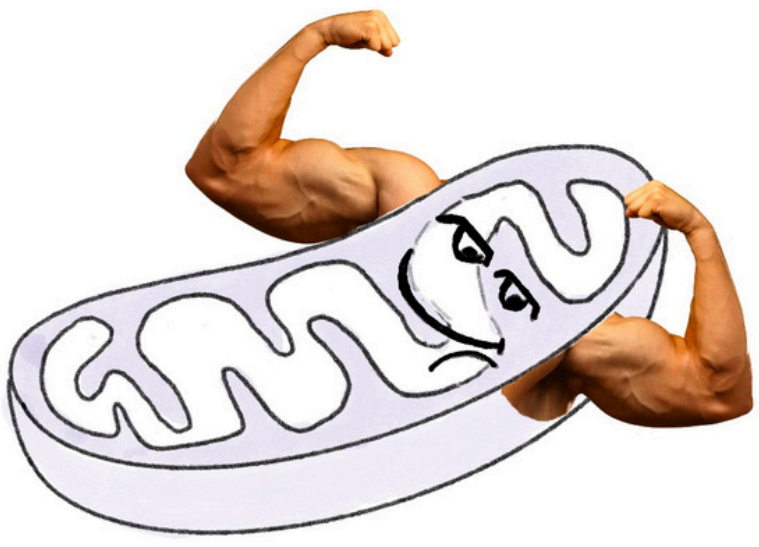
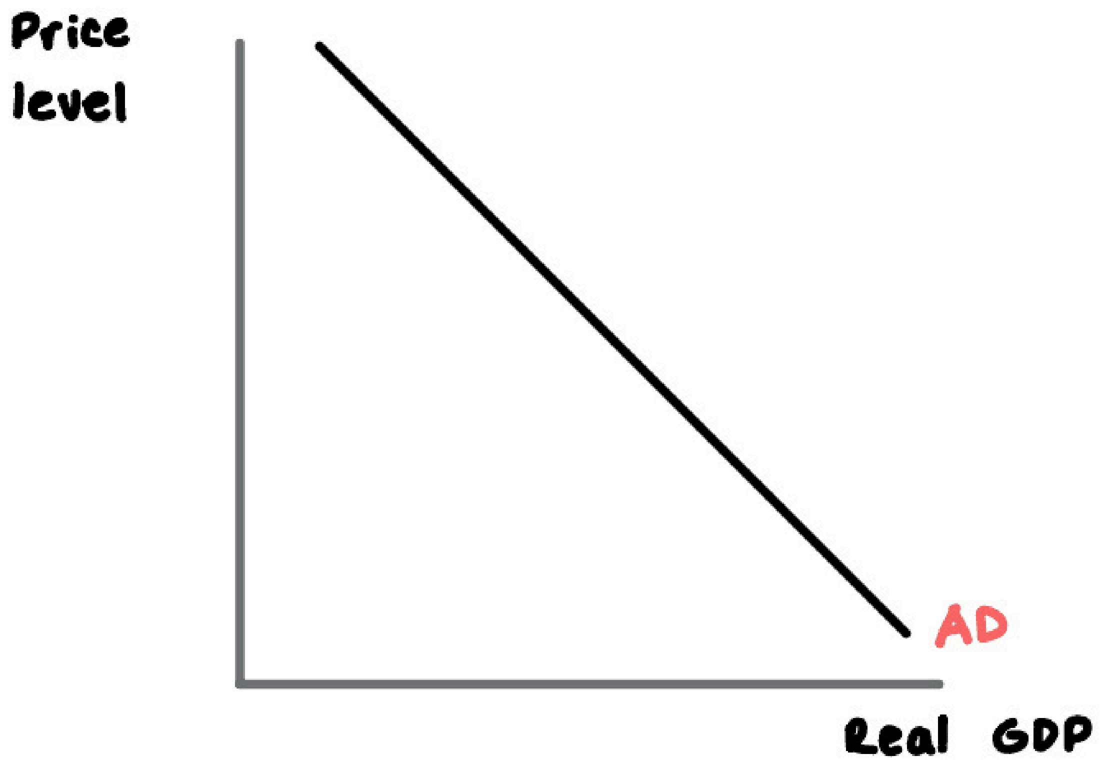
AP MACRO

