

### Best Uses:

- ⊙ inflation above yfe (full employment equilibrium)
- ⊙ unemployment below yfe
- ⊙ short and long run equilibrium for a macroeconomy

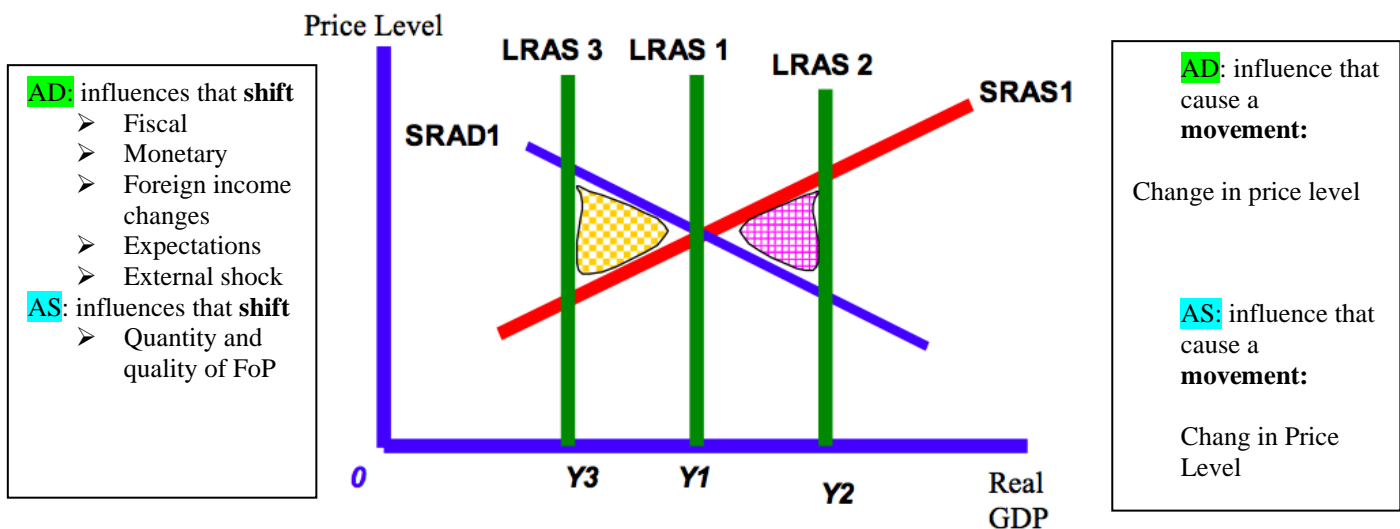
## ED 4: AS/AD

Essential diagrams:

Some key points worth noting:

- Full employment equilibrium occurs at Y1 where the economy is operating in the short run at its long run capacity. This is optimal. However remember that Y1 includes natural unemployment (seasonal, frictional and structural)
- Y3 is a situation whereby there is an inflationary gap. See Yellow/ dotted area. Here the economy is operating above long run capacity. This level of output is not possible in the long run.
- Y2 is a recessionary gap. See pink boxed area. Here the short run equilibrium is clearly below what the country is capable of producing. (For a fuller explanation see Blink+Dorton)

### AS / AD Model: AGGREGATE SUPPLY + DEMAND CURVES



Please note that it is always better to label the X axis with "Real GDP".

Useful for any discussion of macroeconomic policy including inflation and unemployment  
Useful for essays on Development  
Essential for essays on unemployment and inflation