Lecture 15: Aggregate Supply-Aggregate Demand

- Current Events
- Aggregate Supply
- Aggregate Demand

The Natural Rate of Unemployment

- "Long Run" $P = P^e$
- The wage and price setting relationships:

$$\frac{W}{P} = F(u,z)$$

$$\frac{P}{W} = 1+\mu$$

=>

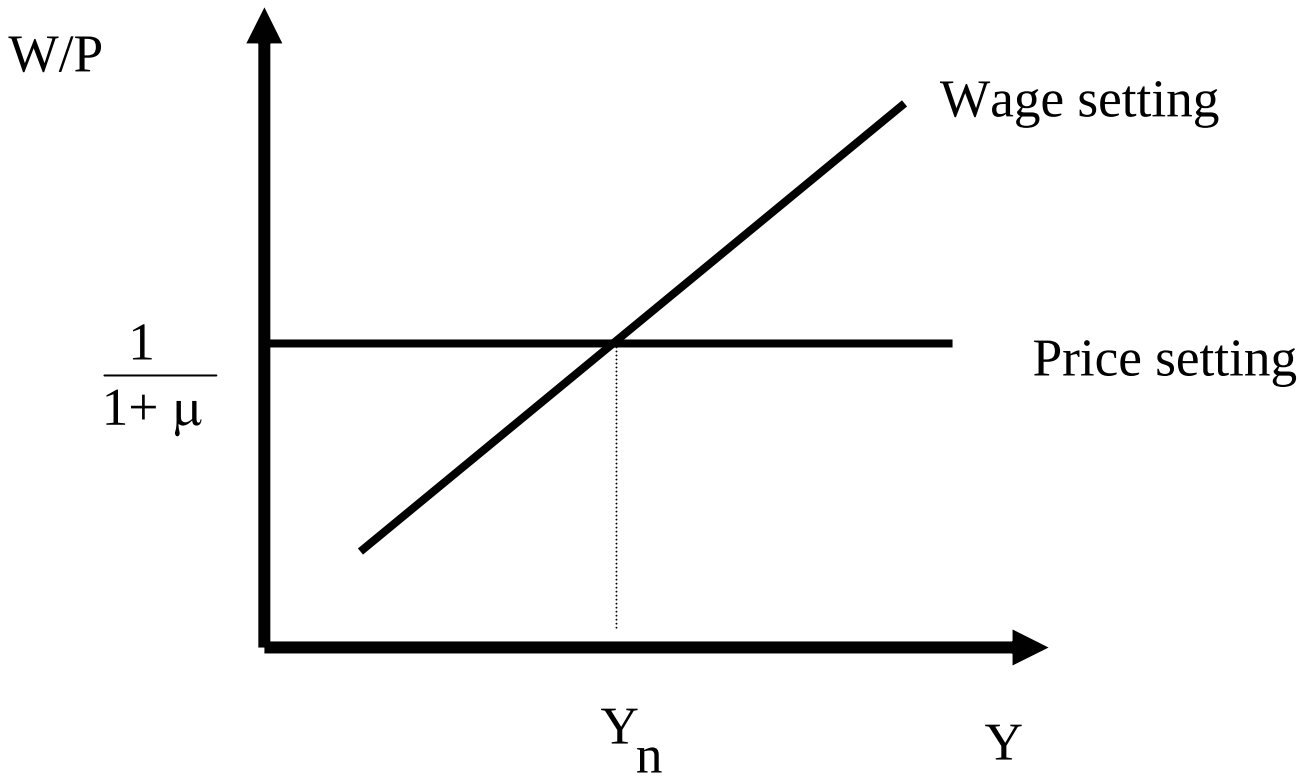
The natural rate of unemployment

$$F(u,z) = \frac{1}{1+\mu}$$

From u_n to Y_n

$$u = \frac{U}{L} = \frac{L - N}{L} = 1 - \frac{N}{L} = 1 - \frac{Y}{L}$$

$$F(1 - Y_n/L, z) = \frac{1}{1+\mu}$$



z, markup

[note: A=1 again]

