\Delta T$
key

SRAS; LRAS

* anything that shifts the LRAS also shifts the SRAS

* anything that shifts the SARS does not necessarily shift the LRAS

LRAS, LRAS'

SRAS, SRAS'

RGDP

RGDP

example:

Δ W > 0

Δ oil price > 0