

Changes in Aggregate Supply

LRAS and SRAS

LRAS

- LRAS represents POTENTIAL OUTPUT or the NATURAL RATE OF OUTPUT or the FULL EMPLOYMENT LEVEL OF OUTPUT
- Think of LRAS as the same thing as PPF.
- LRAS SHIFTS for the same reasons PPF SHIFTS...changes in LAND, LABOR, CAPITAL (including HUMAN CAPITAL) and TECHNOLOGY.

Changes in SRAS

- ◉ Remember: Increase is represented by a SHIFT to the RIGHT. A decrease is represented by a SHIFT to the LEFT
- ◉ KEY IDEA: If it's cheaper for "business to do business", the SRAS will SHIFT to the RIGHT. If it's more expensive for "business to do business", the SRAS will SHIFT to the LEFT

Changes in SRAS

- Changes in INPUT PRICES
 - Domestic Resource Prices
 - Wages/Salaries (75% of business cost)
 - Immigration...reduces cost/unit
 - Pension/retirement obligations

Changes in SRAS

- Price of IMPORTED RESOURCES
 - Strong dollar makes foreign resources less expensive...SHIFT SRAS RIGHT
- Productivity
- Legal Institutional Environment
 - Business taxes, subsidies and regulations