

Economic fluctuations

LECTURE: 11

Economic fluctuations

Irregular

Unpredictable

Economic fluctuations

Fluctuate together

A solid orange horizontal bar at the bottom of the slide.

Economic fluctuations

Output falls

Unemployment rises

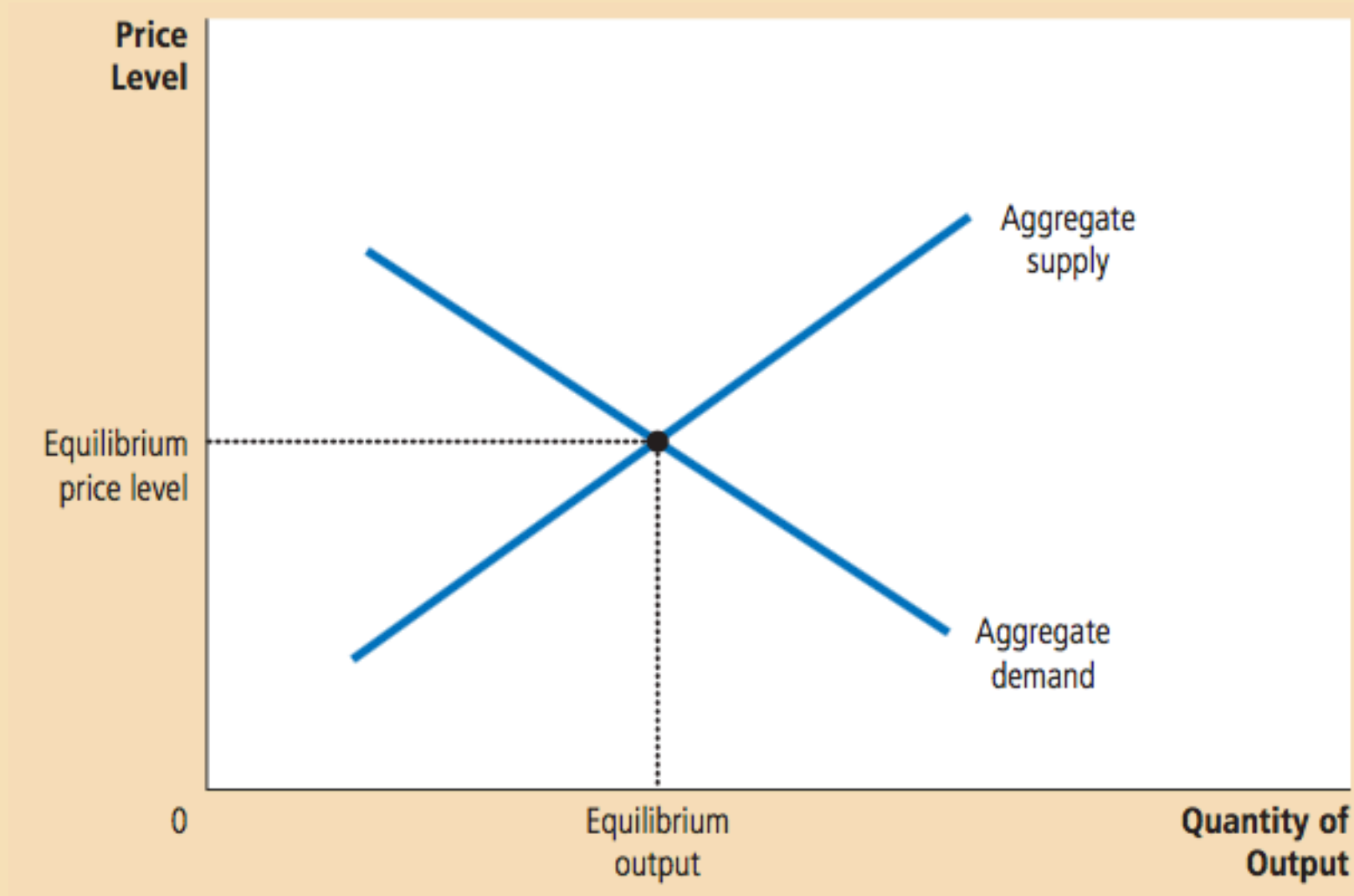
Economic fluctuations

EXPLANATION

model of aggregate demand and aggregate supply

the model that most economists use to explain short-run fluctuations in economic activity around its long-run trend

