CONCEPT: THE DYNAMIC AD-AS MODEL

- The ***dynamic AD-AS model*** fixes some of the issues with the AD-AS model by removing some key assumptions
  - □ The standard AD-AS model assumes:
    - > *No long-run inflation*
    - > *No long-run growth*
    - > *Potential GDP (LRAS) is static*
  - □ The standard AD-AS model incorrectly predicts:
    - > Recessions caused by decreased aggregate demand lead to lower price levels
      - - Has not occurred since the 1930s
  - □ The dynamic AD-AS model attempts to fix these issues:
    - > Potential GDP increases over time → LRAS shifts ___________
      - - Increases to the labor force, capital stock, and technology
    - > Aggregate supply tends to increase over time → SRAS shifts ___________
      - - The variables that increase LRAS also increase the SRAS
    - > Aggregate demand tends to increase over time → AD shifts ___________
      - - Increases in population and income over time lead to higher consumption
      - - A growing economy also leads to higher investment from firms
      - - Growth in the population and economy generate a need for more government services

Dynamic AD-AS – Expansion and Equilibrium