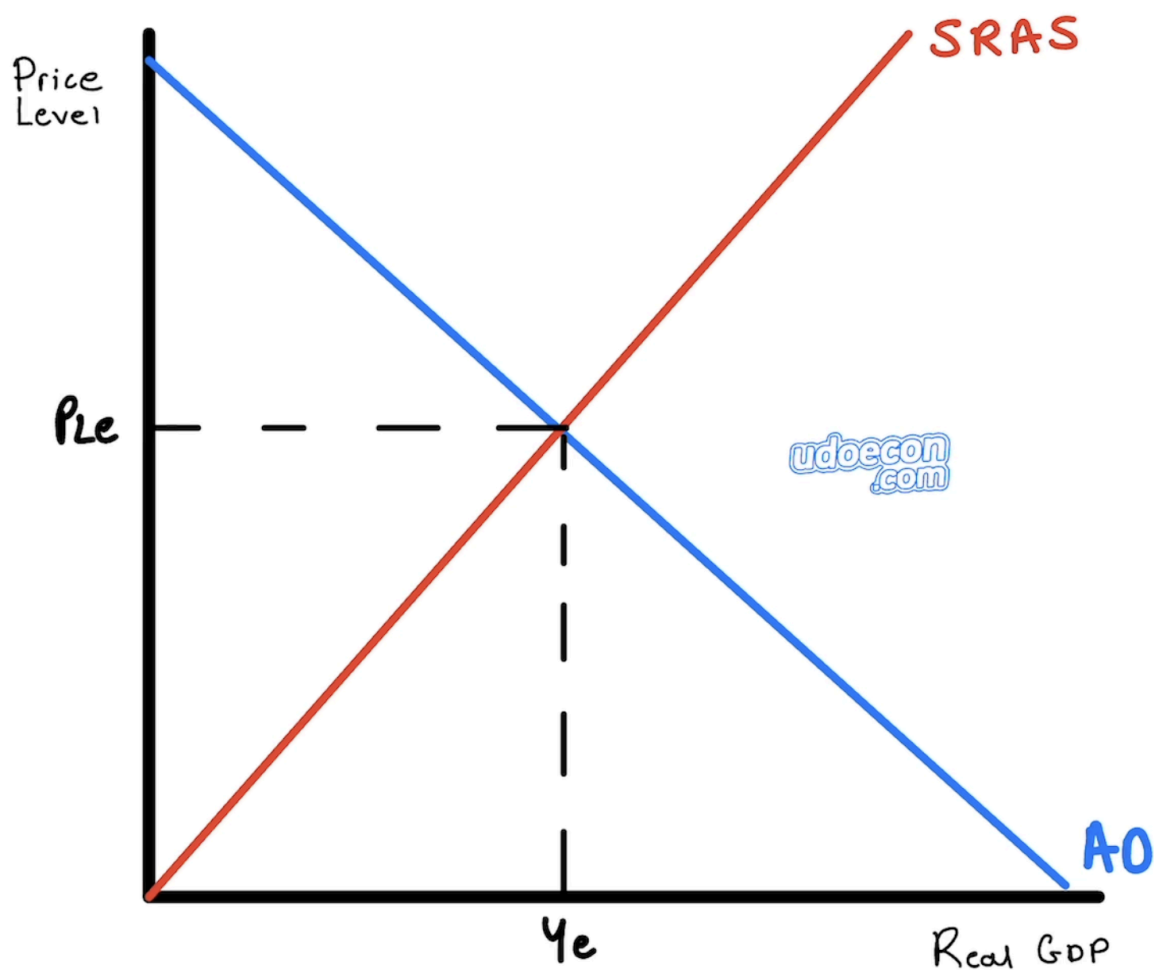


Equilibrium Levels of Real National Output (Y)

Real national output equilibrium is where **aggregate demand (AD)** intersects with **aggregate supply (AS)** on an AD/AS diagram. At this point, the economy has an equilibrium **price level (PL)** and an equilibrium **real output (Y)**.

Short-run equilibrium

In the short run, equilibrium is where **AD intersects SRAS**(where $P_{Le} = Y_e$). If any **component** of AD changes, AD shifts left or right and the economy moves to a new short-run equilibrium. If any **determinant** of SRAS changes, SRAS shifts left or right and the economy also moves to a new short-run equilibrium.