Aggregate Demand and Aggregate Supply



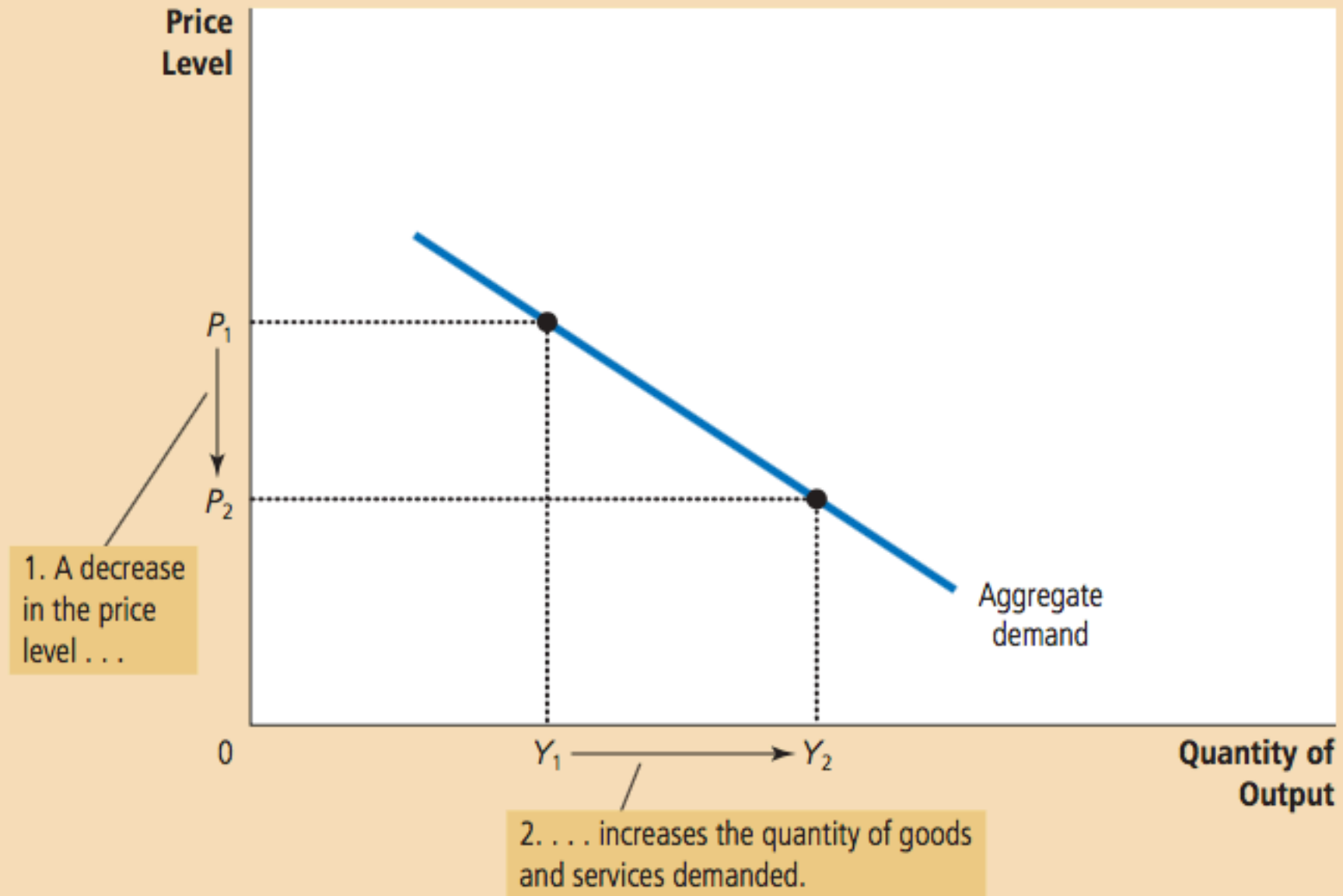
aggregate demand curve

a curve that shows the quantity of goods and services that households, firms, the government, and customers abroad want to buy at each price level

aggregate supply curve

a curve that shows the quantity of goods and services that firms choose to produce and sell at each price level

