

Module 18 Aggregate Supply: Introduction and Determinants

Discussion:

Think of the devastation brought on by both Hurricanes Katrina and Rita in 2005. This is a great example of a supply shock. The physical capital that was destroyed by these hurricanes diminished productive capacity and reduced oil production in this area of the country, and hence decreased aggregate supply.

Class Activities: Which Way Does SRAS Shift?

Determine the effect on the short-run aggregate supply (SRAS) curve for each of the following scenarios and graphically illustrate. Remember to accurately label all lines, points, and axes when drawing the graphs for these exercises.

1. Labor productivity increases in the macroeconomy.
2. An earthquake destroys a significant amount of infrastructure in the economy.
3. Technological progress occurs in the economy.

Understanding LRAS

Answer the following thought questions.

1. Why is the LRAS curve vertical?
2. Can the LRAS curve shift?