**Long Run Aggregate Supply and Output Gaps Activity**



**Key**

Yf= Full Employment GDP Output AD= aggregate demand

r= recession AS= aggregate supply

i= inflation

LRAS= long run aggregate supply

***Directions***: For each of the following scenarios answer with an **r** for recessionary gap , **i** for inflationary, or an **f** for at full employment. The full employment line is in the middle outlined in yellow.

1. At point PL1, Yi the gap is \_\_\_\_\_\_
2. At point PL1, Yr the gap is \_\_\_\_\_\_
3. The period in which wages and other price changes are flexible \_\_\_\_\_\_
4. If output exceeds full employment \_\_\_\_\_\_
5. If real GDP exceeds potential GDP \_\_\_\_\_\_
6. If full employment exceeds real output \_\_\_\_\_\_
7. The economy is operating at its full capacity \_\_\_\_\_\_
8. If the GDP is greater than LRAS \_\_\_\_\_\_
9. If potential GDP falls short of real GDP \_\_\_\_\_\_
10. The economy is experiencing unemployment \_\_\_\_\_\_
11. The economy is overheating \_\_\_\_\_\_
12. All prices are rising relative to real output \_\_\_\_\_\_
13. The economy is operating inside of its PPF \_\_\_\_\_\_
14. Output is greater than Yf \_\_\_\_\_\_
15. Output is equal to the PPF \_\_\_\_\_\_
16. The national income is less than potential GDP \_\_\_\_\_\_

**Drawing Initial AS/AD Equilibrium in Relation to Full Employment**

***Directions***: Draw the appropriate Short Run Aggregate Supply and Aggregate Demand initial equilibrium for each of the following scenarios and label it $PL\_{1} $and $Y\_{1}$**.** Assume the Natural Rate of Unemployment is **5%** for each graph and the acceptable rate of inflation for each country is **3%.**

 

1. Unemployment is at 8%. 2. Inflation is at 6%.

 

3. The economy is operating at full employment. 4. The economy is in recession at short run

 equilibrium.

 

5. Real GDP exceeds full employment. 6. The economy is operating at full capacity.

 

7. The unemployment rate exceeds the natural rate. 8. Full employment exceeds real output.

 

9. The PPF exceeds real GDP. 10. All prices are rising relative to production.

 

11. Potential GDP is beyond real output. 12. Employment is beyond full employment.

**Initial AS/Ad Equilibrium and Shifting**

***Directions***: Draw the appropriate Short Run Aggregate Supply and Aggregate Demand initial equilibrium for each of the following scenarios and label it $PL\_{1} $and $Y\_{1}$**.** Then shift the graph based on the scenario given labeling the new equilibrium $PL\_{2} $and $Y\_{2}$**.**

1. The economy is in long run equilibrium. The exchange rate rises causing the currency to appreciate in value.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**

1. Real GDP falls short of full employment. The government increases expenditures.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**

1. The US economy is currently in a recession. The government raises taxes and increases government spending by the same amount.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**

1. The economy is operating at full capacity. There is a sharp decline in government healthcare spending.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**

1. Employment has increased beyond the natural rate. Investment spending falls.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**

1. Employment is falling and the economy is losing production. The U.N. shuts down the internet completely over privacy concerns.



 **Determinant:**

 **AS/AD:**

 **Price Level:**

 **Real GDP (Y):**