Aggregate Demand Curve



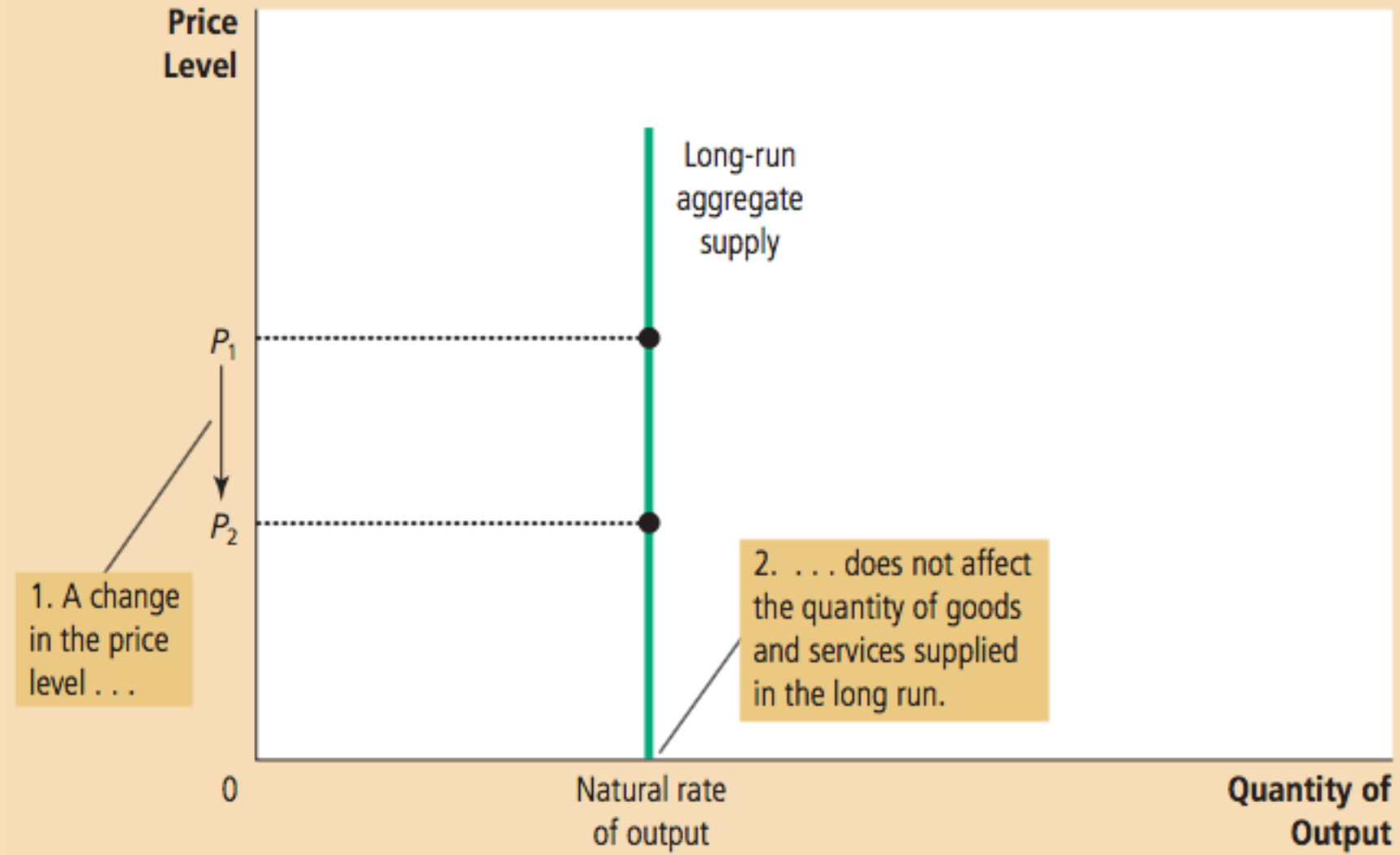
Summing up

1. Consumers are wealthier
2. Interest rates fall
3. Currency depreciates

Why Might the Aggregate-Demand Curve Shift?

