2.8 Aggregate Supply: Short Run, Long Run and Supply-Side Shocks: 10-minute Pack

AQA 7136 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Use full sentences for questions worth 4 marks or more. Time guidance 10 minutes. No calculator is allowed.

1 State two ways in which an adverse supply-side shock, such as a major drought that reduces agricultural yields, differs in its macroeconomic effects from a pure demand-side shock caused by a sudden fall in consumer confidence.

(Total for Question 1 is 3 marks)

2 Explain two ways in which an increase in nominal wages across an economy could shift the short-run aggregate supply (SRAS) curve. Use short-run cost reasoning.

(Total for Question 2 is 3 marks)

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Mark scheme · 2.8 Aggregate Supply: Short Run, Long Run and Supply-Side Shocks: 10-minute Pack

Question 1

adverse supply shock shifts SRAS left, causing higher prices and lower output; demand shock shifts AD left, causing lower prices and lower output	**B1**
supply shocks can cause stagflation (higher inflation with lower output), whereas demand shocks typically reduce both inflation and output	**B1**
supply shocks can be more persistent if they damage productive capacity (e.g. crop yields), while demand shocks may be more quickly reversed by policy or confidence returning	**B1**

Answer: Supply shock: leftward SRAS shift, higher prices and lower output, potential stagflation and possible long-lasting capacity loss; demand shock: leftward AD shift, lower prices and lower output, usually less inflationary and often easier to counter with demand management.

Question 2

identifies that higher nominal wages increase firms' unit labour costs	**M1**
explains that higher unit costs reduce profitability at each price level, so firms supply less at any given price and SRAS shifts left	**A1**
alternative development: higher wages may lead firms to raise prices or cut employment/production, both reducing short-run aggregate supply	**A1**

Answer: Higher nominal wages raise unit labour costs and reduce profitability, so firms supply less at each price level and SRAS shifts left; firms may also pass costs into higher prices or reduce output/employment, reducing SRAS.

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