Learning Objectives

Chapter 34

In this chapter you will

Learn what ‘economic activity’ and ‘the economy’ mean
Learn three key facts about short-run fluctuations
Consider how the economy in the short run differs from the economy in the long run
See that there are different views about the nature of business cycles
Use the model of aggregate demand and aggregate supply to explain economic fluctuations
Examine the causes of shifts in aggregate demand and aggregegare supply
See how shifts in either aggregate demand or aggregate supply can cause changes in economic activity
Examine why the aggregate supply curve is vertical in the long run and upward sloping in the short run

You should be able to

Explain the difference between ‘the economy’ and ‘economic activity’
Outline three key facts about economic fluctuations
Explain why the term "business cycle" is misleading
Explain the difference between the short run and the long run
Explain why money is unlikely to be neutral in the short run
List three reasons why the aggregate demand curve is downward sloping
Analyse at least three reasons why the aggregate demand curve can shift
Explain why the aggregate supply curve is vertical in the long run but upward sloping in the short run
List at least three reasons why the aggregate supply curve can shift
Assess the effect of a shift in either the aggregate demand curve or the aggregate supply curve
Assess the effect of shifts in both he aggregate demand and aggregate supply curve
Demonstrate the short-run and long-run effects of an oil price shock on the economy

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