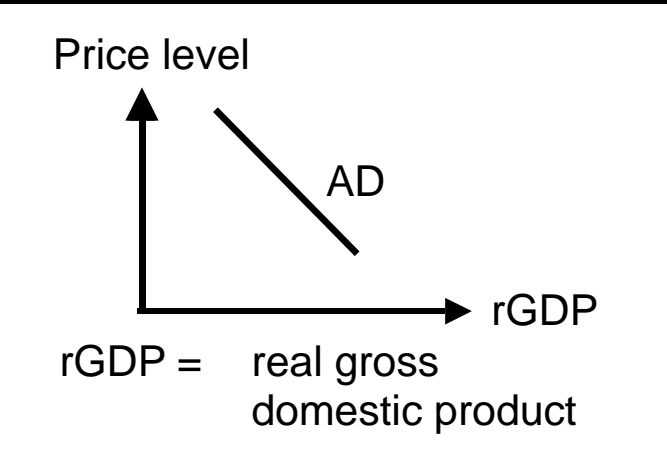
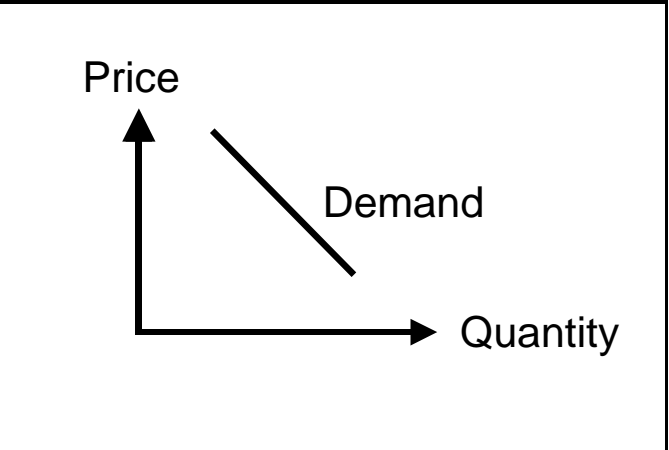


AD-AS model 1 (introduction)

1 Aggregate demand (AD)

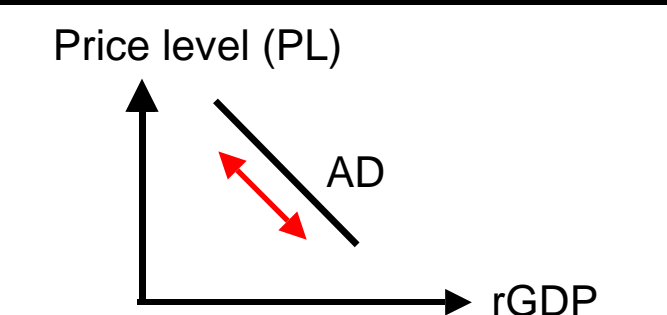
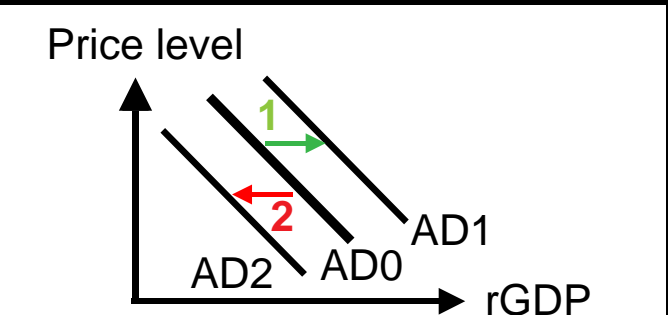
11 Aggregate demand curve vs. demand curve

Aggregate demand curve	Demand curve
 <p style="text-align: center;">rGDP = real gross domestic product</p>	
AD-Curve	Demand curve
<ul style="list-style-type: none"> • refers to the whole economy 	<ul style="list-style-type: none"> • refers to a single market (e.g. market for oranges)
<ul style="list-style-type: none"> • x-axis: Real GDP 	<ul style="list-style-type: none"> • x-axis: Quantity of oranges
<ul style="list-style-type: none"> • y-axis: Price level 	<ul style="list-style-type: none"> • y-axis: Price of oranges

