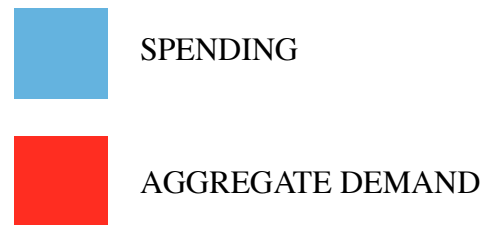
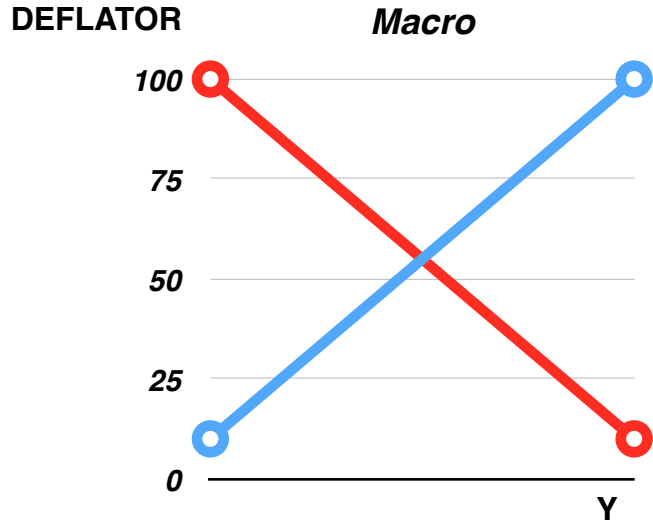
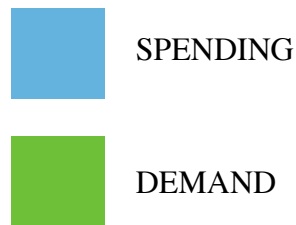
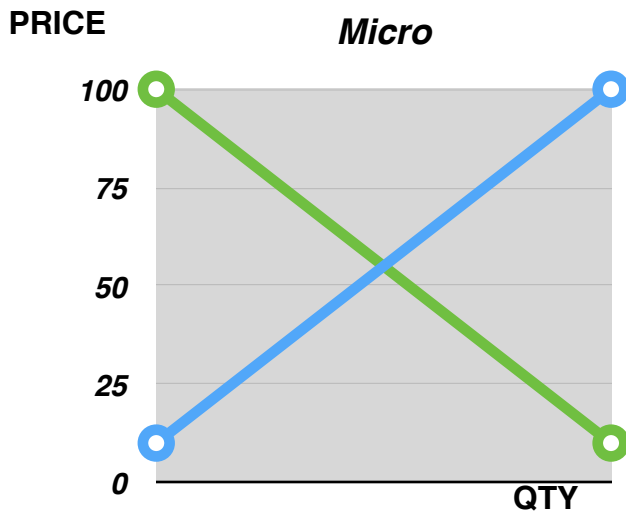


ECON 203

CHAPTER 5 -Output, Business Cycles and Employment



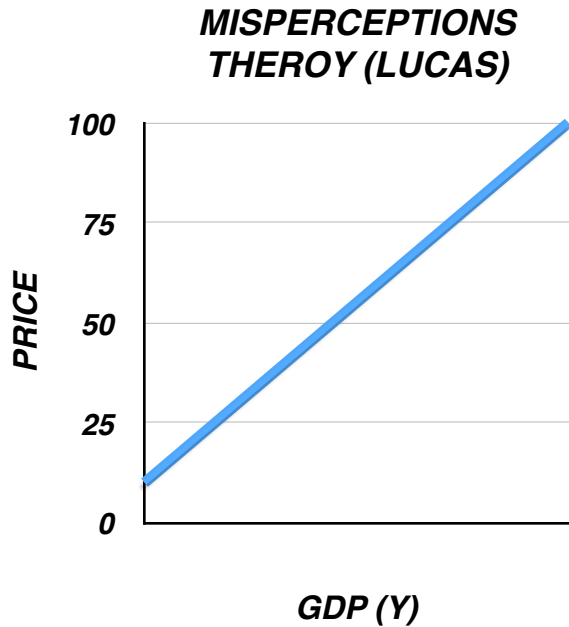
3 REASONS WHY AD (AGGREGATE DEMAND) SLOPES DOWN

1. INTEREST RATE EFFECT: Interest rates go up, therefore investments go down
2. SUBSTITUTION EFFECT: As prices go up, the CDN dollar falls, imports go up
3. WEALTH EFFECT: Prices go up, purchasing power goes down, population spends less.

FACTORS THAT SHIFT THE AD DEMAND CURVE

1. Increased job security
2. increased product security.

Aggregate Supply



MISPERCEPTION THEROY;

Your an expert in your field, but ignorant in others.

