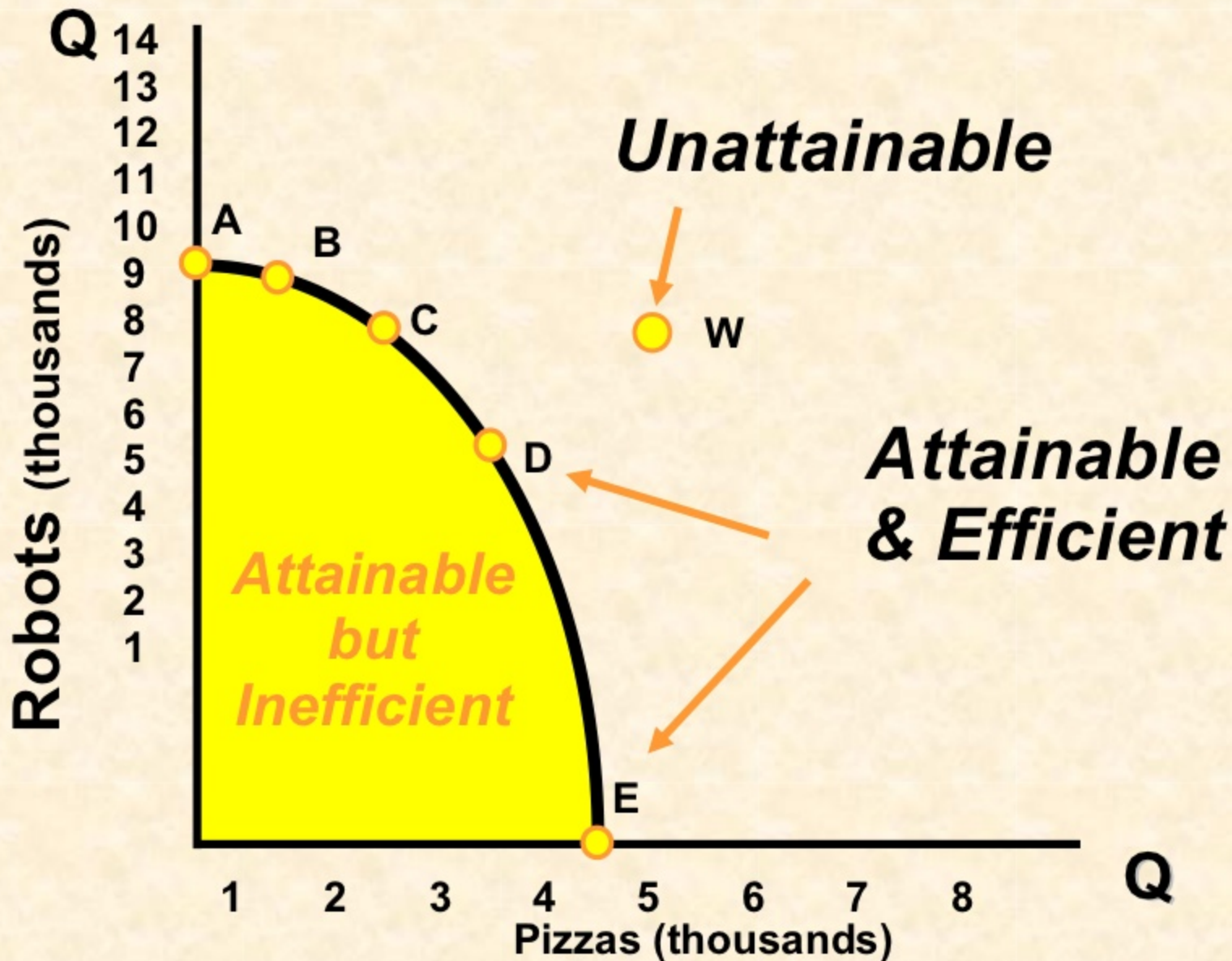


GRAPHS 2 KNOW FOR THE AP MACRO EXAMINATION

***Mr. Redelsheimer
AP Macroeconomics
2007-2008***

PRODUCTION POSSIBILITIES

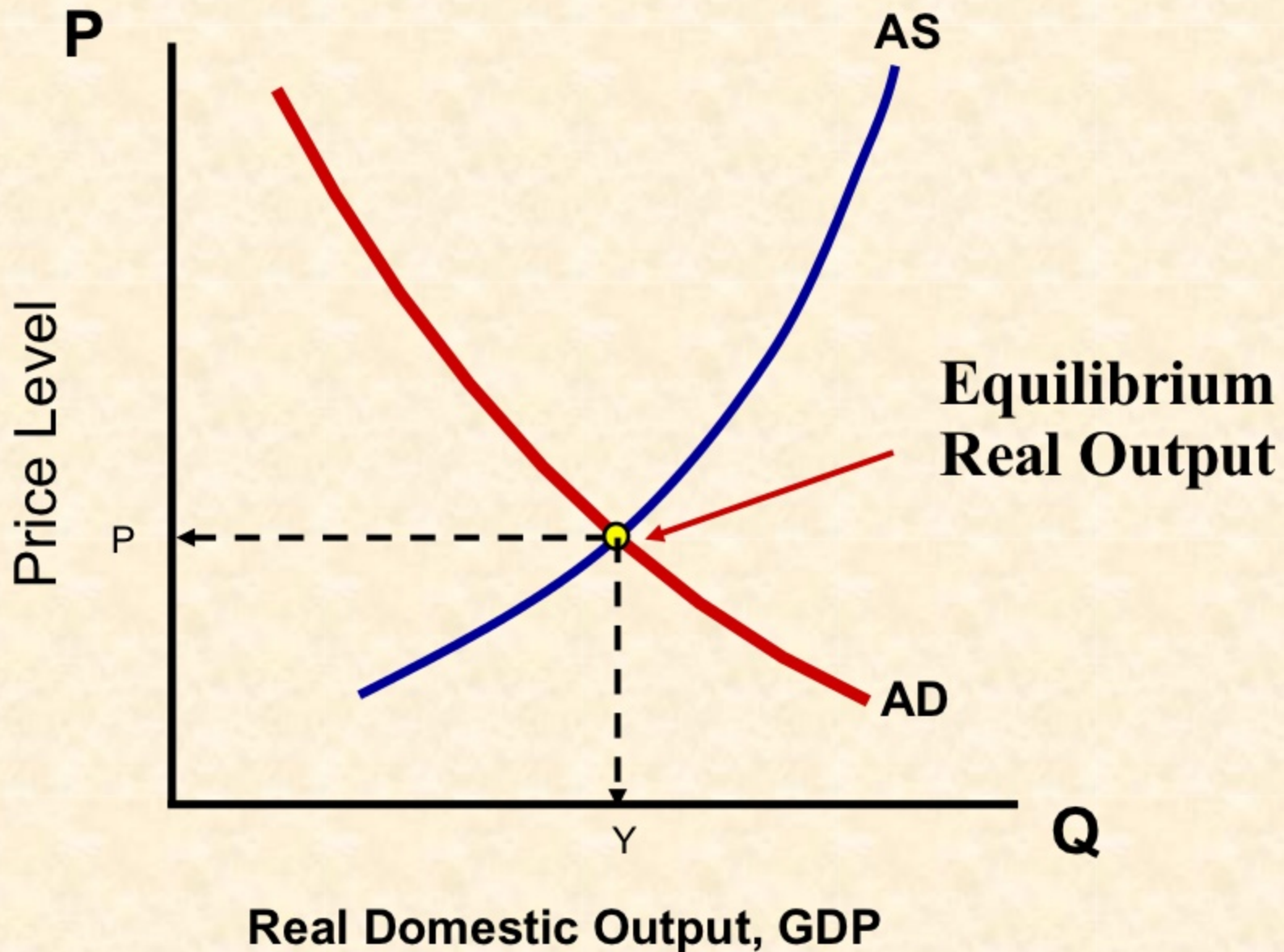


Production Possibilities Curve