12 $AD = C + I + G + (X - M)$

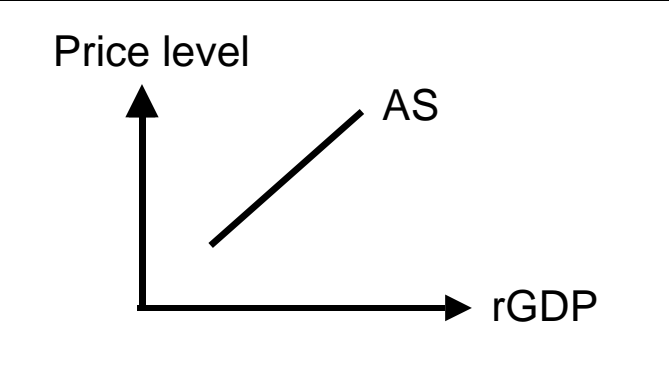
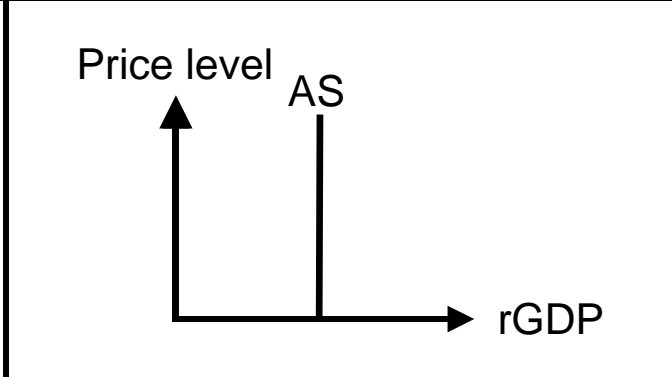
C = Consumption / I = Investment / G = Government spending /
 X = Exports / M = Imports

13 Changes in AD

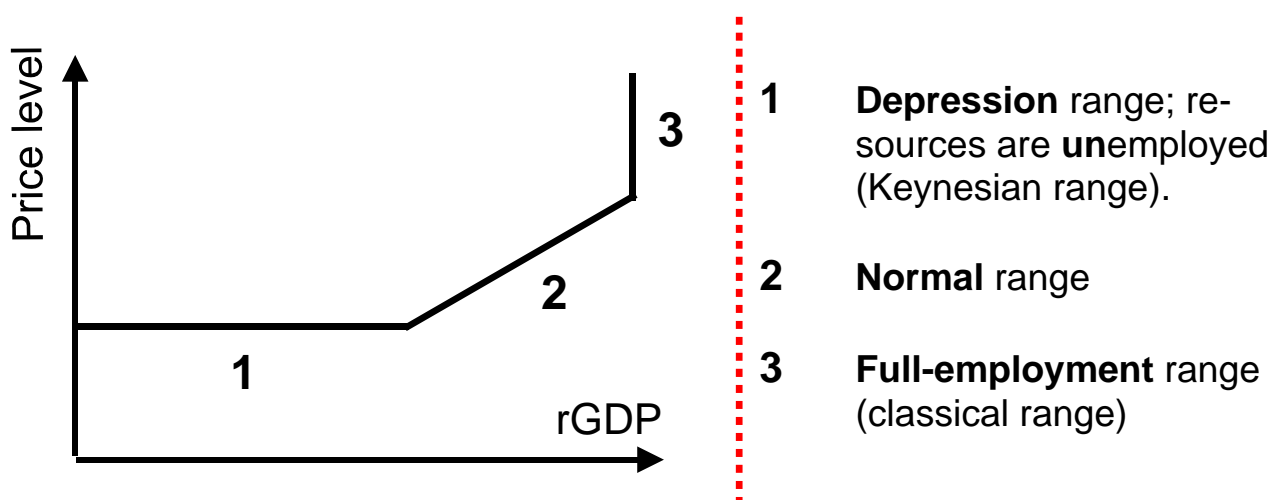
Movements along the AD-curve	Shifts in AD
 <p style="text-align: center;">If PL falls, then rGDP rises. If PL rises, then rGDP falls. (ceteris paribus in both cases)</p>	 <p style="text-align: center;">Change in C, I, G, X or M: 1 Increase in AD 2 Decrease in AD</p>

2 Aggregate supply (AS)

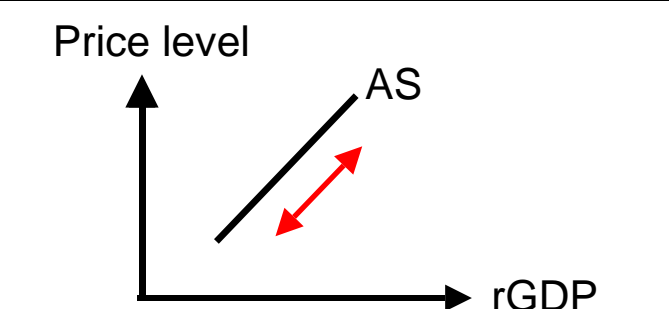
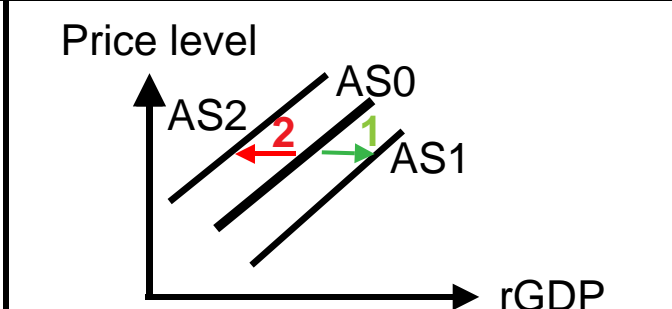
21 Short-run AS vs. long-run AS

Short-run AS (normal range)	Long-run AS
 <p>Price level</p> <p>AS</p> <p>rGDP</p>	 <p>Price level</p> <p>AS</p> <p>rGDP</p>
Some input prices (e.g. wages) are fixed.	All input prices have changed.

