

Short Run

Prices of $X + M$ can be affected by:

1. Supply and demand shocks e.g. oil prices
2. Exchange rates
3. Inflation rates

Note: simple microeconomic S+D can be used to show changes 1 and 2 OR

AS/AD could be used to show 1 and 3

Long Run

Prices of X and M can be affected by:

1. Income changes (this affects demand for all goods and services)
2. Long term productivity changes affects pricing of exports
3. Government policies such as supply side policies affect prices in the long run
4. Changes in technology can affect prices in the long run

Note: simple microeconomic S+D can be used to show changes 1, 2 and 4 OR

AS/AD could be used to show 1-4

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