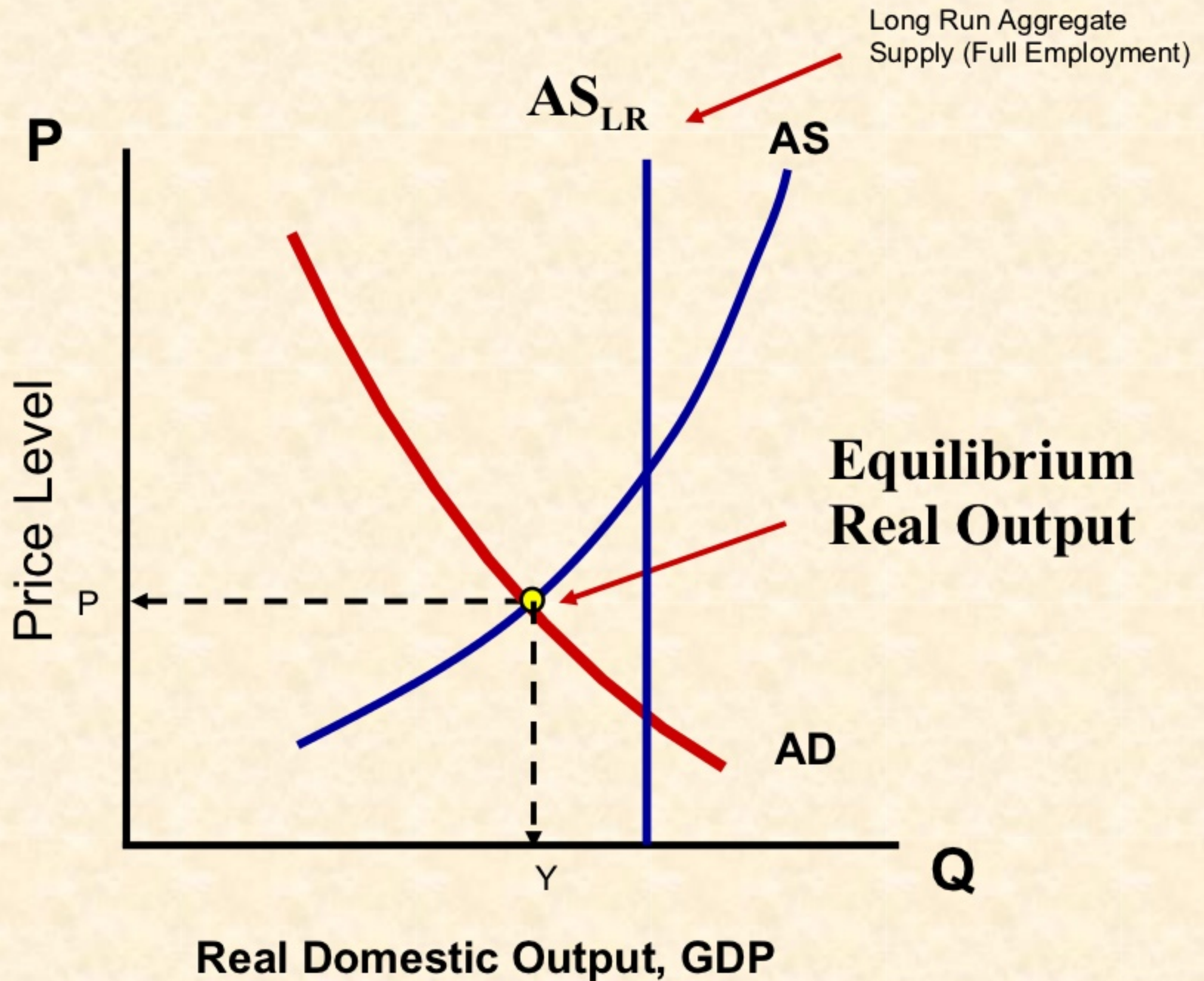
Shows:

- **Opportunity Cost**: More pizzas means less robots
- **Unemployment / Inefficiency**: Inside the curve
- **Efficiency**: On the curve
- **Economic Growth**: Curve shifts to the right

