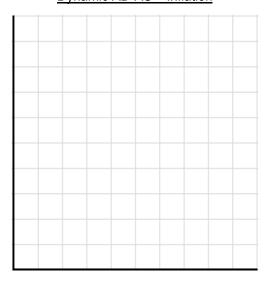
CONCEPT: THE DYNAMIC AD-AS MODEL – INFLATION AND RECESSION

• *Inflation* occurs when total spending increases faster than total production

Dynamic AD-AS - Inflation



- The **recession of 2007-2009** can also be visualized with the dynamic AD-AS model:
 - 1. The end of the housing bubble led to only a small year-over-year increase in Aggregate Demand
 - As housing prices declined, spending on residential construction (investment spending) declined
 - 2. The financial crisis followed the crash of the housing market
 - The unavailability of credit led to even smaller increases in Aggregate Demand
 - 3. Increasing oil prices due to international competition caused a supply shock, shifting SRAS to the left

Dynamic AD-AS - Recession

