Chapter 9 & 13 Review
Short-Run, Here We Come

Readings  Chap. 9: all
           Chap. 13: pp 349 – pp 356 (Only read the 1st paragraph of “The Sticky-Price Model” section.)
           Chap 13: pp 361 (begin with “Summary and Implications”) - 363

Outline

I. Aggregate Demand: The buyer’s side
   A. Why does AD slope down?
   B. Wealth Effect, the same thing (almost)

II. Shifting AD, $\Delta M$
   A. $\uparrow M$
   B. $\downarrow M$

III. AS: The Production Side
   A. Vertical or Horizontal?
   B. The Key: Wage (and price) Flexibility
   C. Why would wages (or prices) be sticky?
   D. Summary

IV. The Long-Run Adjustment Process
   A. Overheated Economy
   B. Recession

V. Supply Shocks
   A. Definition
   B. Examples
   C. Monetary Policy to deal with (adverse) Supply Shocks

Problems to Study (not graded)

5. p 255: Problems and Applications # 1.
7. p 255: Problems and Applications # 3.
11. Explain why we the SRAS horizontal (or at least with a horizontal component).
12. Explain why we the LRAS vertical. This will require a description of the long-run adjustment process.

↓ A Slight Modification to fig. 13.5 (p 362) ↓

<table>
<thead>
<tr>
<th>Problem With the Market</th>
<th>Market with the Problem</th>
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<tr>
<td>Problem With Information</td>
<td>Poor Information</td>
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<tr>
<td>Workers mistake nominal wages for real wages.</td>
<td>Worker Misperception Model:¹</td>
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<td>Natural (Institutional) Stickiness</td>
<td>Sticky-Wage Model³</td>
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<td>Long-term Contracts and other factors mean wages are slow to respond to market forces.</td>
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<td>Goods</td>
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<td>(Firm) Imperfect Information Model:²</td>
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<td>Firms have trouble determining the price level and therefore the real value of the prices they charge.</td>
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<td>Sticky-Price Model⁴</td>
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<tr>
<td>Menu Costs: Changing prices can be expensive. Firms are slow to do so.</td>
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¹ My personal favorite.
² My 3rd or 4th favorite model. It seems to imply that firms don’t exactly know what they are doing.
³ My second favorite.
⁴ My 3rd or 4th favorite model.