

## Lecture 15

1. Real wealth (+): move along the curve instead of shift the curve
2. Expected income (+)  
Consumption smoothing  
Consumer confidence!!
3. Expected future prices (+)
4. Foreign income (+)
5. Value of the dollar  
(Value of dollar)  $\uparrow$  -----decrease exports increase imports—NX decrease

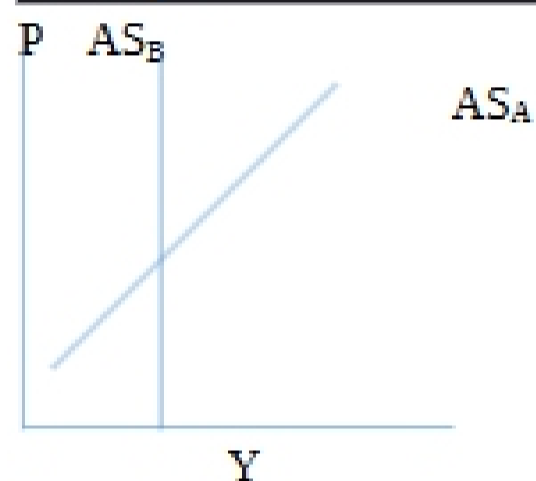
Inputs: workers, raw materials, capital Input prices

Firm:

Output: GDP, Good and services Output prices

### AS Slope

---



Same question

How do firms respond when the prices level rises?

Answer:

B:

If input and output prices increase together, no change in output

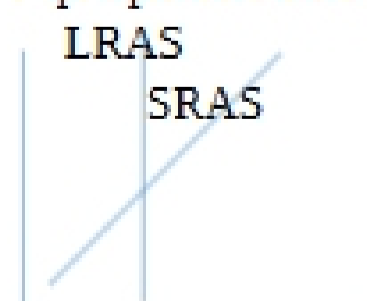
Example: 10% increase in both

A: only final good price changes

Long run: Enough time for all prices to adjust

Short run: Some prices haven't yet adjusted. Only some adjust.

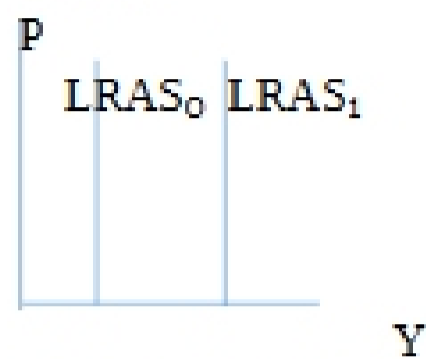
Input prices tend to be stickier than output prices



$Y^*$  = full employment output

$u = u^*$

LRAS



What factors affect a nation's ability to produce in the long run?

1. Resources
2. Technology
3. Institutions

Shift in SRAS

When LRAS shifts, SRAS also shifts, but the opposite is not true.

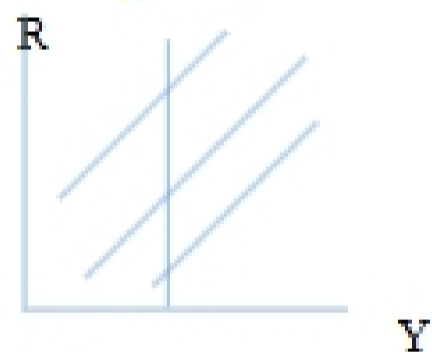
Some supply changes don't affect long run production

Shift only SRAS

1. Supply shocks

Events that change firms' production costs

Example: Weather



2. (-) Expected future prices