AD & AS GRAPHS

REVIEW



AGGREGATE DEMAND



- Wealth effect
- Interest rate effect
- Foreign trade effect

negative AD slope

SHIFTS

$$GDP = \underbrace{C + I + G + (X - M)}$$

↳ Any of these terms can shift AD

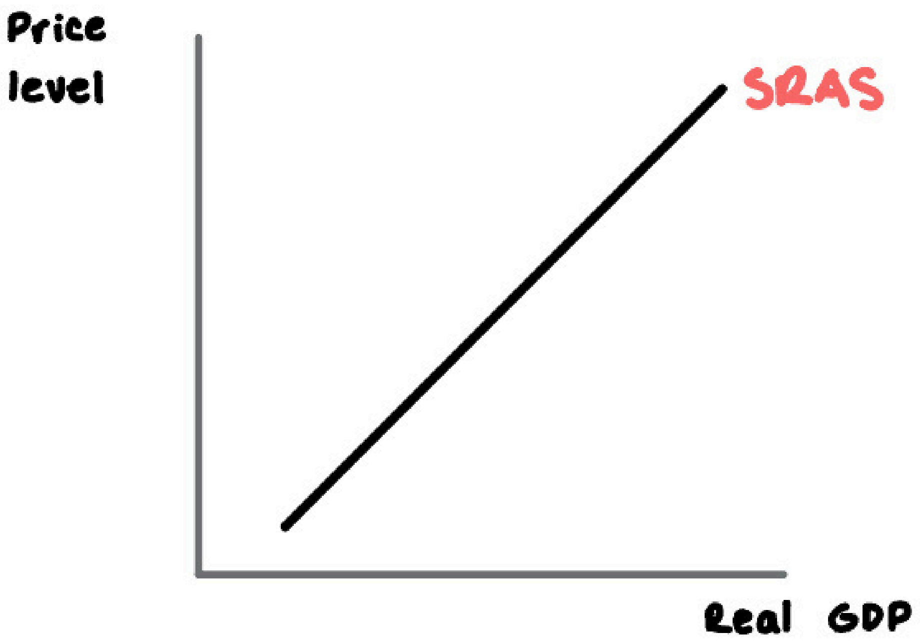
→ Similar to market demand; left shift is decrease, right shift is increase

EG. government lowers taxes

→ consumer spending (C) increases, thus aggregate demand increases

AGGREGATE SUPPLY

SHORT RUN



Wages & prices not flexible → positive slope

→ **SHIFTS**

changes in productivity, resources prices taxes, subsidies, & expectations of inflation will shift SRAS

