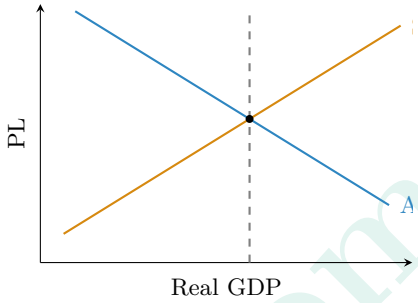
AD-AS Equilibrium and Output Gaps

AP Macroeconomics | Unit 3 | equilibrium, demand shocks, supply shocks

1. Equilibrium

Short-run equilibrium: where AD crosses SRAS; read PL_1 and Y_1 off the axes.

Long-run equilibrium: AD, SRAS and LRAS cross at one point: $Y_1 = Y_f$, unemployment at its natural rate.



2. Demand shocks and output gaps

Shock	Price level	Real output	Unemployment	Gap
AD left (less spending)	down	down ($Y < Y_f$)	above natural	recessionary
AD right (spending boom)	up	up ($Y > Y_f$)	below natural	inflationary

3. Supply shocks

Stagflation

SRAS shifts **left** (oil price spike, higher input costs): the price level *rises* while output falls and unemployment rises. Only a supply shock moves prices and output in opposite directions; a demand shock moves them together.

Example. A stock market crash cuts household wealth: C falls, AD shifts left: price level down, output down, unemployment up — a recessionary gap.

Where students lose points

1. No labels: PL_1, Y_1, PL_2, Y_2 on the axes.
2. Calling output left of LRAS an inflationary gap.
3. Blaming stagflation on a demand shift.
4. Mixing up short-run and long-run equilibrium.
5. Putting unemployment below natural in a recessionary gap.

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