# Short-Run Equilibrium and Changes in AS/AD

## Introduction and Description

In this lesson, the focus is on the short-run equilibrium in the AS/AD model and the changes in real GDP and the price level if AS or AD changes. Students need to learn how to graph and explain changes in AS and AD and the resulting effects on equilibrium price level and real GDP.

Activity 3-5 introduces equilibrium in the AS/AD model, and Activity 3-6 provides students with practice manipulating AD and AS curves and determining the effects on the price level and real GDP.

## Objectives

1. Identify and explain equilibrium in the AS/AD model.
2. Graph and explain what happens to the equilibrium price level and real GDP when there is a change in AD or AS.

## Time Required

Two class periods or 90 minutes

## Materials

1. Activities 3-5, 3-6, and 3-7
2. Visuals 3-5 and 3-6

## Bell Ringer

Have students draw a correctly labeled graph illustrating AD and SRAS, and ask students to indicate where they think equilibrium will be on their graph. *(Their graph should show correct labels on both axes and curves, a downward sloping AD curve and an upward sloping AS curve. They may or may not be able to identify equilibrium. See Visual 3-5.)*

## Procedure

1. Draw a graph illustrating short-run equilibrium in the AS/AD model as shown in Visual 3-5. Short-run macroeconomic equilibrium occurs when real GDP demanded equals real GDP supplied. This is Point A in the graph, or the level of output Y.

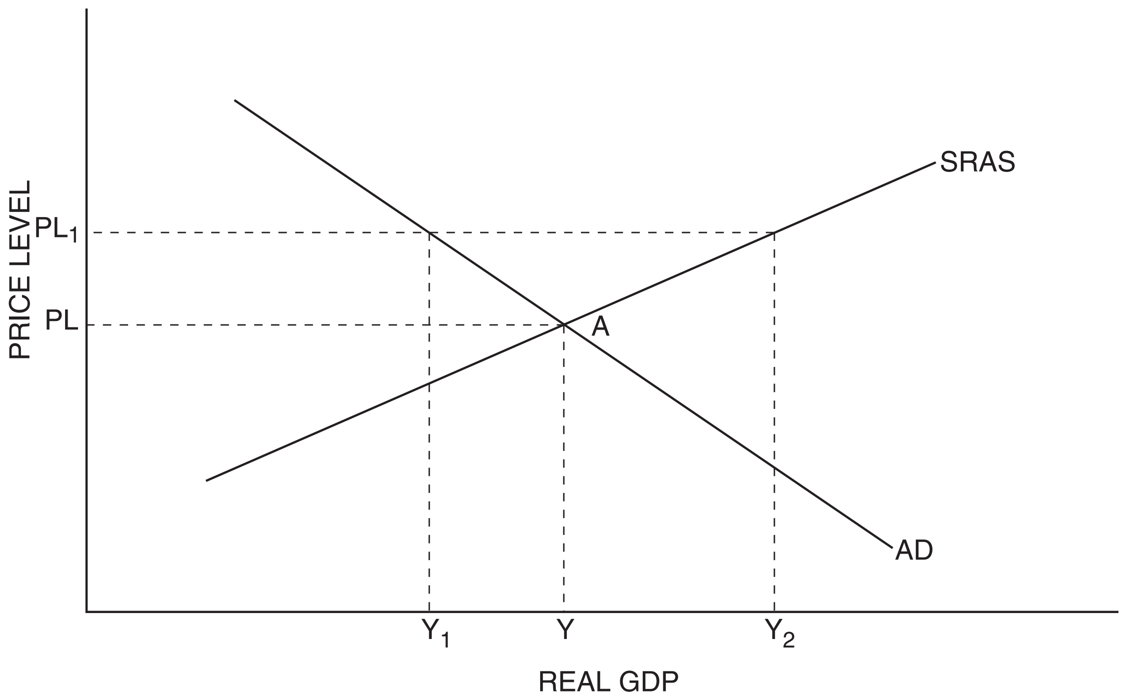
   Explain and show that if the price level is above the equilibrium, then AS is greater than AD and firms experience an accumulation of inventory so they cut production and real GDP decreases toward the equilibrium level. Have students tell a comparable story if the price level is below equilibrium.

2. Draw a graph showing what will happen if there is an increase in AD, as shown in Visual 3-6. The new equilibrium is at a higher price level and a higher level of output. In response to the increase in demand, firms increase production and price.
3. Illustrate decreases in AD, decreases in AS, and increases in AS.

*Teacher Alert:* **Make sure students show the change in the price level and real GDP by drawing a line to the axes and clearly labeling the price level and real GDP before and after the change.**

4. Have students complete Activities 3-5 and 3-6.
5. Explain that an increase in the price level (inflation) can be caused by either an increase in AD or a decrease in AS. Define demand-pull and cost-push inflation.
6. Have students complete Activity 3-7.

# Short-Run Equilibrium



# Change in Aggregate Demand