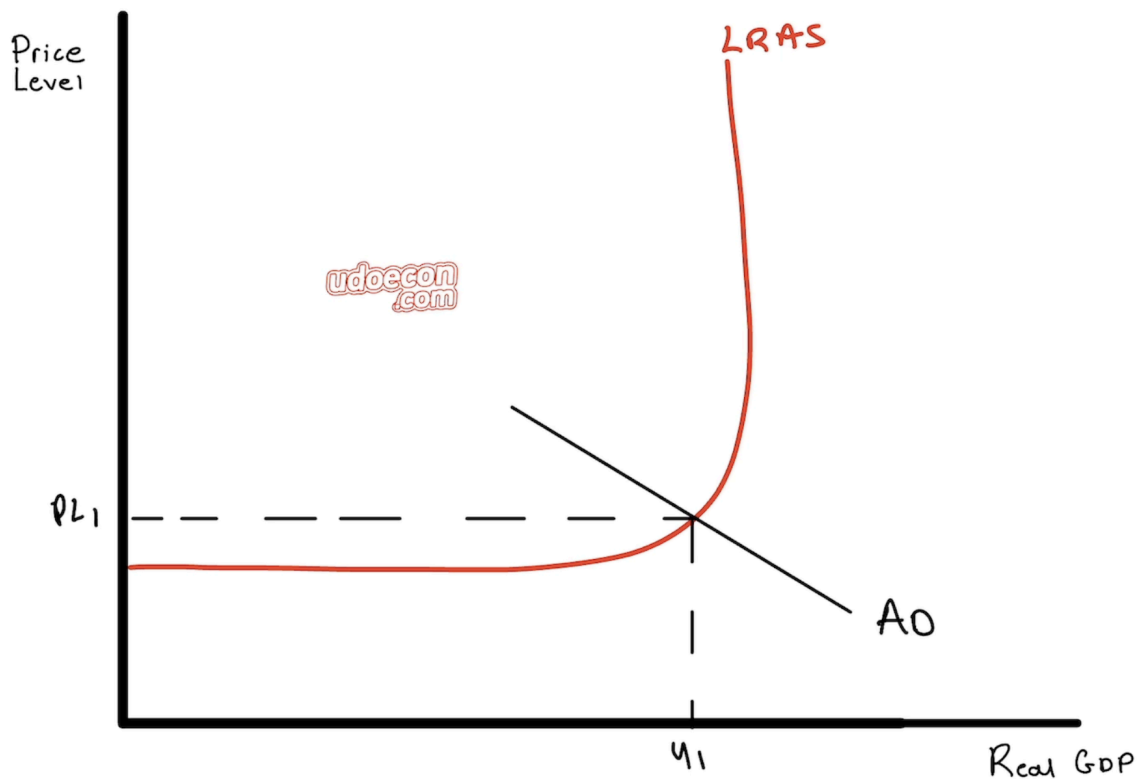


Long-run equilibrium:

Keynesian view

Written by udoecon.com

Keynesian economists argue the economy can settle in long-run equilibrium at **different output levels**, not always at full employment.



