CONCEPT: SUPPLY SHOCK AND THE PHILLIPS CURVE

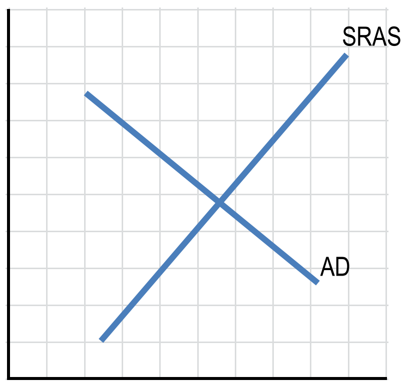
● ***Supply Shocks*** – an unexpected event that affects a firm's production costs and shifts aggregate ___________

☐ Generally, a supply shock involves an unexpected increase in input prices (like gasoline)

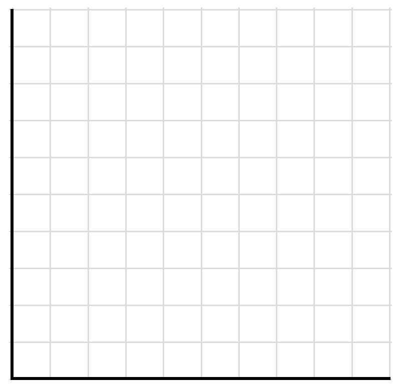
EXAMPLE: A sudden increase in gas prices affects the input costs of firm's production

Short-Run Phillips Curve

AD-AS Model



Short-Run Phillips Curve



☐ Aggregate supply ____ → Output ____ and Price Level _____

- This leaves policymakers in the difficult position of fighting _______ inflation and _______ unemployment