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Chapter 15: Short-run Economic	
Fluctuations: AD & AS Model	
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UotA	
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A quote ◊	
"In the long-run we are all dead"	
J. M. Keynes	
"People don't eat in the long run, they eat every day "	
Harry Hopkins	
"The stock market has predicted nine of the past five recessions "	
— Paul Samuelson	
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Learning Objectives	
In this chapter, you will be able to answer the following	
questions:	
• What are economic fluctuations? What are their	
characteristics?	
<ul> <li>How does the model of aggregate demand and aggregate supply explain economic fluctuations?</li> </ul>	
<ul> <li>Why does the Aggregate-Demand curve slope downward? What shifts the AD curve?</li> </ul>	
• Why is Aggregate-Supply curve vertical in the Long run	
but upward Slopping in the short run? What shifts the AS	
curve(s)?	
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More Exercises 1: $\diamond$	
Explain whether the following events affect U.S. AD curve or SRAS curve and how.	
a. The government increases Temporary Assistance to Needy Families (TANF) payments, government transfers to families with dependent children.	
b. Government increases the minimum wage	
c. To reduce the budget deficit, the government announces that households will pay much higher taxes beginning next year.	
d. Due to currency speculations, the Euro depreciates by $25\%$	
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More Exercises 2: Working with the model of AD-AS ◊	
A. Draw the AD-SRAS-LRAS diagram for the U.S. economy starting in a long-run equilibrium.	
B. Due to currency speculations, the Euro depreciates by 25%.	
Use your diagram to determine the SR and LR effects on U.S. GDP, the price level, and unemployment if the government does nothing.	
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Discussion Activity: Macroeconomics of Covid-19 Shock ◊	
<ol> <li>Which curve(s) must have shifted due to Covid-19 and to which direction? why?</li> </ol>	
2. Graph the shift. What happens to output and the price level in the short-run?	
3. With the government giving out \$2 trillion worth of transfers to households (focus on households), which curve shifts to which direction? Why ?	
4. What is the impact of the shift in (3) on output/employment and prices in the short-run?	
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