National Income and Price Determination
Equilibrium

Terms		
Equilibrium price level	Equilibriuum real output	recessionary gap
Inflationary Gap		

Watch Long Run Aggregate Supply, Recession and Inflation at: https://www.youtube.com/watch?v=a2azB2eag5I

- If there is an increase in aggregate demand:
  - Price level will _____.
  - Output will _____.
- If there is a decrease in aggregate demand:
  - Price level will _____.
  - Output will _____.
- If there is an increase in aggregate supply:
  - Price level will _____.
  - Output will _____.
- If there is a decrease in aggregate supply:
  - Price level will _____.
  - Output will _____.
- A demand shock is when _____.
- If there is a negative supply shock the aggregate supply curve will shift _____.
  - Price level will _____.
  - Output will _____.
- A negative supply shock will result in _____.
- Draw AD/AS graph at full employment. Be sure to include the LRAS.

- Decrease aggregate demand
    - The economy now has a _____ gap.
    - Output or actual GDP is _____ potential or full employment GDP.

    THE ECONOMY IS SELF CORRECTING OVER TIME!

    - Eventually wages will _____
    - The price of resources will _____
    - Aggregate supply will shift to the righ tputting us back at _____.
- Increase aggregate demand
    - The economy now has an _____ gap
    - Output or actual GDP is _____ potential or full employment GDP

    THE ECONOMY IS SELF CORRECTING OVER TIME!

    - Eventually wages will _____.
    - Aggregate supply will shift to the left putting us back at _____.
- Long run aggregate supply is located at _____ employment
- When there is a recession wages will _____.
- When there is inflation wages will eventually _____.

Watch Aggregate Demand and Supply Practice at: https://www.youtube.com/watch?v=MjpSKZoQDoY

Mr. Clifford goes through several hypothetical problems. Watch this and learn but do not start solving problems with him until he gets to the **SPECIFIC** question. Follow Mr. Clifford's example and draw an AD/AS graph that will graphicall y represent this problem.

Assume an economy is at full employemtn but then consumer spending falls. **DRAW THE GRAPH**

NOW – which of the following will most likely happen in the short run?

- Price level will decrease
- Price level will increase
- Real GDP will decrease
- Real GDP will stay the same
- Unemployment will increase
- Unemployment will stay the same

Follow Mr. Clifford's example. For each of the following, what will happen to the price level and real GDP in the short run? **DRAW A GRAPH** to show what happens in each situuation.

1. an increase in government deficity spending

2. an increase in the wages that businesses mst pay workers

3. the impact on net exports when the country's currency appreciates

4. increase in human capital which significantly improves productivity

5. a decrease in interest rates which effect investmen