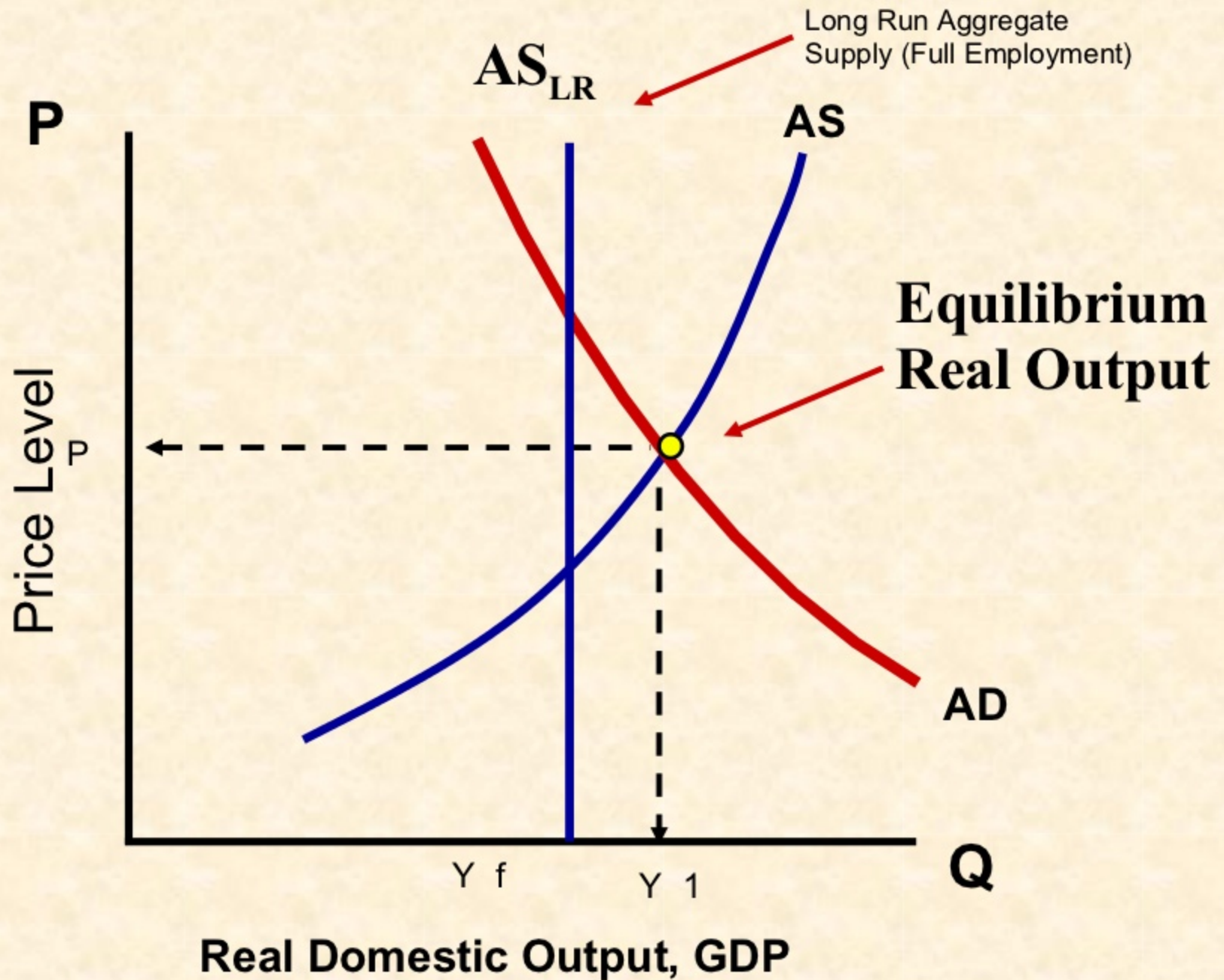
AGGREGATE DEMAND / AGGREGATE SUPPLY



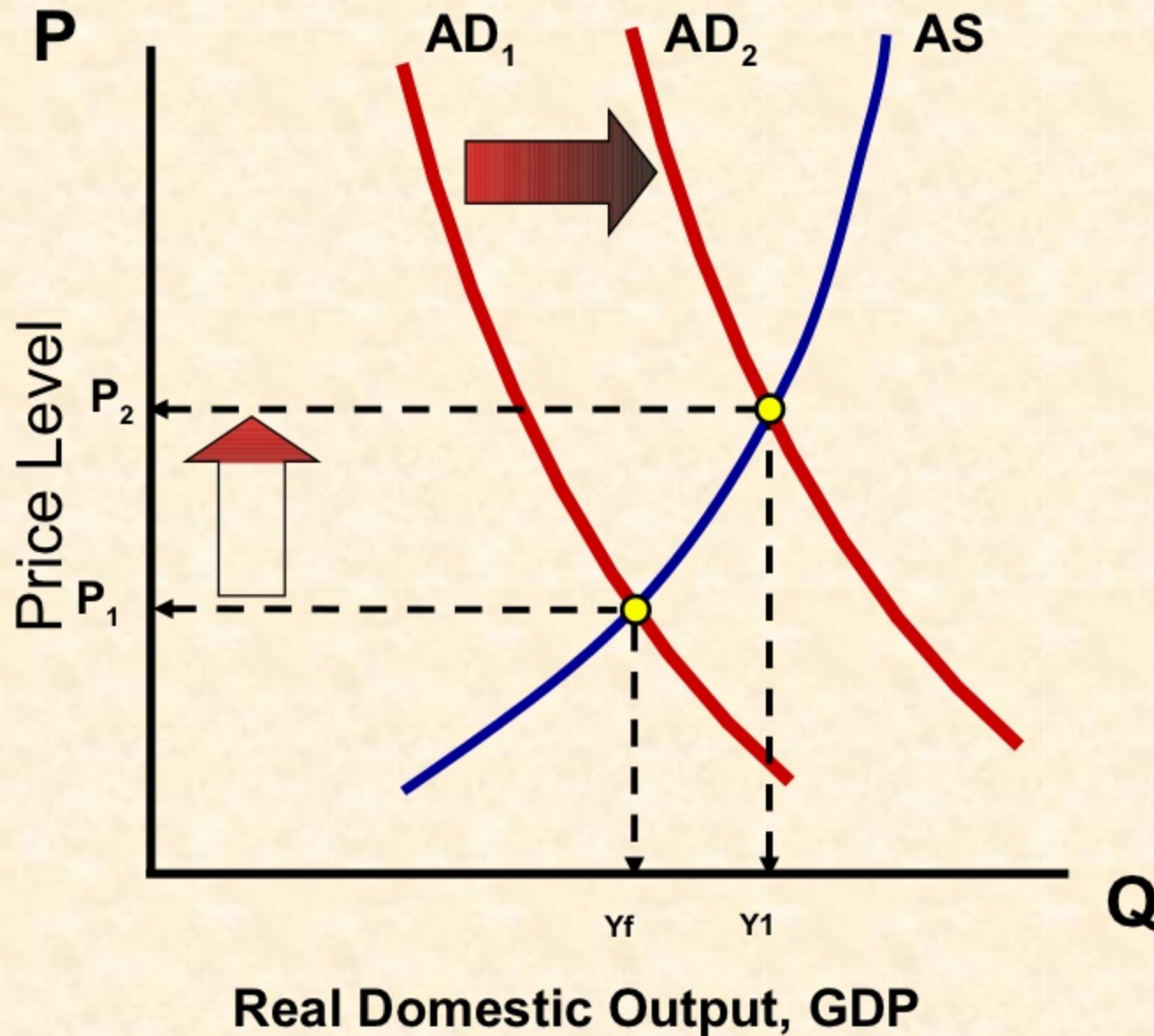
AS/AD: Recession



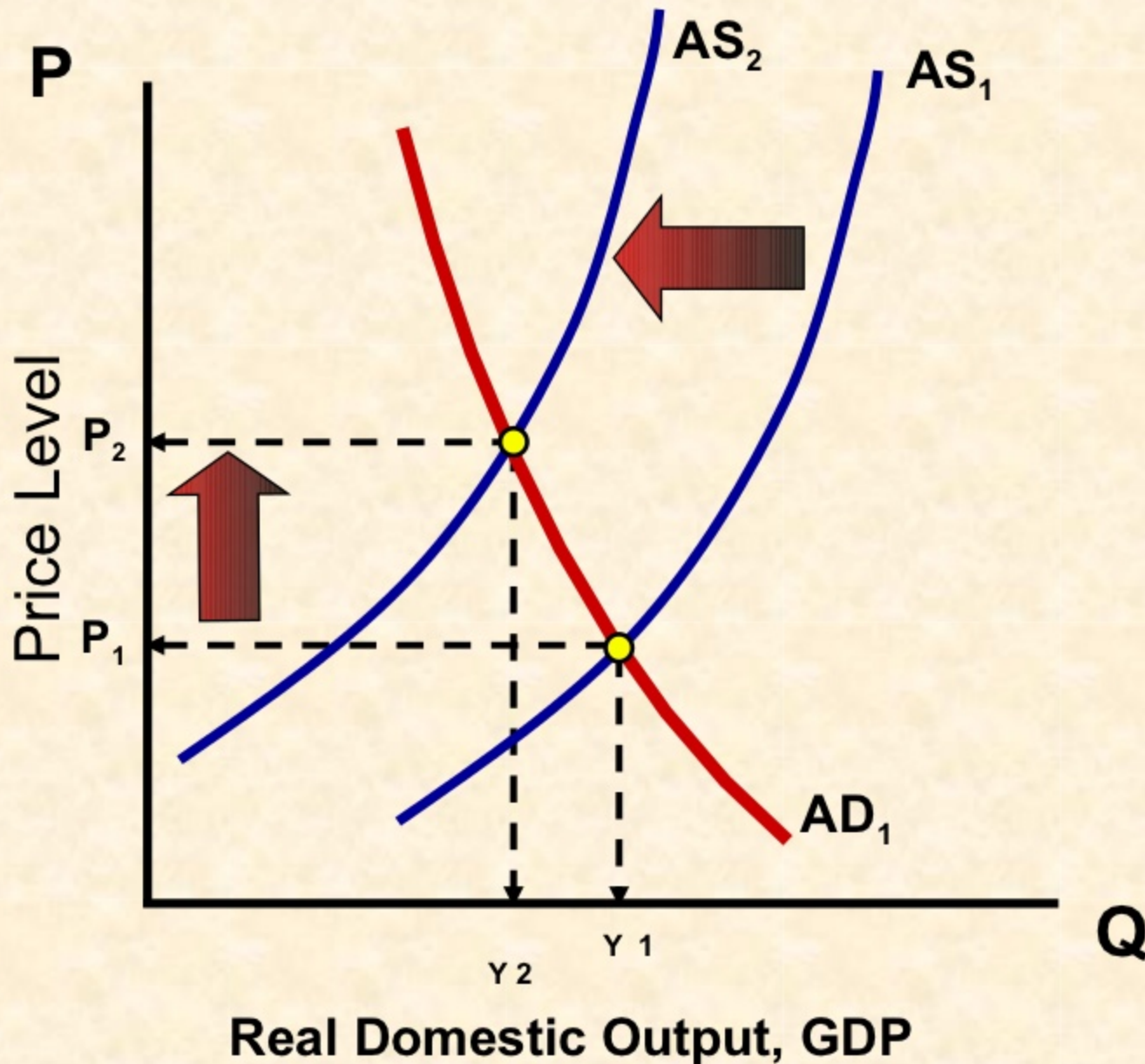
AS/AD: Inflation: Beyond Full Employment



