

## 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

