The aggregate-demand aggregate-supply model

Literature, Russian Literature

The Aggregate-Demand / Aggregate-Supply Model

Aggregate Demand/ Aggregate Supply Model Affiliation Creating realistic Scenario In this case, the scenario should affect both the aggregate demand and supply (Mankiw, 2011). In order to create an appropriate scenario, you should analyze the impacts of government policy and external shocks on the key economic policy targets. If the scenario raises government purchases, consumption, investment and net exports at a certain price level, it will increase the aggregate demand. If the scenario reduces consumption, government purchases, net exports and investments at given price level, it decreases the aggregate demand. The curve pf long-run aggregate-supply is vertical. The goods quantity and services supplied often depend on economics' capital, labor, technology and natural resource, though not on the overall price levels. Therefore, a scenario that can alter economics ability to produce its output can include changes in capital, labor, technology and natural resources. It is because the short-run aggregate-supply curve position depends on the price level that is expected. When aggregate demand shifts leftwards, price and output fall in the short run. Over time, changes in expected price levels cause wages, perceptions, prices, and wages to adjust, the shift of the short-run aggregate-supply curve to the right, as the economy returns to its normal output rate.

Question 1

In this case, changes in aggregate demand will lead to movements along the Philips curve while other variables held constant. Therefore, to determine the output and prices impact, it is appropriate to relate the aggregate demand with the Philip curve. Hence, if there is aggregate demand increase, the price level, and real GDP increases lowering the unemployment rate and increasing inflation. In this case, the aggregate supply will be stationary, and the aggregate demand will begin to the curve, AD1. As the aggregate demand increases, the unemployment level decreases since workers are hired, the price level increases and real GDP output also increases. Thus, this situation should show a demand-pull inflation scenario as Mankiw (2011) suggests.

References

Mankiw N., (2011). Principles of Macro Economics. Boston: Cengage Learning.