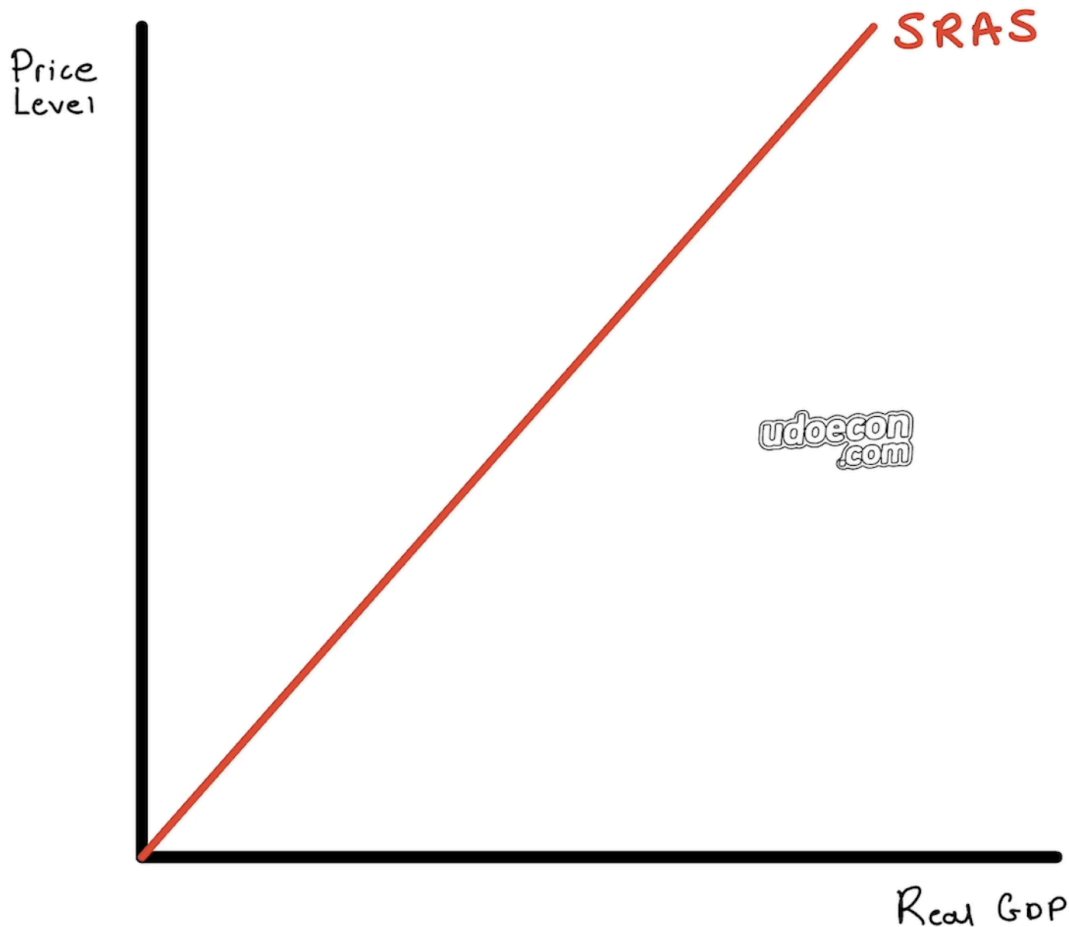


The SRAS curve

Why SRAS slopes upward

SRAS is upward sloping because, in the short run, firms are willing to supply more output when the price level rises. As output expands, firms often face higher costs, such as higher wage bills to attract overtime or extra labour, which contributes to higher average prices.



Shifts of the SRAS curve

Key factors that shift SRAS

Essentially any factors that affect a firm's costs !

For example changes in raw material and energy costs can shift SRAS. When global oil or gas prices rise, variable costs increase for many firms (for example in transport, heating, and manufacturing). Profit margins are squeezed, so firms reduce output at each price level and SRAS shifts left.

Exchange rate changes can also shift SRAS through **imported costs**. A currency depreciation makes **imports more expensive** in domestic currency, raising costs and shifting SRAS left. E.G The UK is a net importer of raw materials thus significantly affected by exchange rate fluctuations . Or inversely a currency appreciation reduces imported input costs and shifts SRAS right.

Indirect taxes and subsidies. When the government hikes excise duties on fuel, transport costs spike for every delivery firm in the country, forcing them to pull back on supply and shifting the SRAS curve to the left.

Wage costs. If wages rise faster than productivity, unit labour costs increase and SRAS shifts left. This tends to be more important in labour-intensive sectors where wages are a large share of total costs. For example in the UK, average manufacturing wages sit at roughly £25 per hour contrasting to China which is around £6 an hour .