AP MACROECONOMICS • EXERCISE SHEET

3.4 Long-Run Aggregate Supply (LRAS)

Name: ______________ Class: __________ Date: ____________ **Total: 8 marks**

KEY WORDS long-run aggregate supply 长期总供给 • potential gdp 潜在 • price level 价格水平 • sticky 粘性

Objective

Build the skills to answer exam questions on **long-run aggregate supply (LRAS)**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ 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.

■ Determinants

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

■ Growth

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

2 Practice

2.1 State the shape of the LRAS curve. [1]

2.2 State what determines the position of the LRAS curve. [1]

2.3 State the effect of economic growth on LRAS. [1]

3 Exam-style questions

3.1 The LRAS curve is [1]

- **A** upward-sloping
- **B** downward-sloping
- **C** vertical
- **D** horizontal

3.2 LRAS is vertical because, in the long run, wages and prices are [1]

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

3.3 A country's capital stock and technology both improve.

(a) State the effect on LRAS. [1]

(b) State the direction LRAS shifts. [1]

(c) Name this process. [1]

Solutions

2.1 vertical (at potential output).

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

2.3 it shifts LRAS to the right.

3.1 **C**.

3.2 **B**.

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