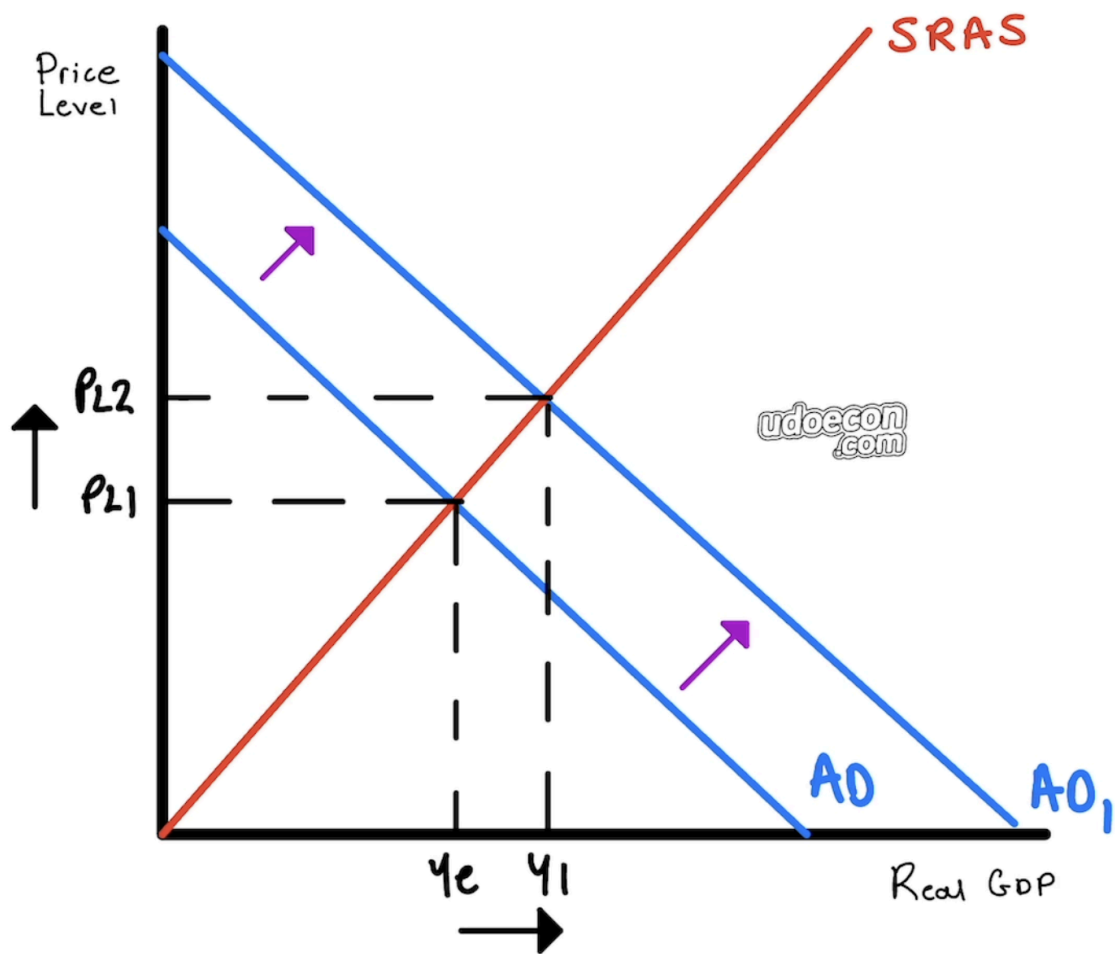
Changes in equilibrium price level and real output

Changes using the SRAS

Increase in aggregate demand (AD)

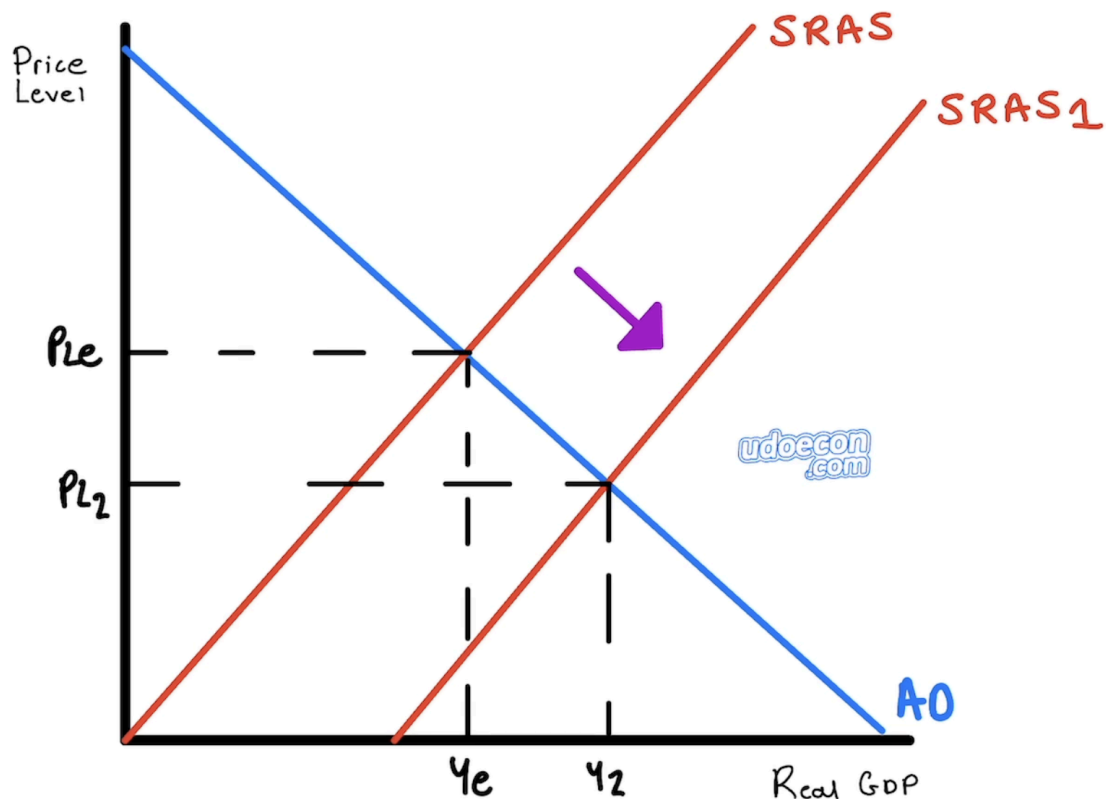
Start at equilibrium **PL1**, **Y_e**. If AD rises (for example, higher consumption), AD shifts **AD** → **AD1**. The economy moves to a new equilibrium with a **higher price level (PL2)** and **higher**

