What is Aggregate Supply?

Worksheet

Aggregate Supply is the total output producers supply at each price level. Short-run AS slopes upward (higher prices incentivize more production), while long-run AS is vertical at the natural rate of output.

Questions

1. In the short-run, higher prices lead to...

A) Lower output
B) Higher output
C) No change in output
D) Negative output

2. A supply shock increases input costs. SRAS...

A) Shifts right
B) Shifts left
C) Stays in place
D) Becomes vertical

3. Why is long-run AS vertical?

A) Wages are always fixed
B) Output depends on resources, not prices
C) Inflation is always zero
D) Demand doesn't matter

4. Technology improves. Long-run AS...

A) Shifts left
B) Shifts right
C) Stays constant
D) Becomes horizontal

5. In the short-run, a price increase from 100 to 120 leads producers to increase output from 2T to2.5T. In the long-run, the same price increase has no effect on output. Why?

6. Technology improves, increasing productivity by 20%. How does this shift aggregate supply?

7. An oil shock increases input costs. How does this affect short-run AS?

8. Define: Define Aggregate Supply.

9. Define: Why does short-run AS slope upward?

10. Define: Why is long-run AS vertical?

Answer Key

1. B) Higher output — Sticky wages → higher prices increase real profit margins → firms produce more.

2. B) Shifts left — Higher costs reduce willingness to supply at each price → shift left.

3. B) Output depends on resources, not prices — In LR, wages adjust; output depends on capital, technology & labor—prices only cause inflation.

4. B) Shifts right — Better productivity → natural output rises → LRAS shifts right.

5. Short-run: Sticky wages → higher prices = higher real wage costs for hiring Producers think costs fell, so they hire more and produce more Long-run: Wages adjust to new price level Output returns to natural rate—AS is vertical

6. LRAS shifts RIGHT (natural output increases) At each price level, producers can now supply more Economic growth without inflation

7. SRAS shifts LEFT (higher costs reduce willingness to supply) At each price level, less is now supplied Stagflation risk (low growth + inflation)

8. The total quantity of goods and services that producers are willing to supply at each price level.

9. Sticky wages: higher prices increase real profit margins, so firms hire more and produce more.

10. Wages adjust to price levels; output depends on capital, technology and labor, not prices.