Student Question Sheet: Graph-Based Analysis

Instructions: For each scenario, analyze the graph and answer the questions. Use the knowledge of Aggregate Demand (AD), Short-Run Aggregate Supply (SRAS), and Long-Run Aggregate Supply (LRAS) to guide your answers.

Question 1: AD Shift – Economic Growth

Graph Description: The AD curve shifts right from AD_0 to AD_1. SRAS and LRAS remain the same.

Questions:

a) What could cause this rightward shift of AD?

b) What happens to the equilibrium price level and real GDP?

c) How would unemployment likely change?

Question 2: SRAS Shift – Cost Changes

Graph Description: SRAS shifts left from $SRAS_0$ to $SRAS_1$. AD and LRAS remain constant.

Questions:

a) What could cause this shift?

b) What happens to prices and output?

c) What economic problem does this represent?

Question 3: LRAS Shift – Long-Term Growth

Graph Description: LRAS shifts right from $LRAS_0$ to $LRAS_1$. AD and SRAS remain unchanged.

Questions:

a) What causes LRAS to shift right?

b) What does this shift mean for the economy's potential output?

c) Give one real-world example of this change.

Question 4: Movement vs. Shift

Graph Description: AD, SRAS, and LRAS stay fixed, but the economy moves up along the SRAS curve due to a rise in prices.

Questions:

a) Is this a movement or a shift?

b) What causes this movement?

c) Does potential output change?

Question 5: Combined Shift – Economic Recovery

Graph Description: After a recession, AD shifts right ($AD_0 \rightarrow AD_1$) and SRAS gradually shifts right ($SRAS_0 \rightarrow SRAS_1$) toward full employment equilibrium at LRAS.

Questions:

a) What does this sequence represent in the business cycle?

b) What happens to prices and output over time?

c) Why does SRAS shift right in the long run?

Question 6: Policy Impact

Graph Description: Government increases spending, causing AD to shift right. The central bank later raises interest rates to control inflation.

Questions:

a) Show both shifts on the same AD-AS diagram.

b) What happens to output and price levels after both policies?

c) Which policy supports growth, and which controls inflation?