

Chapter 15

Objectives

- Define the aggregate demand curve and explain why it slopes downward
- Discuss the factors that cause the aggregate demand curve to shift
- Draw and show shifts of an aggregate demand curve
- Identify the causes of inflation inertia
- Explain the relationship between output gaps and inflation
- Define long-run and short-run aggregate supply lines
- Define short-run and long-run equilibrium
- Explain the adjustment of inflation to output gaps
- Use AD/AS graphs to analyze output and inflation
- Discuss the self-correcting tendency of the economy
- Define aggregate supply shock, inflation shock, and the shock to potential output
- Discuss the sources of inflation
- Show the effects of excessive aggregate demand and supply shocks on the economy
- Define disinflation
- Explain the effects of monetary tightening in the short run and long run