LONG RUN

→ represents the potential output

wages & prices are adjusted

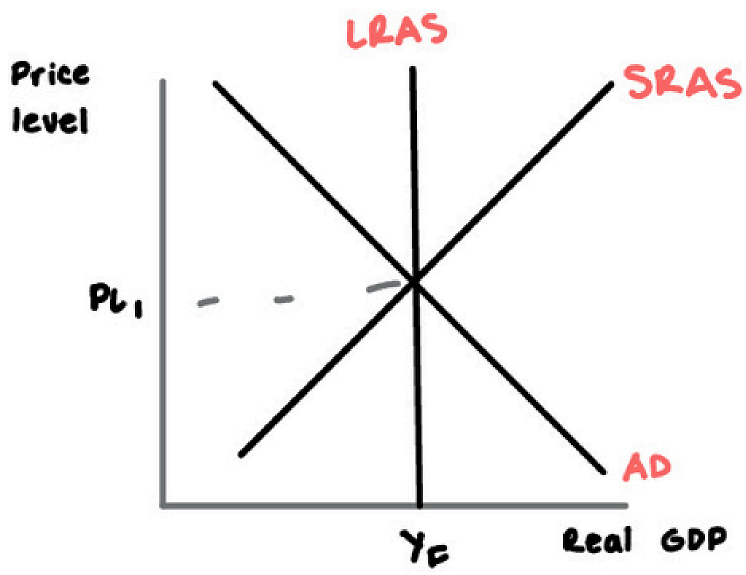
↳ full employment

→ SHIFTS

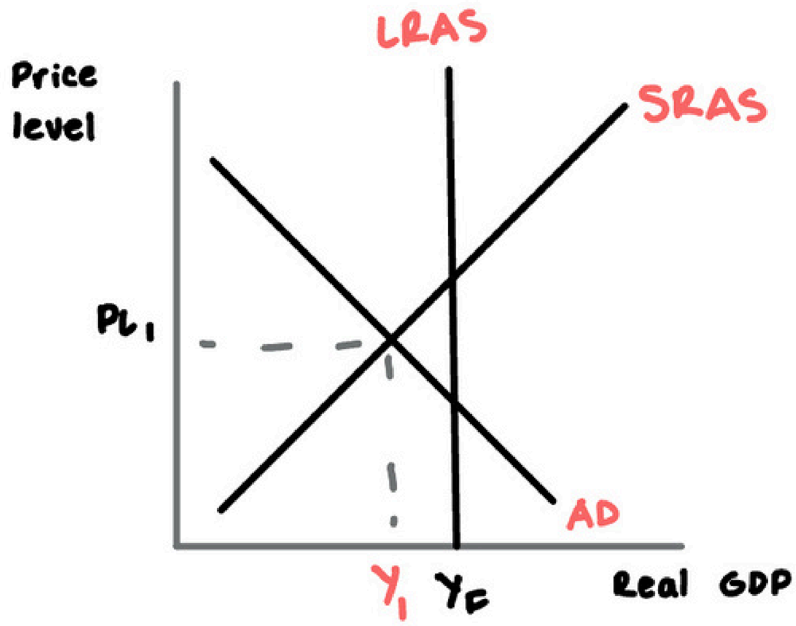
changes in productive capacity
(eg. technology)