22 Short-run AS and business cycle



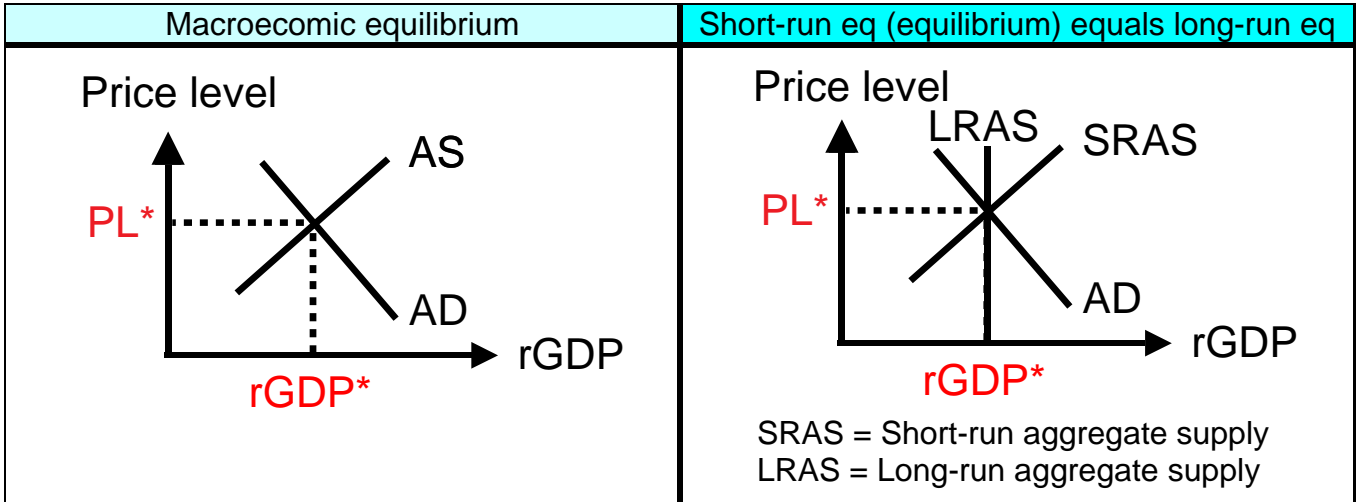
23 Changes in AS

Movements along the AS-curve	Shifts in AS
 <p>Price level</p> <p>AS</p> <p>rGDP</p> <p>If PL falls, then rGDP falls, too. If PL rises, then rGDP rises, too. (ceteris paribus in both cases)</p>	 <p>Price level</p> <p>AS2</p> <p>AS0</p> <p>AS1</p> <p>rGDP</p> <p>Change input factors: 1 Increase in AS (e.g. higher productivity) 2 Decrease in AS (e.g. less capital)</p>

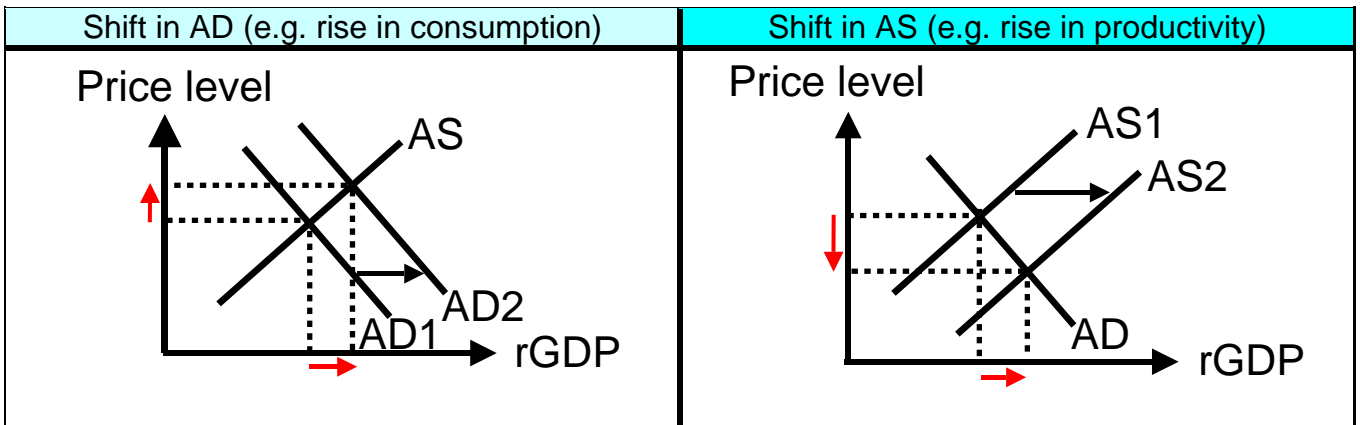
3 Macroeconomic equilibrium

31 Equilibrium in general

A macroeconomic equilibrium exists where rGDP demanded equals rGDP supplied. At this point, both rGDP and price level are determined.



32 Examples of new equilibria



33 Gaps between the short-run equilibrium and the long-run situation