INCREASES IN AD: DEMAND-PULL INFLATION



DECREASES IN AS: COST-PUSH INFLATION



AGGREGATE SUPPLY / AGGREGATE DEMAND

SHOWS:

- National Output: (Real GDP)
- Employment and Unemployment
- Price Level

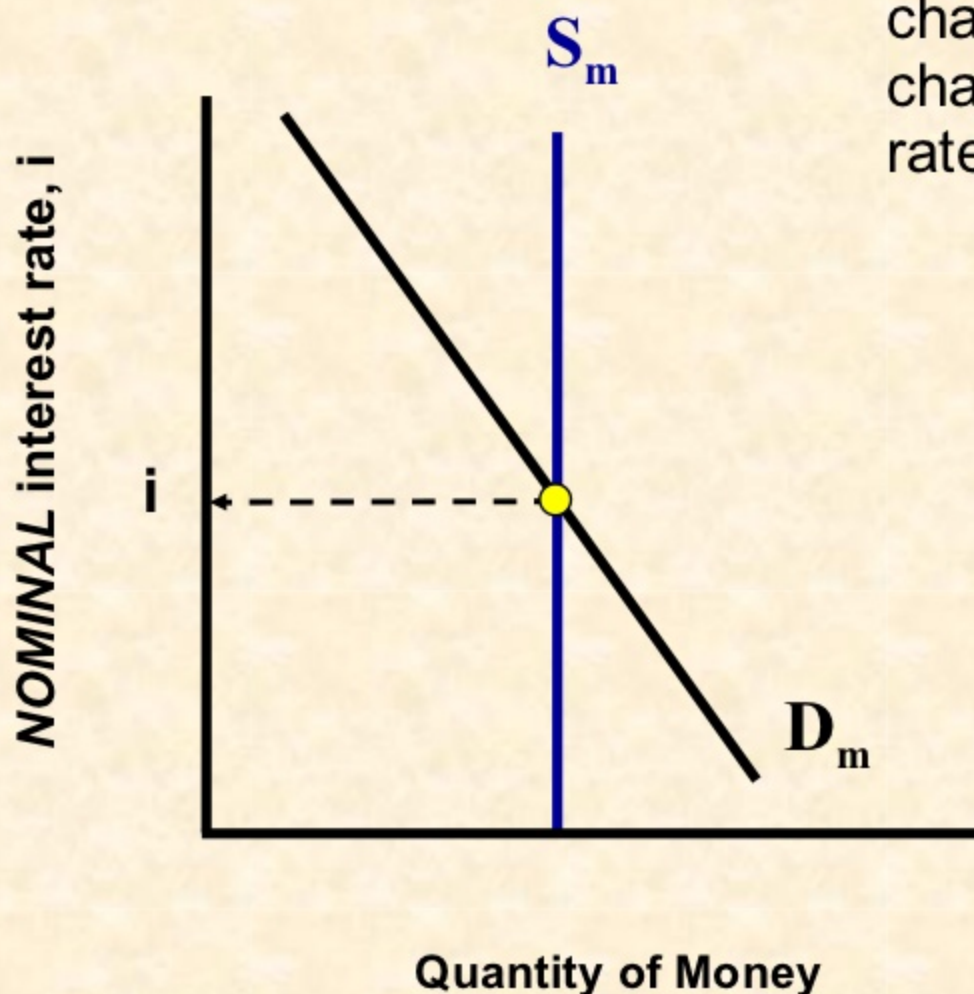
Aggregate Demand Curve

Down Sloping Due To:

- **Real-Balances Effect**
- **Interest-Rate Effect**
- **Foreign Purchases Effect**

THE MONEY MARKET

Shift the Supply curve (always vertical) when FED changes the money supply to change nominal interest rates!

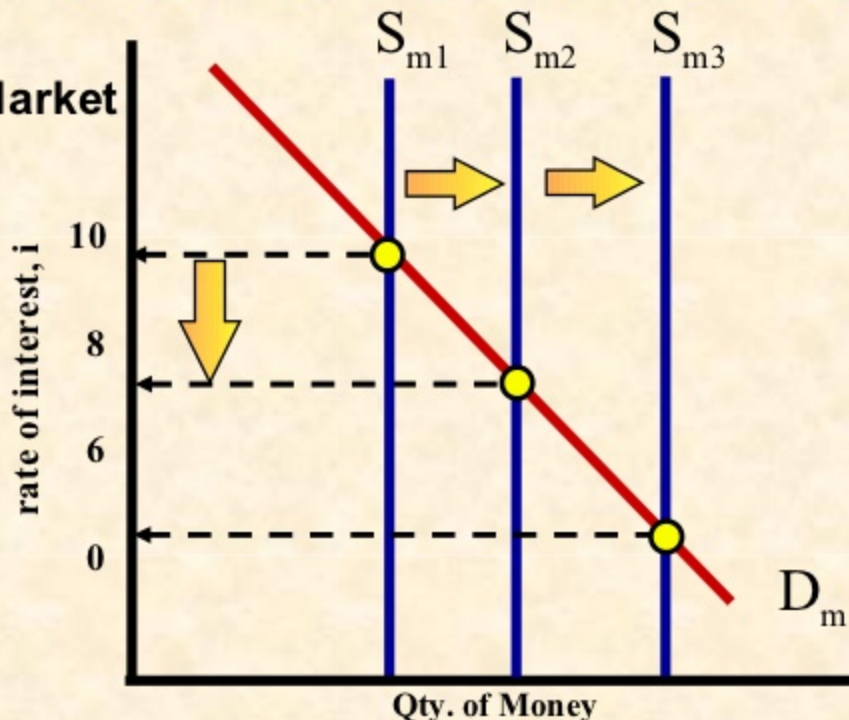


•If Nominal GDP Increases, Transactions Demand increases, and D_m Curve Shifts to the right.

