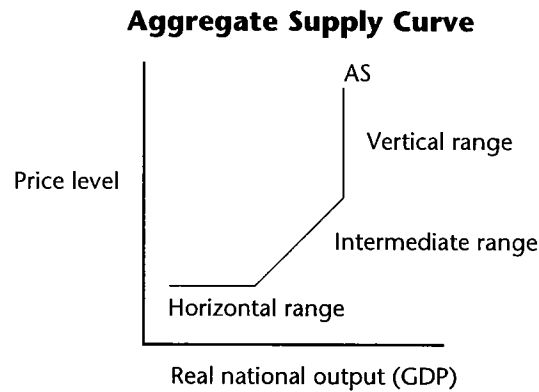


ACTIVITY 17

An Introduction to Short-Run Aggregate Supply

Part A. Why Does the Aggregate Supply Curve Look So Funny?



1. Under what conditions would AS be in the horizontal range?

2. Under what conditions would AS be in the vertical range?

3. Under what conditions would AS be in the intermediate range?

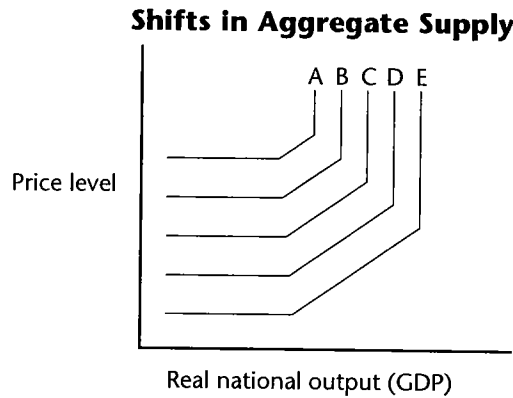
4. What difference does it make if AS is in the horizontal, intermediate, or vertical range?

5. Economists believe that AS in the vertical range represents potential GDP at full employment. Why?

6. a. What range do you think AS is in today?
b. Why?

ACTIVITY 17 continued

Part B. Shifts in Aggregate Supply



This Activity is similar to Part B of Activity 16, but it shows shifts in aggregate supply. For each situation described, determine if the event will increase or decrease AS. Start with AS curve C. If you think the first situation would increase AS, write "increase" and move to curve D. If you think the first situation would decrease AS, write "decrease" and move to curve B. Move only one curve at a time. Do not skip a curve even if you think a situation will cause a huge increase or decrease in AS. If you think a situation will not cause AS to shift, write "no change." Do not go beyond the five curves. If you go beyond the five curves, you should rethink your answer!

1. Unions grow more aggressive; wage rates increase.
AS _____ Curve _____
2. OPEC successfully increases oil prices.
AS _____ Curve _____
3. Labor productivity increases dramatically.
AS _____ Curve _____
4. Giant natural gas discovery decreases energy prices.
AS _____ Curve _____
5. Computer technology brings new efficiency to industry.
AS _____ Curve _____
6. Government spending increases.
AS _____ Curve _____
7. Cuts in tax rates increase incentives to save.
AS _____ Curve _____
8. Low birth rate to decrease labor force in future.
AS _____ Curve _____
9. Research shows that improved schools have increased the skills of American workers and managers.
AS _____ Curve _____