Aggregate Supply

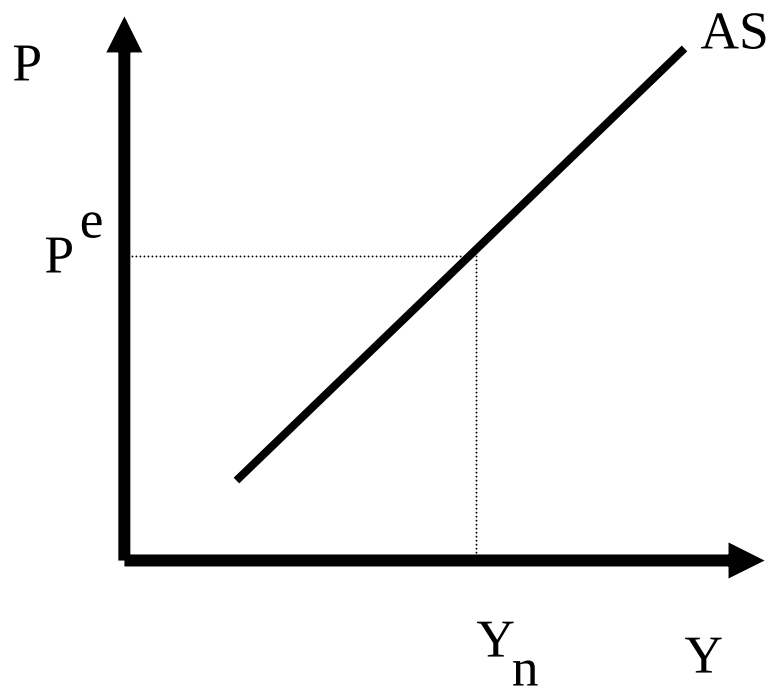
$$W = P^{e} F(1-Y/L,z)$$

$$P = (1+\mu) W$$

=>

$$\mathbf{P = P^{e} (1+\mu) F(1-Y/L,z)}$$

$$P = P^e (1+\mu) F(1-Y/L,z)$$



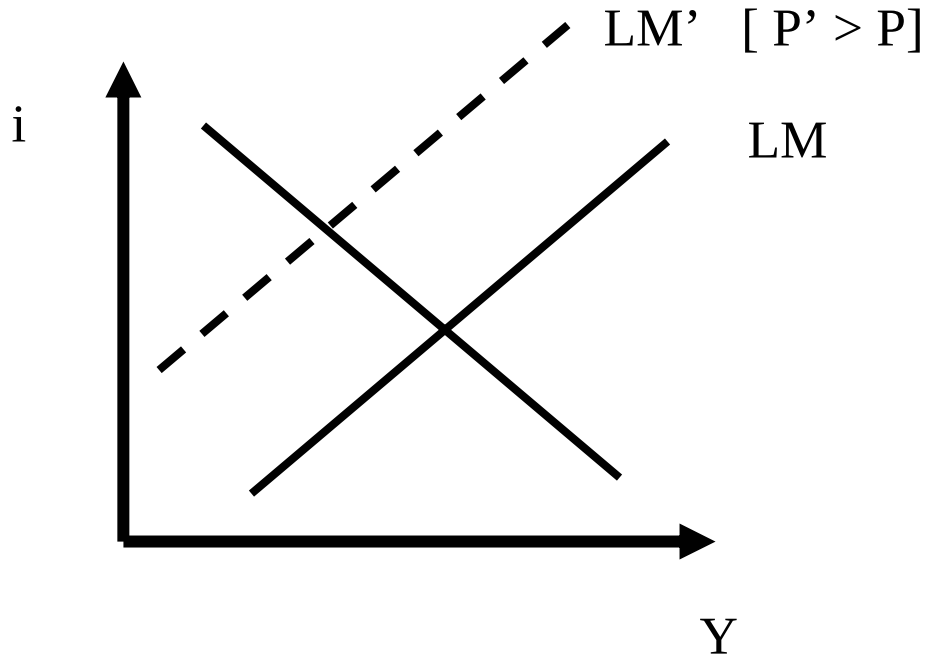
$P^e(t) = P(t-1)$ [for now] =>

AS: $P(t) = P(t-1)\ (1+\mu) F(1-Y(t)/L,z)$

Aggregate Demand

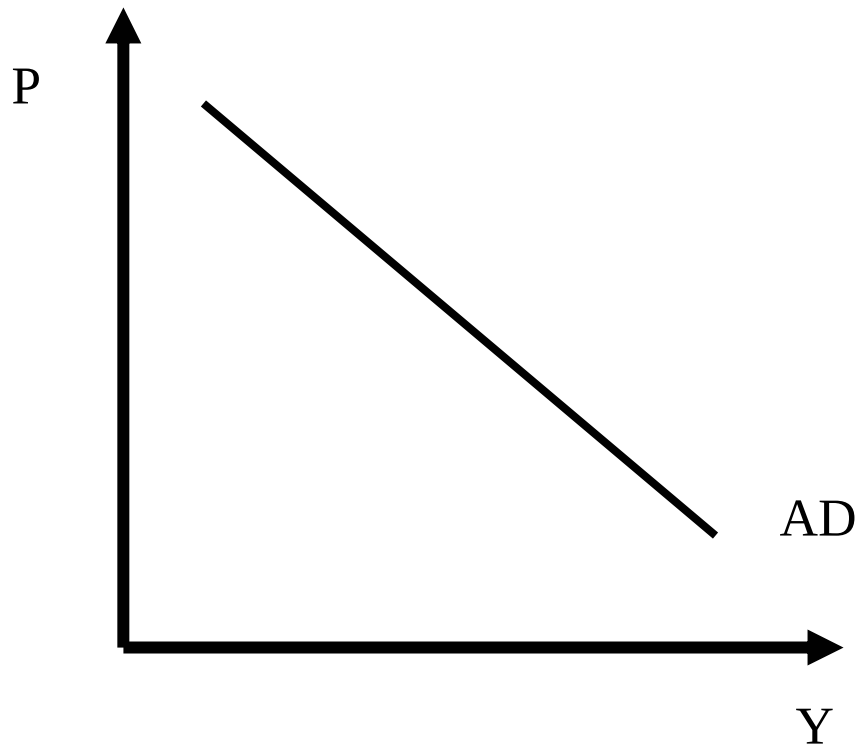