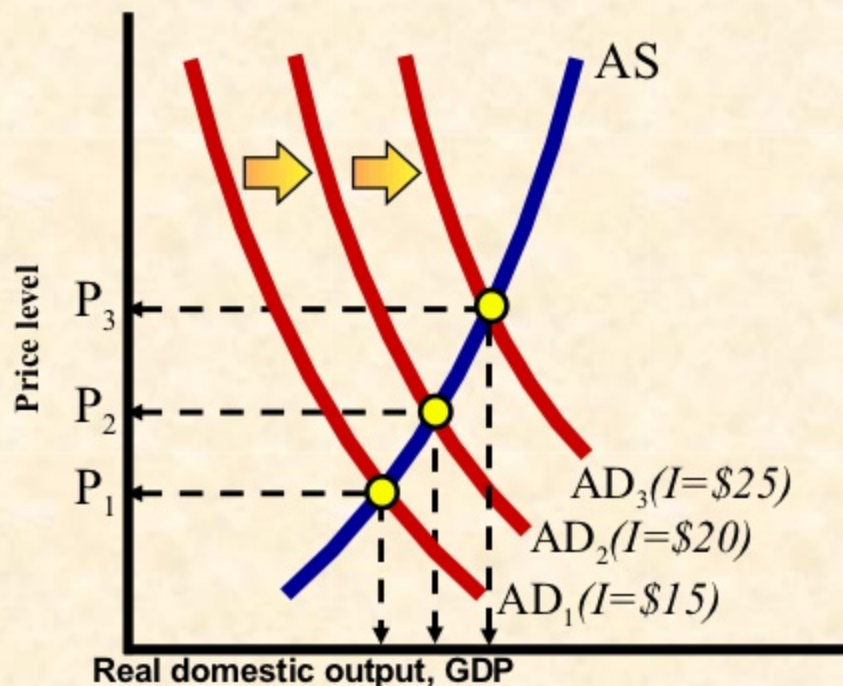
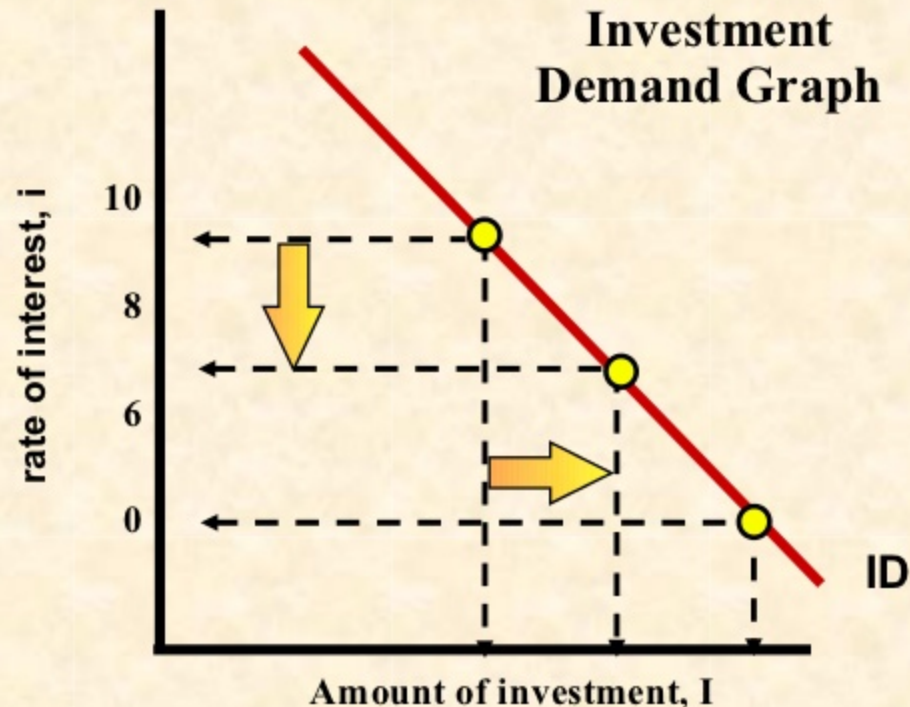
•If Asset Demand for money increases, D_m Curve shifts to right

MONETARY POLICY AND EQUILIBRIUM GDP

Money Market Graph



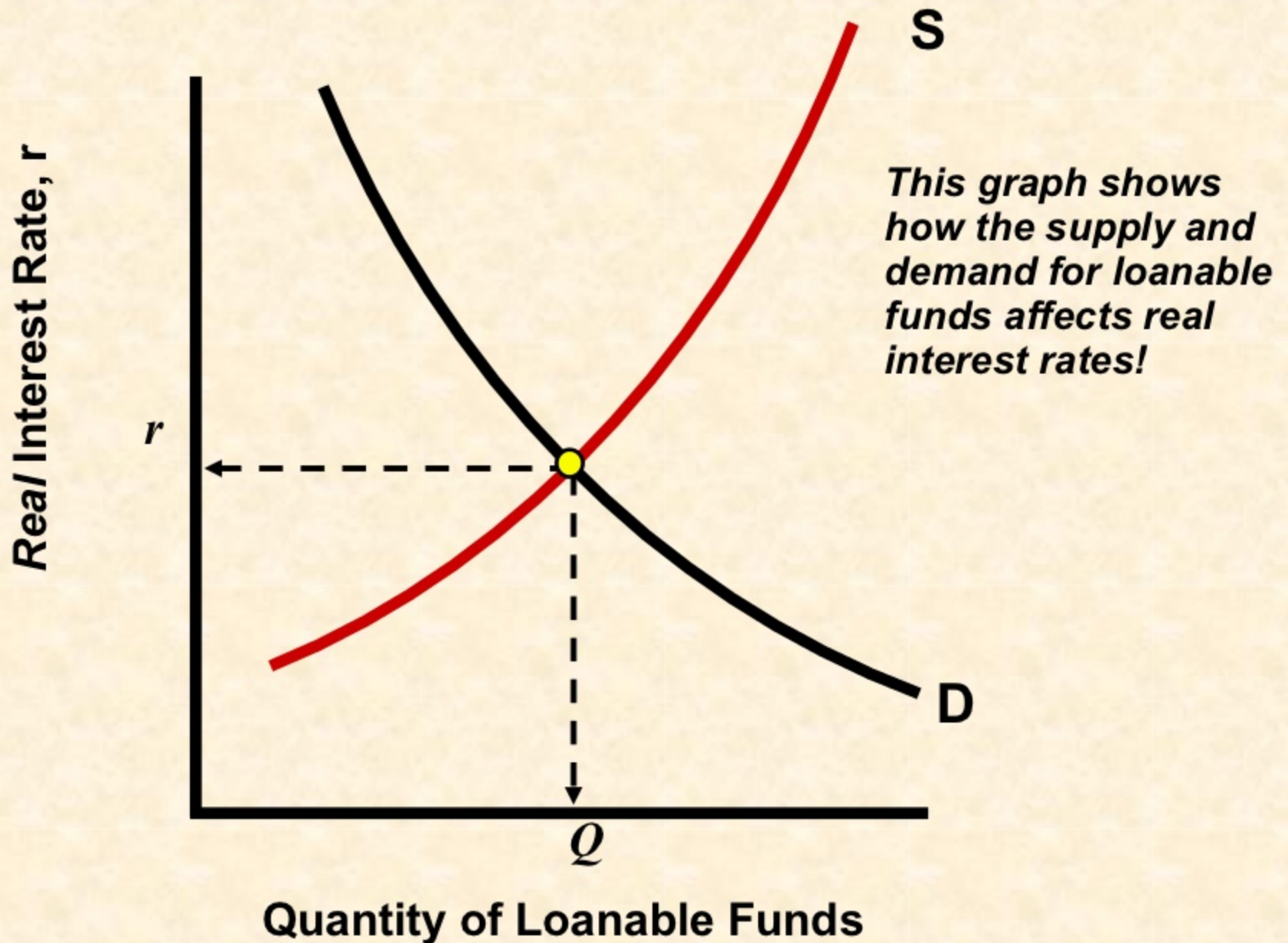
Investment Demand Graph



If the Money Supply Increases to Stimulate the Economy...

- Interest Rate Decreases
- Investment Increases
- AD & GDP Increases with slight inflation
- Increasing money supply continues the growth – but, watch Price Level.