If experts state one thing, but the economy performs different; this leads to a misperception that ones product is more popular, therefore increasing production.

INPUTS:

- land
- labour
- human capital
- physical capital
- Technology
- Productivity

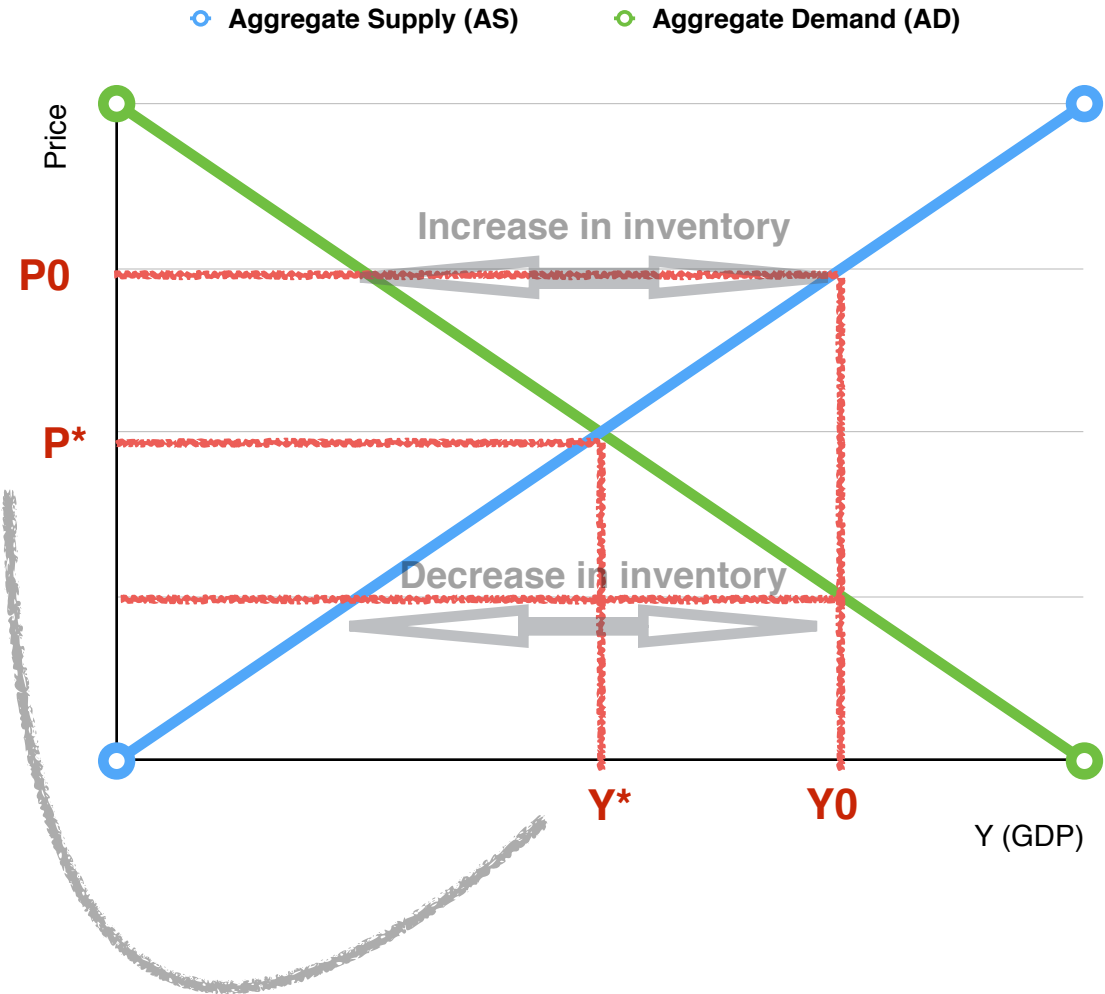
Assume all inputs are fixed for scenario

What can shift **Aggregate Supply**?

