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

AQA 7136 · Calculators not allowed · about 20 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer all questions. Use full sentences for questions worth 4 marks or more. Time guidance 20 minutes. No calculator is allowed.

1 Define SRAS and explain why it slopes upward in the short run for an advanced open economy.

(Total for Question 1 is 2 marks)

2 Define LRAS and state its representation for productive capacity and full employment.

(Total for Question 2 is 2 marks)

3 State two supply-side factors that would cause the long-run aggregate supply (LRAS) curve to shift to the right, increasing the economy's potential output, and name briefly why each does so.

(Total for Question 3 is 2 marks)

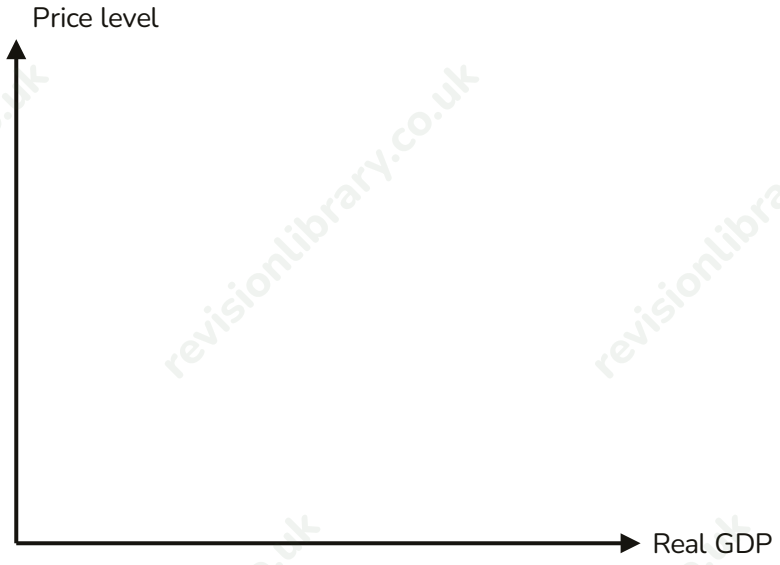
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4 Explain briefly how a sudden upward spike in global oil prices acts as a cost-push shock for a small open economy and indicate the immediate effect on SRAS, the domestic price level and real output.

(Total for Question 4 is 3 marks)

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5 Diagram question: An economy faces a sudden industry-wide increase in minimum wages that raises labour costs for low-skilled sectors. Draw an AD/AS diagram showing SRAS and LRAS before the shock and show the correct shift(s) for SRAS and/or LRAS that follow the wage rise. Indicate the expected change in the price level and real output in the short run. (Describe what you would draw.)



(Total for Question 5 is 4 marks)

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

Question 1

SRAS is the relationship showing the level of real output firms are willing to supply at different price levels when some factor costs, such as nominal wages, are fixed in the short run	**B1**
it slopes upward because higher price levels raise firms revenue relative to fixed short-run costs or because higher output requires higher marginal costs, so higher prices are needed to induce more supply	**B1**

Answer: SRAS shows real output supplied at different price levels when some input costs are fixed; it slopes upward because higher prices improve firms' profitability relative to fixed costs or because marginal costs rise with output.

Question 2

LRAS is the relationship between the price level and real output when all factor prices and wages have fully adjusted	**B1**
it represents the economy's potential or full-employment level of output, determined by factor supplies and technology and independent of the price level in the classical view	**B1**

Answer: LRAS shows output when factor prices have adjusted and equals the economy's potential or full-employment output determined by resources and technology.

Question 3

an increase in the size or skill of the labour force, which raises available labour input and productivity	**B1**
improvements in technology or higher investment in capital/infrastructure, which increase capital per worker and total factor productivity	**B1**

Answer: Examples: a larger or more skilled labour force; improvements in technology or increased investment in capital/infrastructure, both raising productive capacity.

Question 4

a rise in oil prices raises production and transport costs across many industries, increasing firms' unit costs	**M1**
this shifts SRAS left because firms supply less at each price level when costs rise	**A1**
the immediate effect is a higher domestic price level (cost-push inflation) and lower real output, producing stagflationary pressure in the short run	**A1**

Answer: Higher oil prices raise firms' costs, shifting SRAS left, leading to a higher price level and lower real output in the short run.

Question 5

correctly labels axes and initial curves AD, SRAS and LRAS and marks initial equilibrium E1	**B1**
shows SRAS shifting to the left (correct direction) and does NOT shift LRAS for an immediate cost shock	**B1**
identifies outcome: higher price level and lower real output at the new short-run equilibrium E2	**B1**
provides a succinct explanation linking higher minimum wages to higher unit labour costs, leftward SRAS shift and resultant stagflationary short-run effect	**B1**

Answer: Draw leftward shift of SRAS, no LRAS shift; result: price level rises, real output falls.

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