LOANABLE FUNDS MARKET



Loanable Funds Market Graph

(Long-Term Interest Rates)

What changes Supply:

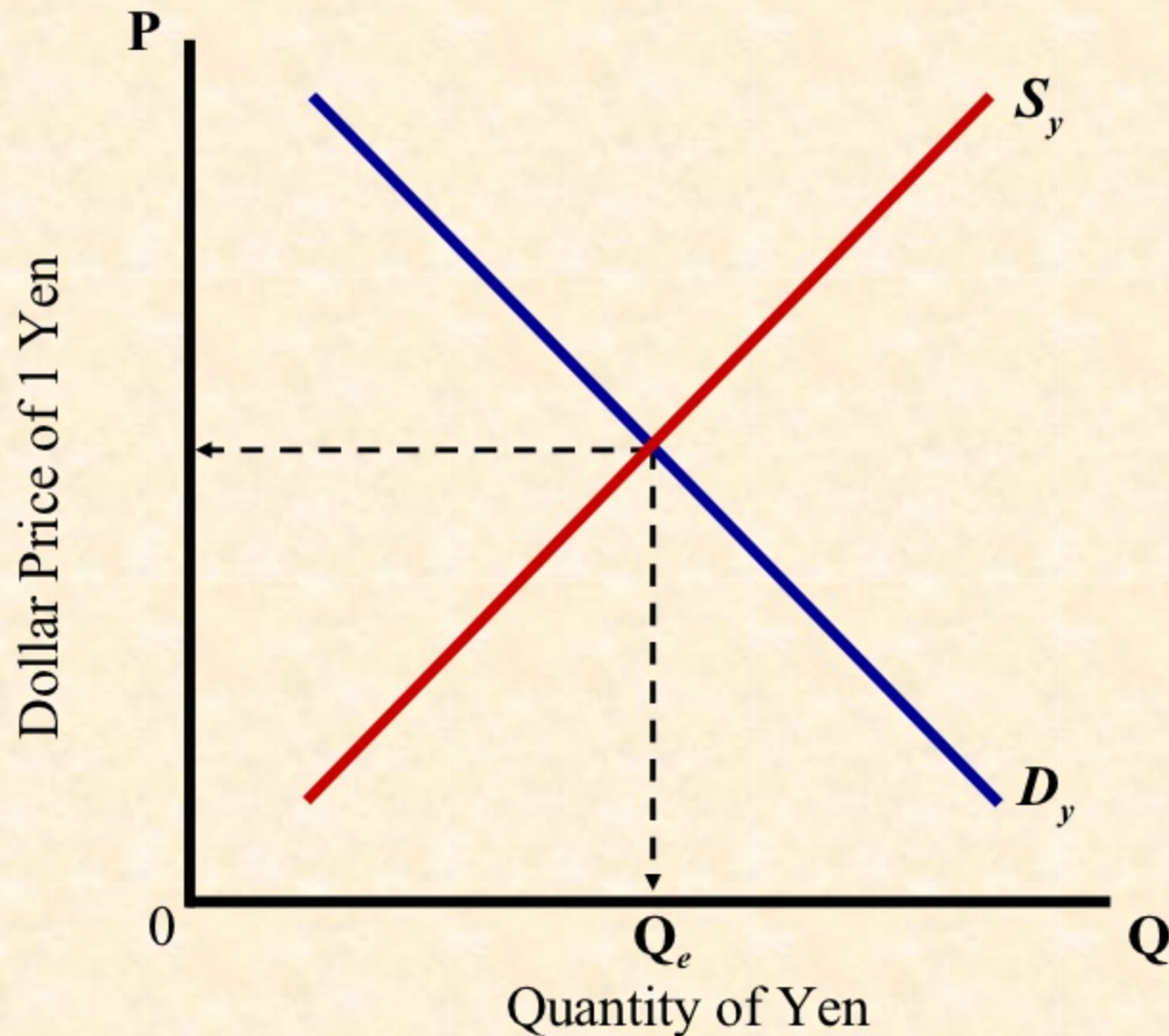
2. Increase in Household savings
3. Increase in Gov't savings
4. Increase in Business savings
5. Increase in Business savings
6. Increase in Foreigners' savings

What changes Demand:

2. Increase in Household borrowing
3. Increase in business Investment
4. Increase in Foreign borrowing
5. Increase in Government borrowing (When the gov't has a budget deficit!) = (the crowding-out effect)

