# WJEC (Eduqas)

# Economics A-level

# **Macroeconomics**

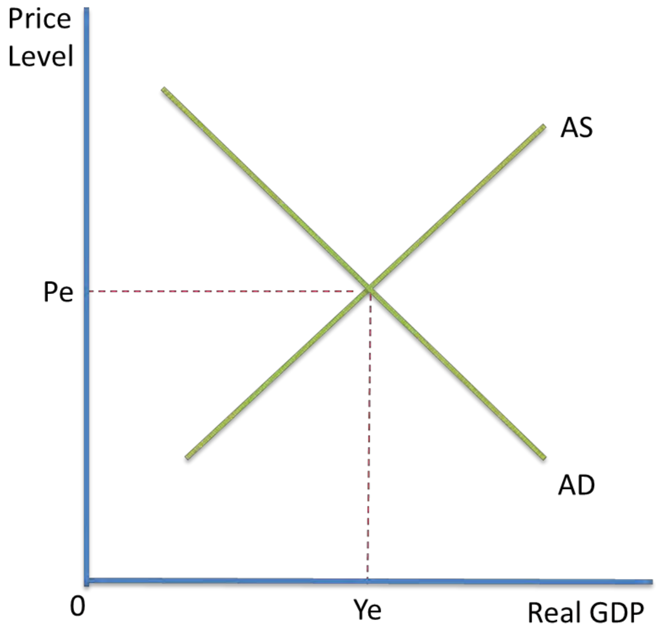
## Topic 1: Macroeconomic Theory

### 1.7 AD-AS analysis

Notes

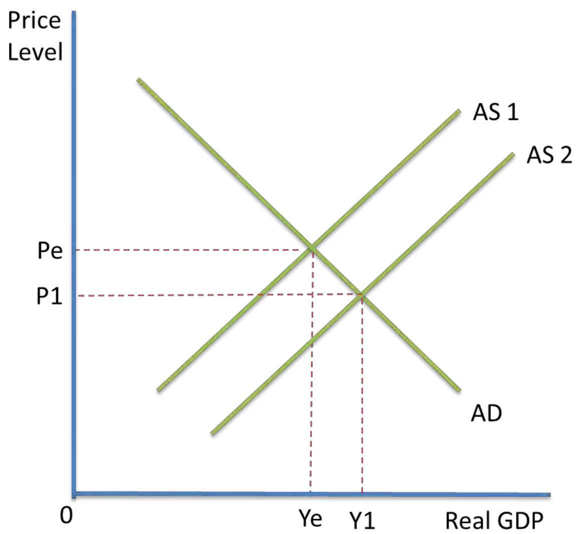
## How AD and AS interact to determine the equilibrium level of output, employment and prices in the long run

- The economy reaches a state of equilibrium when the rate of withdrawals = the rate of injections. This is equivalent to the point where AD = AS.




- At a price above equilibrium, there will be excess supply. At a price below equilibrium, there will be excess aggregate demand, in the short run.

- **Shift in AS:**



- If the economy becomes more productive, or if there is an increase in efficiency, supply will shift to the right. This lowers the average price level (Pe to P1) and increases national output (Ye to Y1).
- If AS shifts inwards, price increases and national output decreases.
- **Shift in AD:**
- If firms have less confidence or there is a recession, AD might shift inwards. This causes the price level to fall from Pe to P1, and national output to fall from Ye to Y1.
- If AD increases, the price level and level of national output both increase.