1. Shifts Arising from Changes in Consumption
2. Shifts Arising from Changes in Investment
3. Shifts Arising from Changes in Government purchase of goods
4. Shifts Arising from Changes in net exports

Aggregate Supply Curve



NATURAL RATE OF OUTPUT

the production of goods and services that an economy achieves in the long run when unemployment is at its normal rate

$$\text{Quantity of output supplied} = \text{Natural rate of output} + a \left(\text{Actual price level} - \text{Expected price level} \right)$$

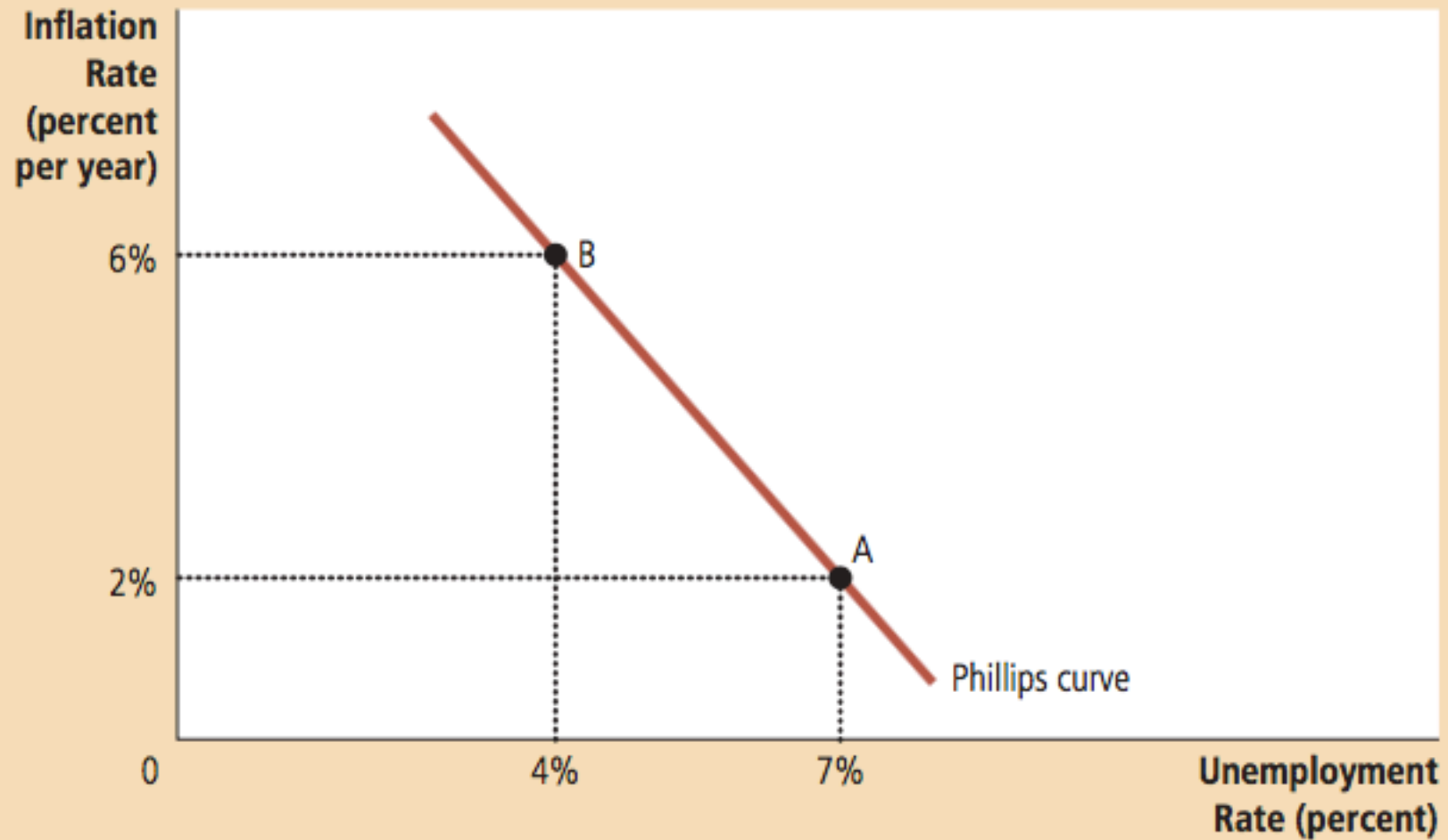
Why Might the Aggregate-Demand Curve Shift?