AD + SRAS + LRAS

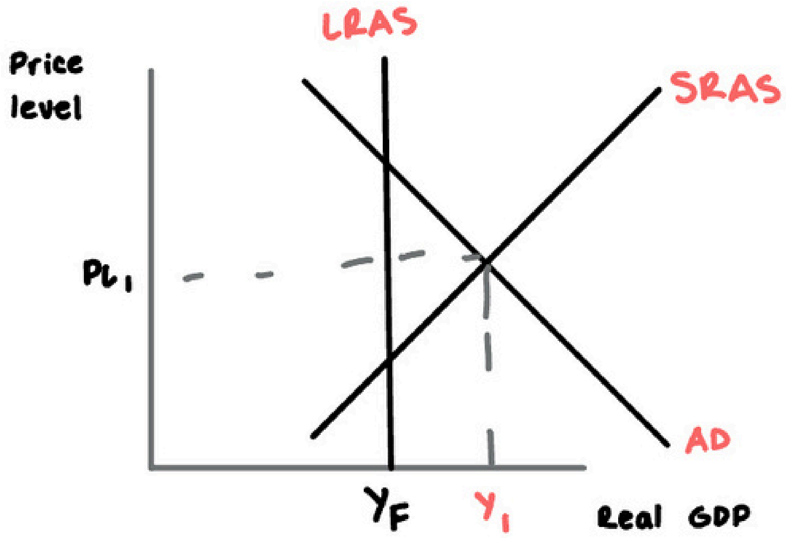
FULL EMPLOYMENT

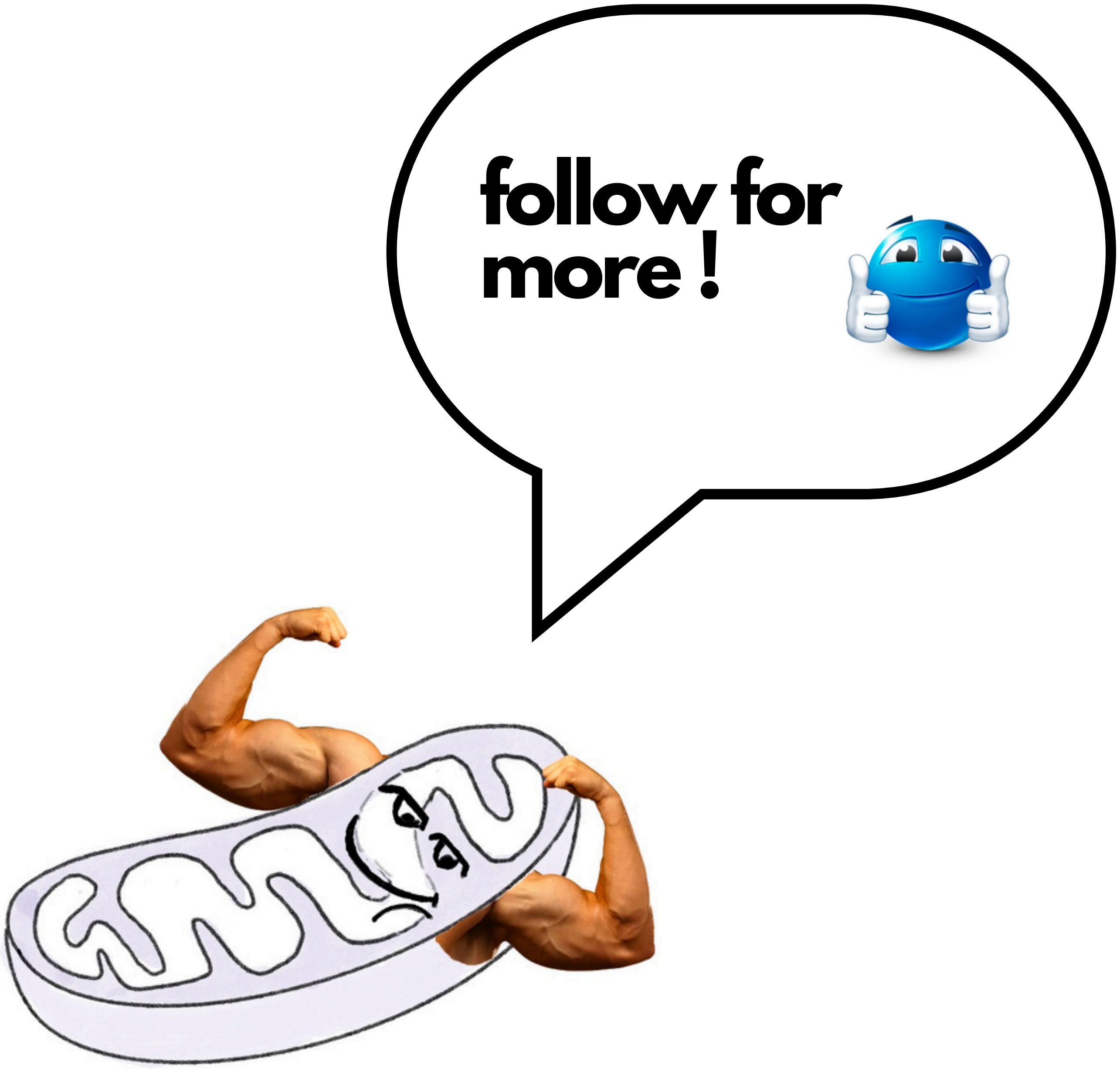


RECESSION



INFLATION





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