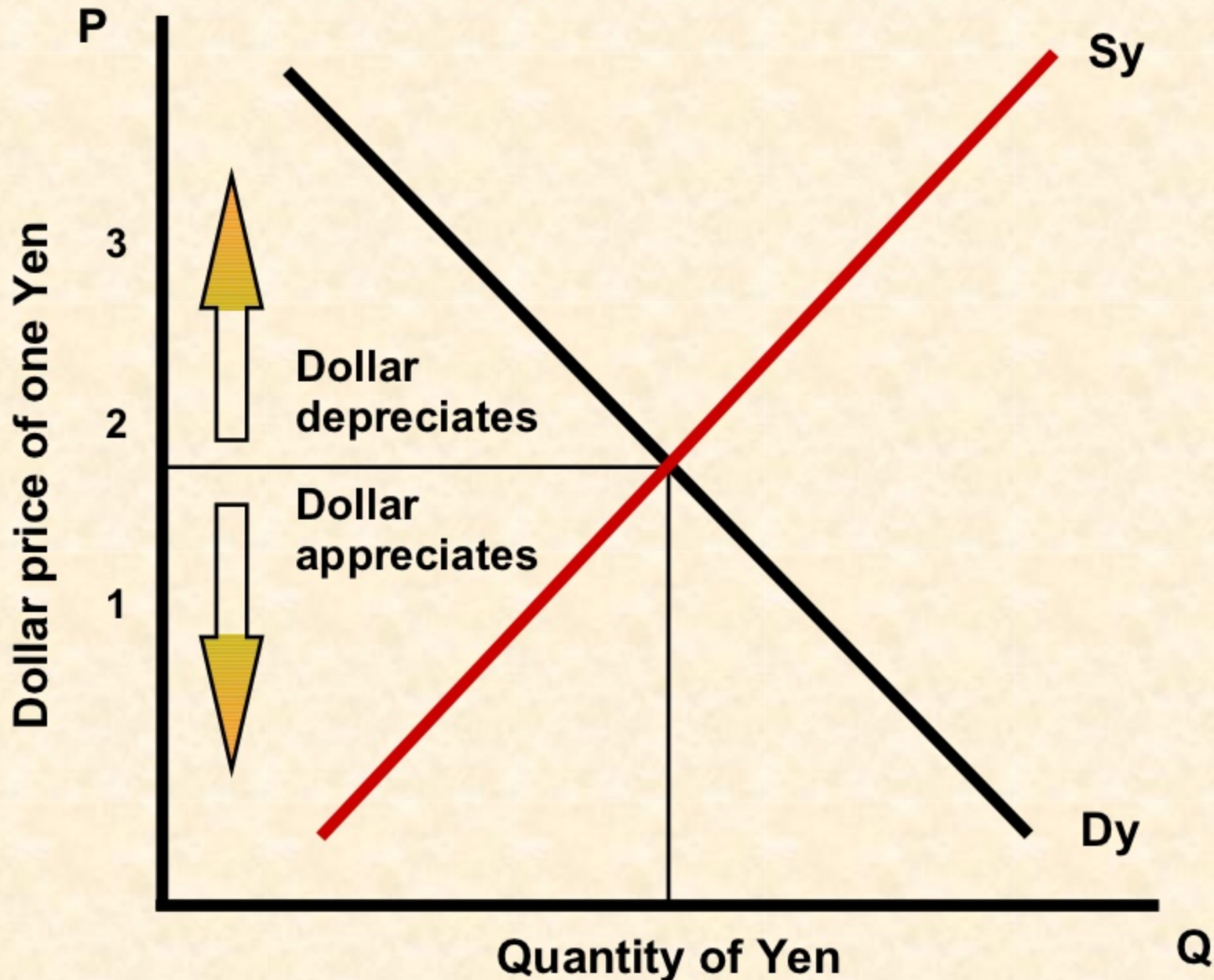
THE FOREIGN EXCHANGE MARKET

The Market for Yen

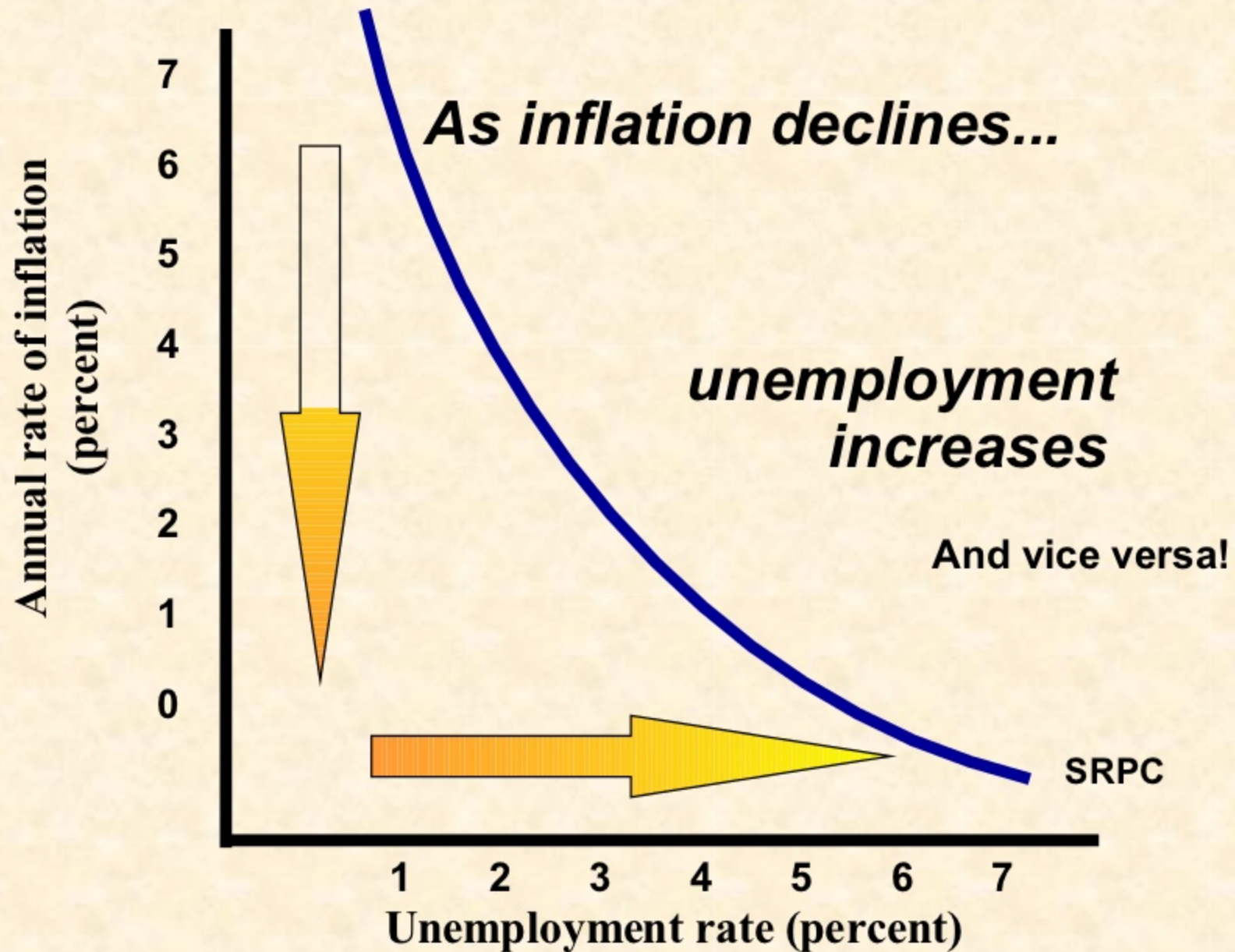


THE FOREIGN EXCHANGE MARKET

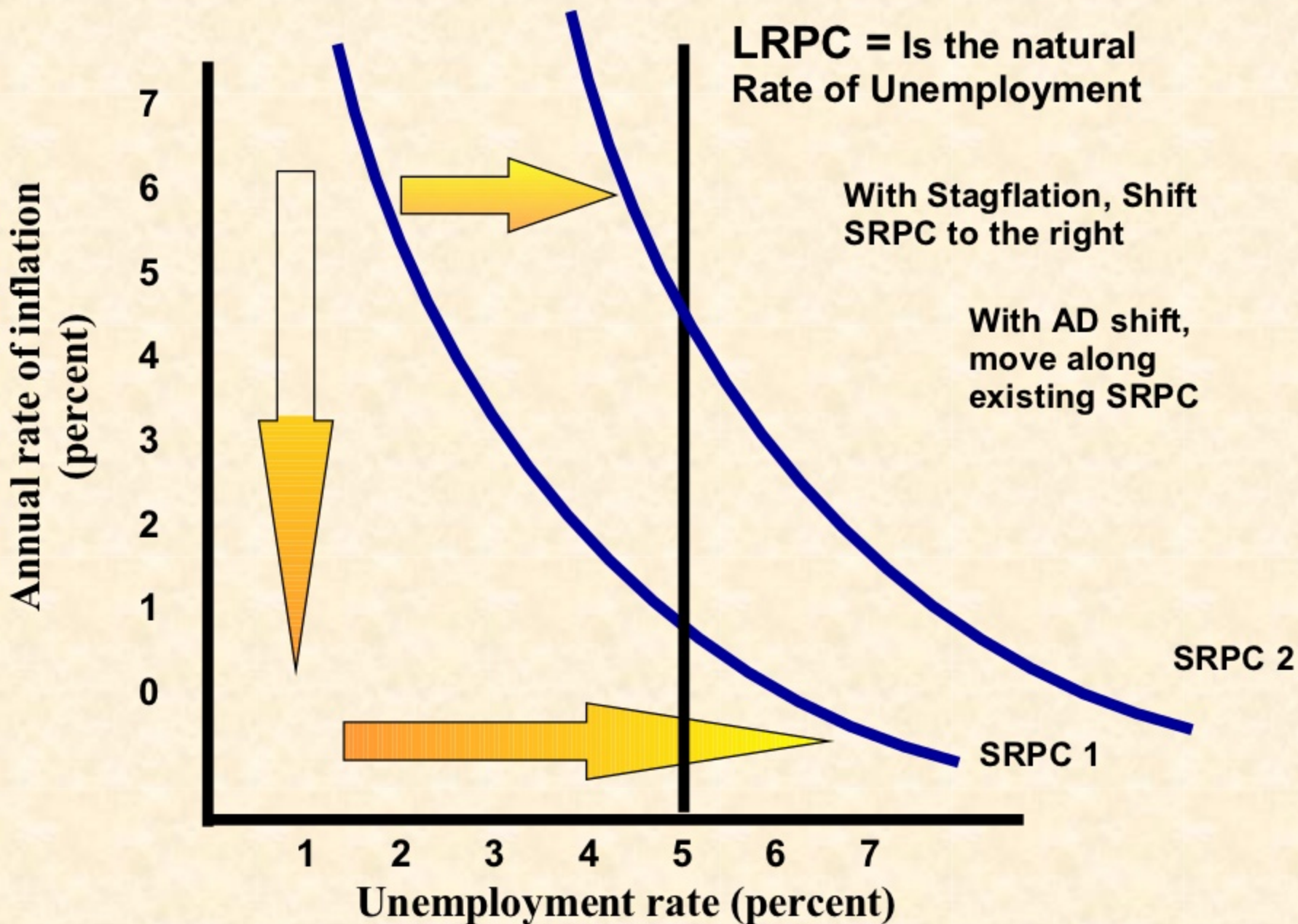
The Market for Yen



THE PHILLIPS CURVE CONCEPT



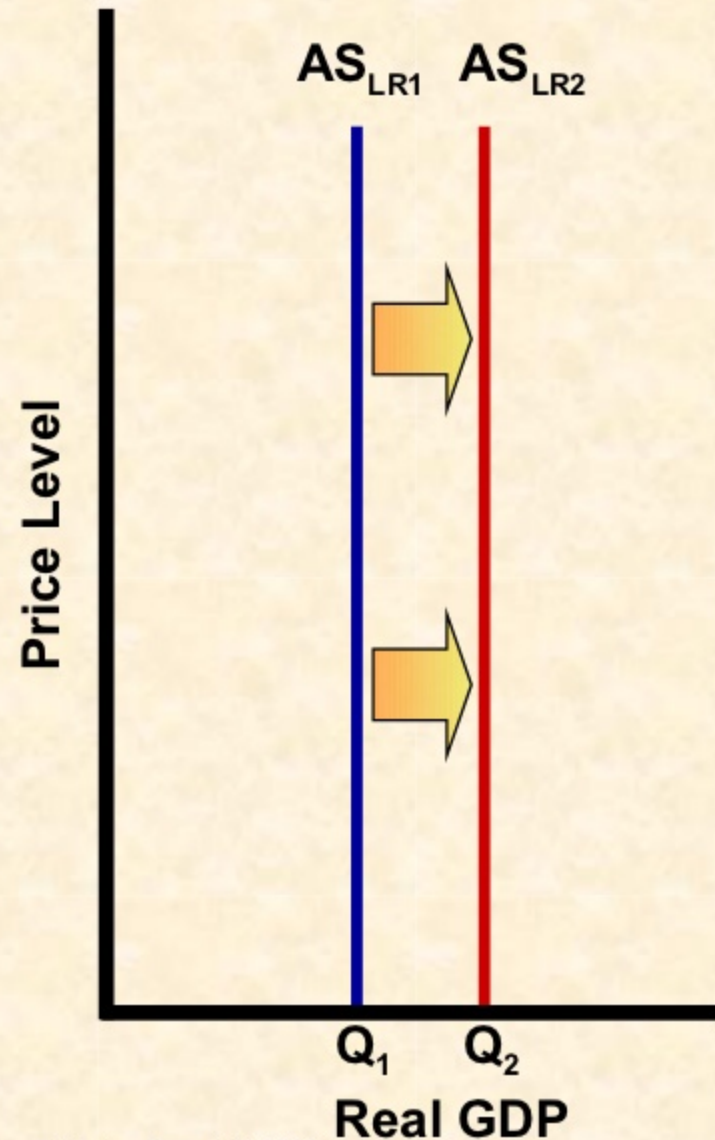
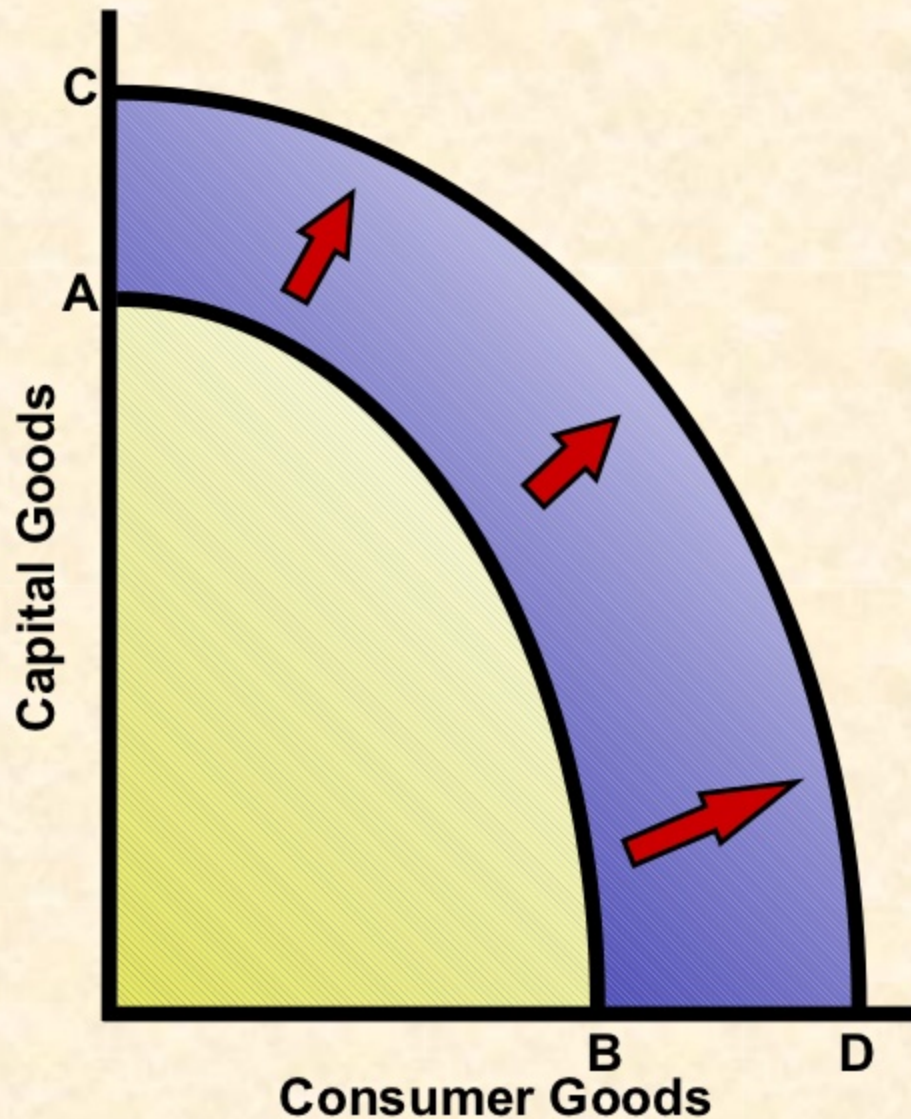
THE PHILLIPS CURVE CONCEPT



Phillips Curve

- Short run trade-off between inflation and unemployment.
- In the Long Run there **is no** trade off. The long run Phillips curve is Vertical!
- Stagflation (an increase in Unemployment and inflation) or an Aggregate Supply Shock will shift the SRPC to the right.
- Decreases in Inflation and Unemployment will shift the SRPC to the left. (and increase in AS would cause this)

TWO WAYS TO SHOW ECONOMIC GROWTH



Causes of Economic Growth

1. Increased investments in Capital Stock.
2. Increased investments in Human Capital (education, training) and increases in quantity of human resources
3. New Technology leading to increased productivity
4. Increase in quantity and quality of natural resources

Circular Flow Model

