Exercise walk-through

Short-Run Aggregate Supply (SRAS) ▪ 3.3

eXercise

You must be able to

- define **short-run aggregate supply 短期总供给** and explain its upward slope from sticky wages
- distinguish a movement along SRAS from a **shift**
- identify the determinants: **input prices**, productivity, and supply shocks
- analyse how a **negative supply shock** shifts SRAS leftward

Method — SRAS and its slope

The total output firms supply at each price level. It slopes **upward** because wages and some prices are **sticky** in the short run, so a higher price level raises profit and output.

Method — Determinants

Input prices, **productivity**, and **supply shocks**. A change in any of these **shifts** SRAS.

Method — Negative supply shock

A rise in resource prices (e.g. oil) raises costs and shifts SRAS **leftward** — higher prices with lower output.

Practice 2.1 ▪ 1 mark

State why SRAS slopes upward.

Solution 2.1

Method: SRAS and its slope

Worked steps

wages and some prices are sticky, so a higher price level raises profits and encourages more output **B1**.

Practice 2.2 ▪ 1 mark

State the effect of a sharp rise in oil prices on SRAS.

Solution 2.2

Method: Negative supply shock

Worked steps

it shifts SRAS to the left **B1**.

Practice 2.3 ▪ 2 marks

Name two determinants of SRAS.

Solution 2.3

Method: Determinants

Worked steps

any two of: input prices, productivity, supply shocks **B1** **B1**.

Exam-style 3.1 ▪ 1 mark

SRAS slopes upward because wages and prices are

A perfectly flexible

B sticky in the short run

C always zero

D always falling

Solution 3.1

Method: SRAS and its slope

A perfectly flexible

B sticky in the short run ✓

C always zero

D always falling

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

A negative supply shock shifts SRAS

A to the right

B to the left

C up along itself

D not at all

Solution 3.2

Method: Negative supply shock

A to the right

B to the left ✓

C up along itself

D not at all

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

The price of oil doubles across the economy.
(a) State the direction SRAS shifts.
(b) State the effect on the price level.
(c) State the effect on output.

Solution 3.3

Method: SRAS and its slope

Worked steps

(a) to the left **B1**. (b) the price level rises **B1**. (c) output falls **B1**.