1. Shifts Arising from Changes in Labor
2. Shifts Arising from Changes in Capital
3. Shifts Arising from Changes in Natural resources
4. Shifts Arising from Changes in Technology
5. Shifts Arising from Changes in Expected Price Level

steps for analyzing macroeconomic fluctuations

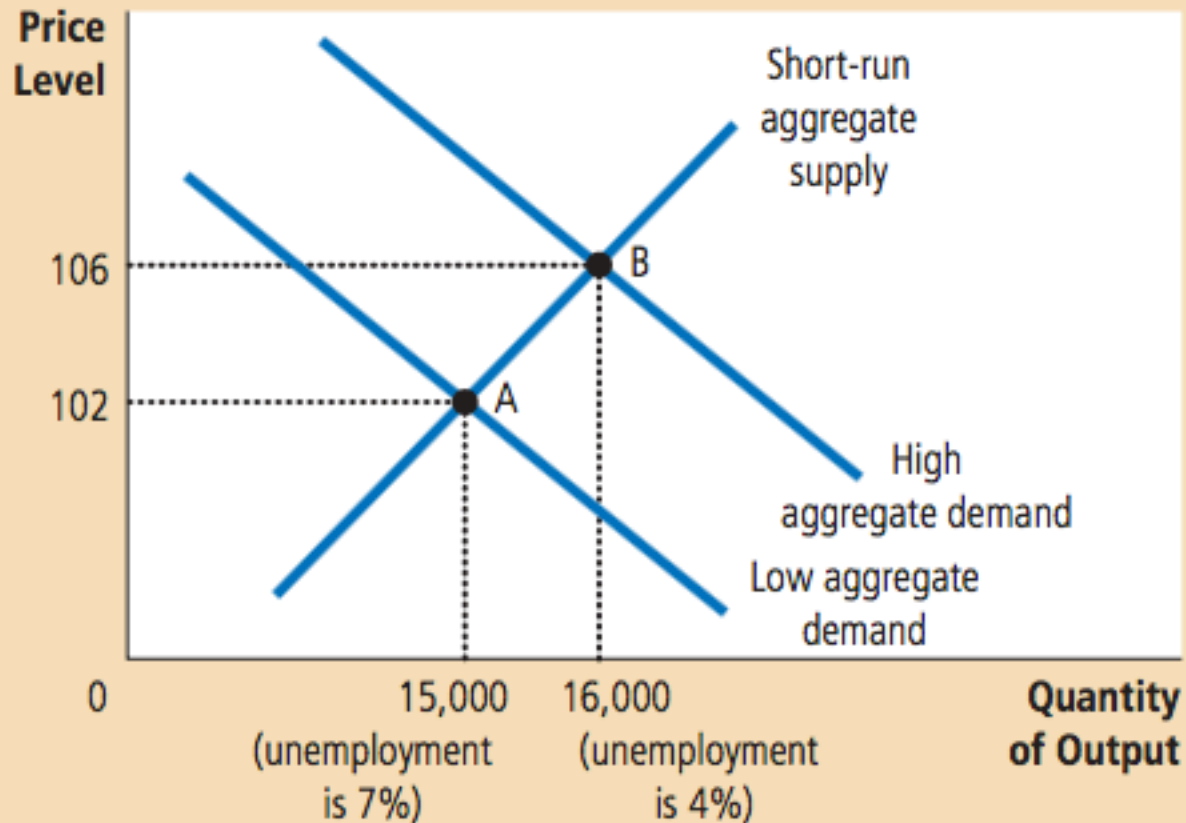
1. Decide whether the event shifts the aggregate demand curve or the aggregate supply curve (or perhaps both).
2. Decide in which direction the curve shifts.
3. Use the diagram of aggregate demand and aggregate supply to determine the impact on output and the price level in the short run.
4. Use the diagram of aggregate demand and aggregate supply to analyze how the economy moves from its new short-run equilibrium to its long-run equilibrium.

