Exercise walk-through

Long-Run Aggregate Supply (LRAS) ▪ 3.4

eXercise

You must be able to

- define **long-run aggregate supply 长期总供给** as vertical at full-employment output
- explain why LRAS is independent of the **price level** (flexible wages and prices)
- relate LRAS to **potential GDP 潜在** GDP and the natural rate of unemployment
- analyse how **economic growth** shifts LRAS rightward

Method — LRAS is vertical

In the long run, wages and prices are **fully flexible**, so output returns to its **full-employment** (potential) level regardless of the price level — a **vertical** line.

Method — Determinants

The quantity and quality of **resources**, the **capital stock**, and **technology**.

Method — Growth

An increase in any of these shifts LRAS **rightward** — long-run economic growth.

Practice 2.1 ▪ 1 mark

State the shape of the LRAS curve.

Solution 2.1

Worked steps

vertical (at potential output) **B1**.

Practice 2.2 ▪ 1 mark

State what determines the position of the LRAS curve.

Solution 2.2

Worked steps

the quantity and quality of resources, the capital stock, and technology B1.

Practice 2.3 ▪ 1 mark

State the effect of economic growth on LRAS.

Solution 2.3

Method: Growth

Worked steps

it shifts LRAS to the right **B1**.

Exam-style 3.1 ▪ 1 mark

The LRAS curve is

A upward-sloping

B downward-sloping

C vertical

D horizontal

Solution 3.1

A upward-sloping

B downward-sloping

C vertical ✓

D horizontal

Worked steps

C.

Exam-style 3.2 ▪ 1 mark

LRAS is vertical because, in the long run, wages and prices are

- **A** sticky
- **B** fully flexible
- **C** fixed by law
- **D** zero

Solution 3.2

Method: LRAS is vertical

A sticky

B fully flexible ✓

C fixed by law

D zero

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

A country's capital stock and technology both improve.
(a) State the effect on LRAS.
(b) State the direction LRAS shifts.
(c) Name this process.

Solution 3.3

Method: Determinants

Worked steps

(a) LRAS increases **B1**. (b) to the right **B1**. (c) (long-run) economic growth **B1**.