IS: $Y = C(Y-T) + I(Y,I) + G$

LM: $\frac{M}{\mathbf{P}} = Y\,L(i)$

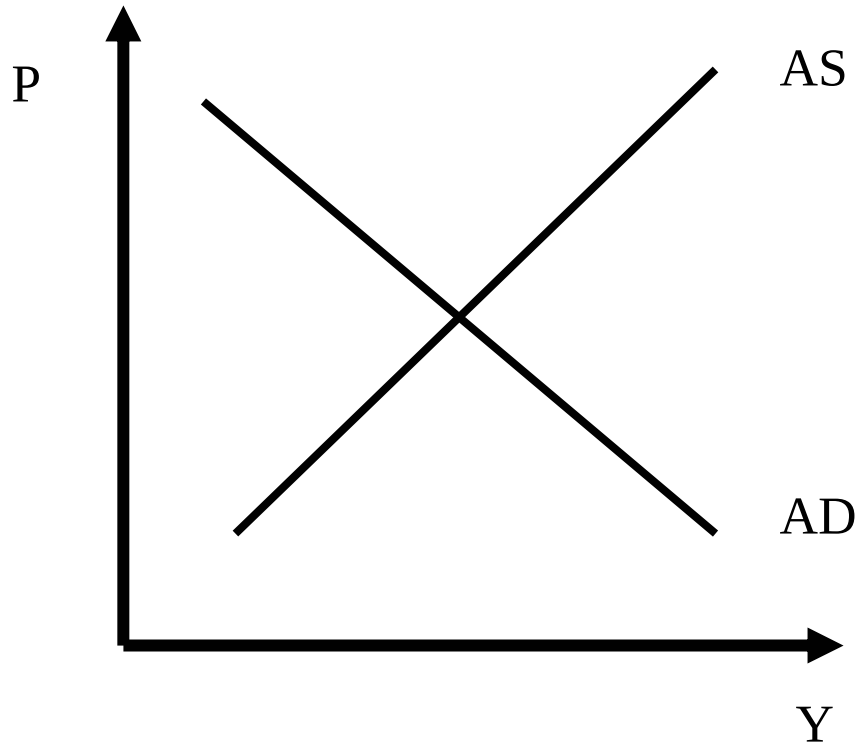


AD: $\mathbf{Y = Y(M/P, G, T)}$

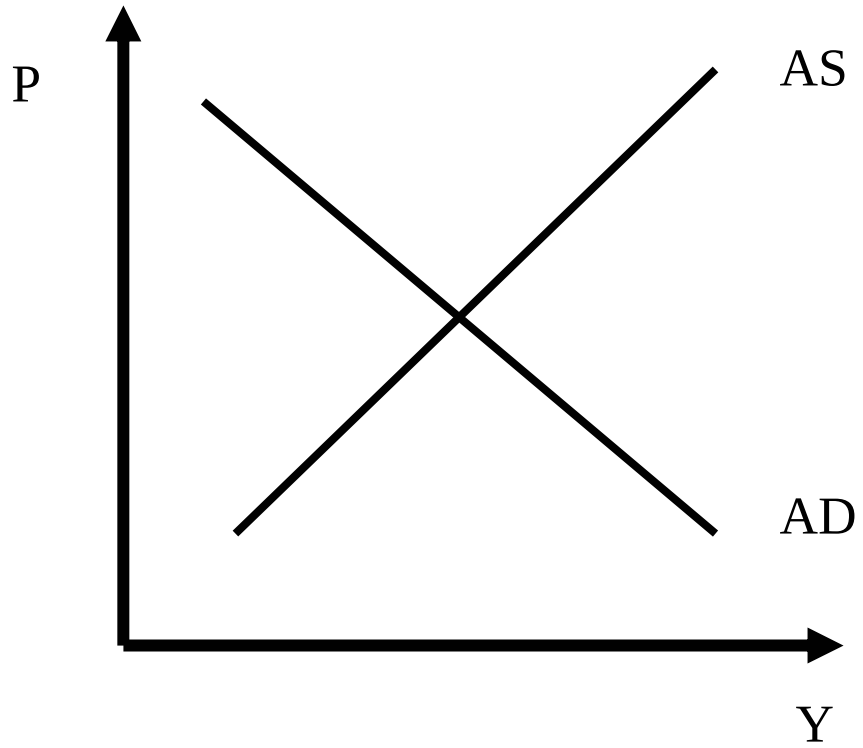
$\mathbf{+ \quad + \quad -}$



Aggregate Demand - Aggregate Supply



AD-AS: Canonical Shocks



Monetary expansion; fiscal expansion; oil shock (figs 7-9/7-10/7-11)