

Module 19 Equilibrium in the AD-AS Model

Class Activity: Complete the following exercises.

1. Draw a short-run AS-AD graph showing the effect of a severe drop in stock prices that decreases households' and businesses' wealth. Indicate the effect on the equilibrium aggregate price level and equilibrium aggregate output.
2. Draw a short-run AS-AD graph showing the effect of a significant decrease in the world supply of oil. Indicate the effect on the equilibrium aggregate price level and equilibrium aggregate output.
3. Draw an AS-AD graph showing a recessionary gap.
4. Draw an AS-AD graph showing an inflationary gap.