- Change in INPUT PRICE.
- Change in INPUTS

If related to spending = DEMAND

If related to Production = SUPPLY

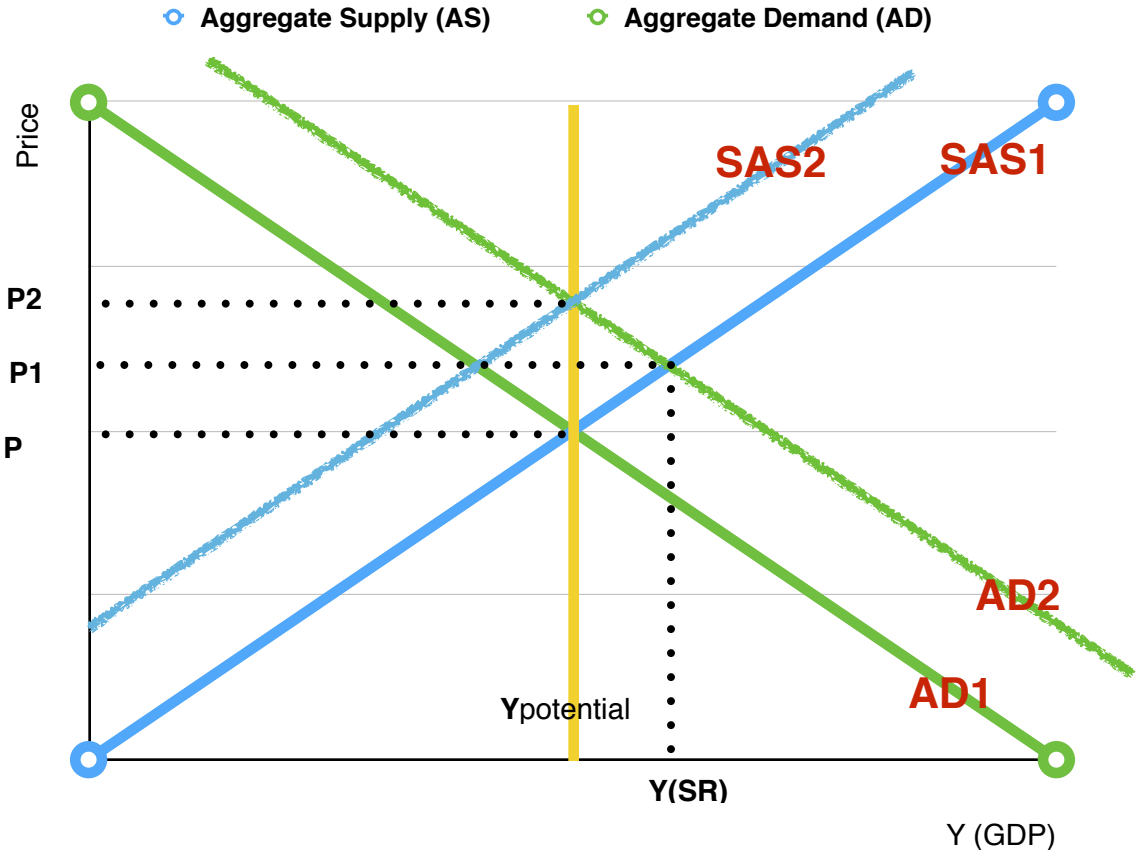


Amount being produced is = to the amount being consumed

LONG RUN AGGREGATE SUPPLY CURVE

- **Long run:** At least 1 input is fixed
- **Short run:** nothing is fixed

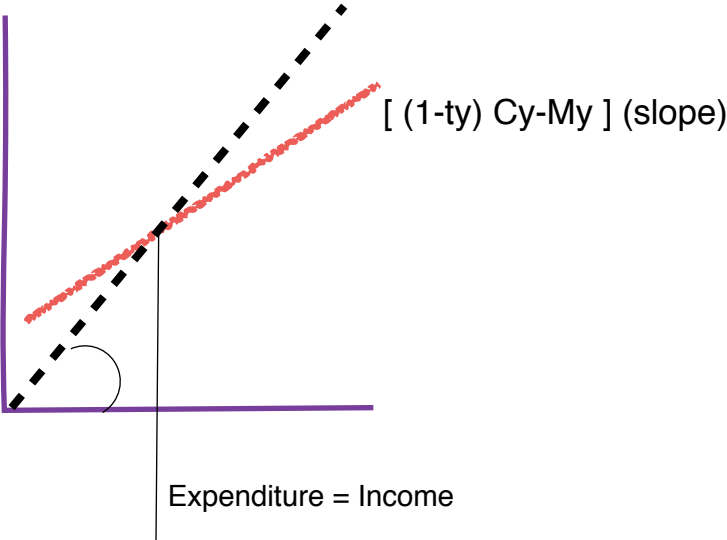
In the **LONG RUN** all resources will be used. (full potential)



MOVEMENT	DISTANCE
If Y goes up = Expansion If Y goes down = Contraction (recession)	IF $Y_{SR} > Y_{LR}$; EXPANSION-AIRY GAP IF $Y_{SR} < Y_{LR}$; CONTRACTION-AIRY GAP

Chapter 6

$$AE = A_0 - T_0 \times C_y + [(1 - t_y) C_y - M_y] \times Y$$



Where does $Y = AE$?

$$Y = A_0 - T_0 \times C_y + [(1 - t_y) C_y - M_y] \times Y$$

$$Y = \frac{A_0 - T_0 \times C_y}{1 - (1 - T_y) C_y + M_y}$$