real output (Y_1).



Increase in short-run aggregate supply (SRAS)

Start at equilibrium **PLE, YE**. If for example costs fall SRAS shifts right from **SRAS** → **SRAS₁**. The new equilibrium has a **lower price level (PL₂)** and a **higher real output (Y₂)**.

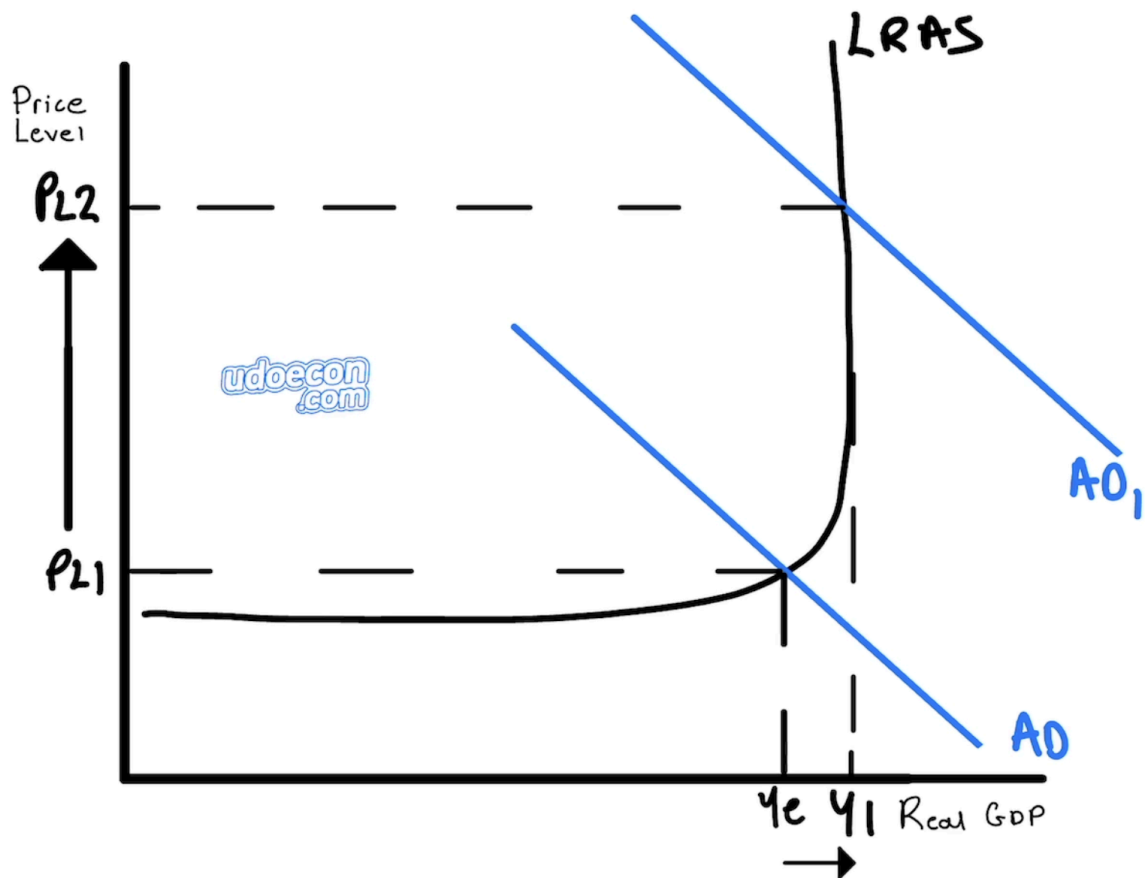


Changes using the LRAS

Changes to aggregate demand (AD)