Phillips Curve

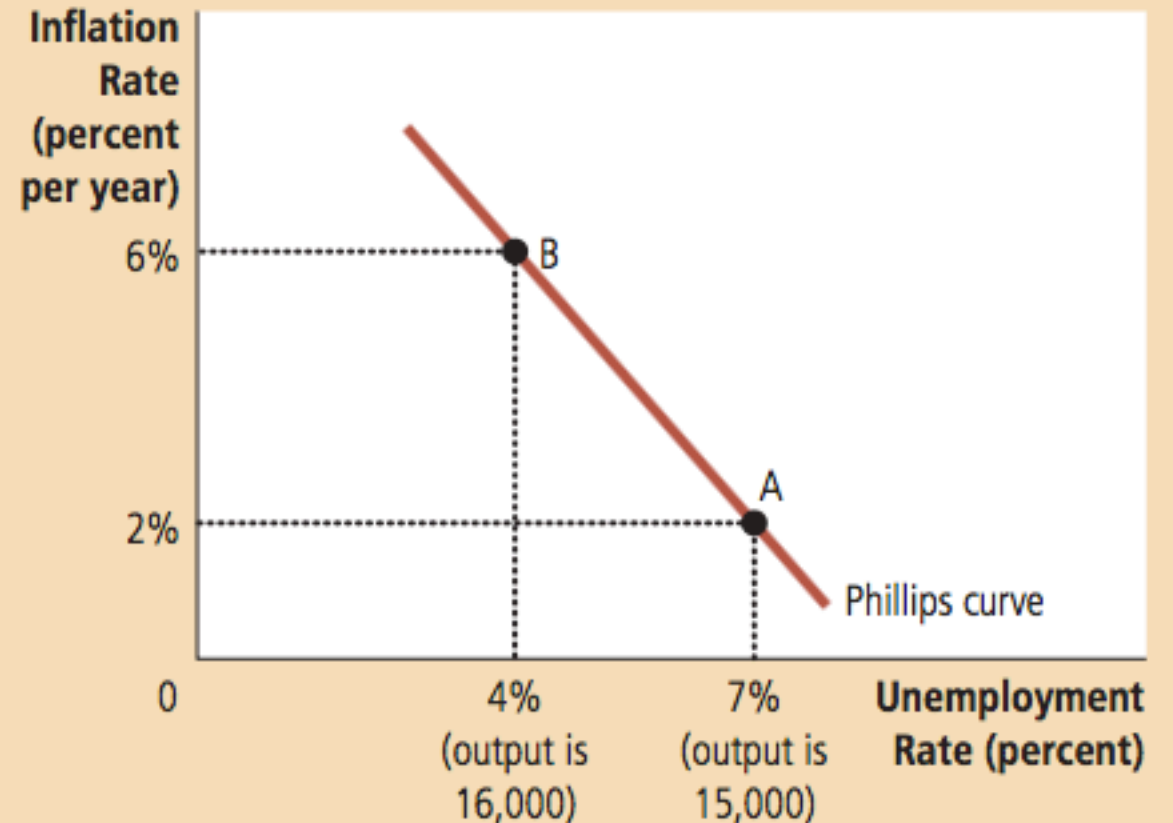


Aggregate Demand, Aggregate Supply, and the Phillips Curve

(a) The Model of Aggregate Demand and Aggregate Supply



(b) The Phillips Curve



PHILLIPS CURVE

Only in the short run