2.3.1 The characteristics of AS

a) The AS curve
b) The distinction between movement along, and a shift of, the AS curve
c) The relationship between short-run AS and long-run AS

- Aggregate supply: the amount that all firms in the economy are willing to supply at various price levels
- It is based on the costs of production and incorporates rent, wages, interest and profits
- As profits rise, firms are generally willing to supply more but there comes a point where firms reach maximum capacity which we call full employment
- You can draw a AS curve as a straight line sloping upwards to indicate that there are rising costs as firms try to produce more. Or, you can shows AS with a horizontal section where there is spare capacity, an upward sloping part where there are bottlenecks in the economy, and a vertical part at full employment
- If the costs of production rise, the AS shifts left/ upwards or decreases
- If an economy can increase output without significant increase in costs (the AS curve isn't vertical), we say there is spare capacity. In this case, there are unused resources in the economy, meaning some unemployment
- Keynesian approach: the view that there can be equilibrium unemployment, and governments can take action to stimulate aggregate demand to achieve long-term growth and unemployment i.e. there can be spare capacity at equilibrium
- Classical approach: the view that markets work best if left to themselves.
- Movement along the AS curve occur when aggregate demand shifts and the price level changes. If there is an increase in aggregate demand, aggregate supply will expand and vice versa
- The AS curve will shift if there's a change in the costs of production. A reduction in costs means more can be produced at any given price level. A sudden decrease in aggregate supply, leading to increasing prices, could also be caused by supply-side shocks, such as natural disaster or war