Exercise walk-through

Equilibrium in the Aggregate Demand–Aggregate Supply (AD–AS) Model ▪ 3.5

eXercise

You must be able to

- locate **short-run macroeconomic equilibrium 短期宏观均衡** where AD meets SRAS
- determine the equilibrium **price level** and **real output**
- identify a **recessionary gap** or an **inflationary gap** by comparing with full-employment output

Method — Short-run equilibrium

Where the **AD** curve crosses the **SRAS** curve — this fixes the equilibrium **price level** and **real output**.

Method — Spotting a gap

Compare equilibrium output with **full-employment** output (the LRAS line):

- below full employment $\rightarrow$ **recessionary gap**;
- above full employment $\rightarrow$ **inflationary gap**.

Practice 2.1 ▪ 1 mark

State where short-run macroeconomic equilibrium occurs.

Solution 2.1

Method: Short-run equilibrium

Worked steps

where the AD curve intersects the SRAS curve **B1**.

Practice 2.2 ▪ 1 mark

State how to identify a recessionary gap on the AD–AS diagram.

Solution 2.2

Worked steps

equilibrium output lies to the left of (below) full-employment output **B1**.

Practice 2.3 ▪ 1 mark

Define an inflationary gap.

Solution 2.3

Worked steps

the gap when equilibrium output is above potential (full-employment) output **B1**.

Exam-style 3.1 ▪ 1 mark

Short-run macroeconomic equilibrium is where AD meets

A LRAS

B SRAS

C the price axis

D the origin

Solution 3.1

Method: Short-run equilibrium

A LRAS

B SRAS ✓

C the price axis

D the origin

Worked steps

B.

Exam-style 3.2 ▪ 1 mark

If equilibrium output is below full-employment output, there is a

- **A** inflationary gap
- **B** recessionary gap
- **C** trade surplus
- **D** boom

Solution 3.2

Method: Spotting a gap

A inflationary gap

B recessionary gap ✓

C trade surplus

D boom

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

An economy's short-run equilibrium output is **above** its potential output.

(a) Name the gap.

(b) State what is likely happening to the price level.

(c) State whether unemployment is above or below the natural rate.

Solution 3.3

Method: Short-run equilibrium

Worked steps

(a) an inflationary gap **B1**. (b) it is rising **B1**. (c) below the natural rate **B1**.