Start at **PL₁, Ye**. If AD rises (for example, higher government spending), AD shifts **AD** → **AD₁**. If the economy is already close to full employment, this typically causes a **large rise in**

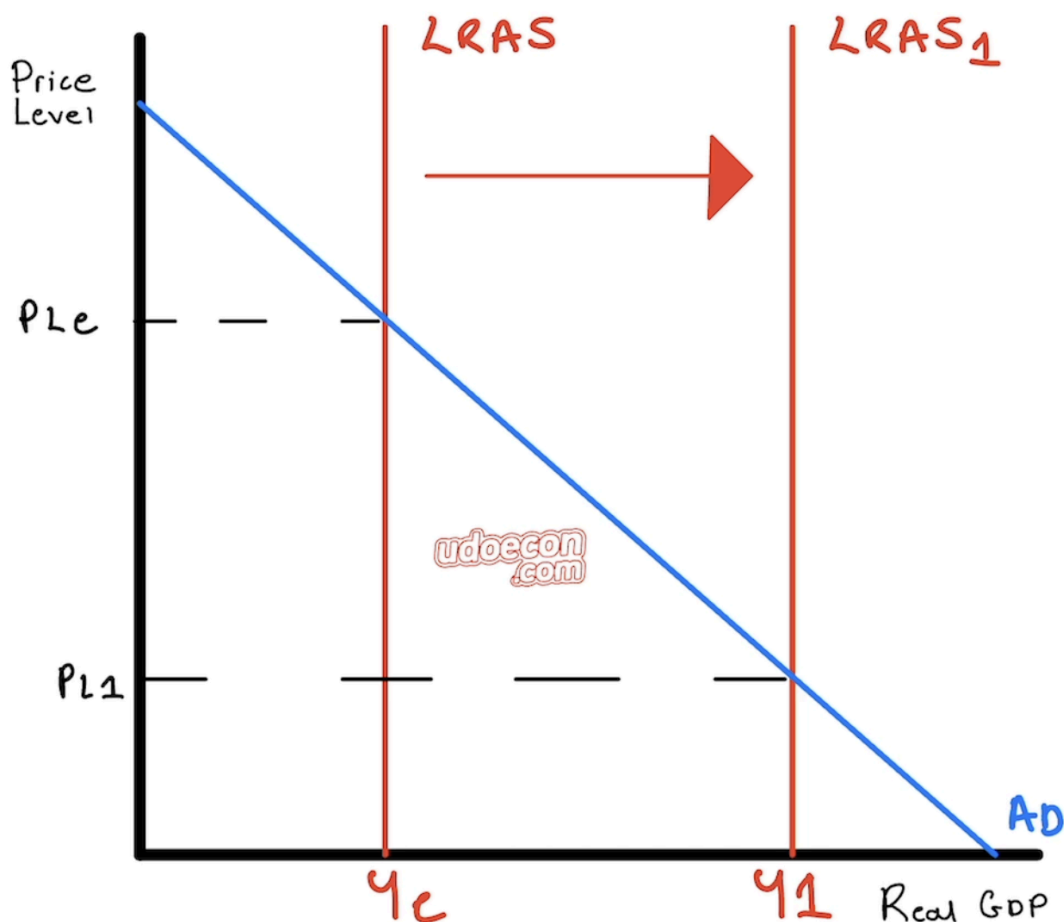
the price level ($P_L \rightarrow P_L1$) but only a **small rise** in real output ($Y_e \rightarrow Y1$).



Classical model LRAS shifts

Changes in the **determinants of LRAS** change the economy's long-run productive capacity. If LRAS shifts right (for example, education improves labour quality), potential output increases $Y_e \rightarrow Y_1$. With more capacity, the economy can produce more, and the price level

falls ($P_L \rightarrow P_L1$) as the new equilibrium is reached.



Keynesian LRAS shifts

In the Keynesian model, determinants still shift LRAS (for example, immigration increases labour supply so **LRAS** $\rightarrow$ **LRAS₁**). If AD is positioned so the economy is on the **vertical** part of the Keynesian LRAS, an increase in LRAS can lead to **higher output** and a **lower price level**.

If the economy is stuck at a low-output equilibrium, Keynesian thinking suggests shifting LRAS alone may have limited impact unless **AD also increases**.

