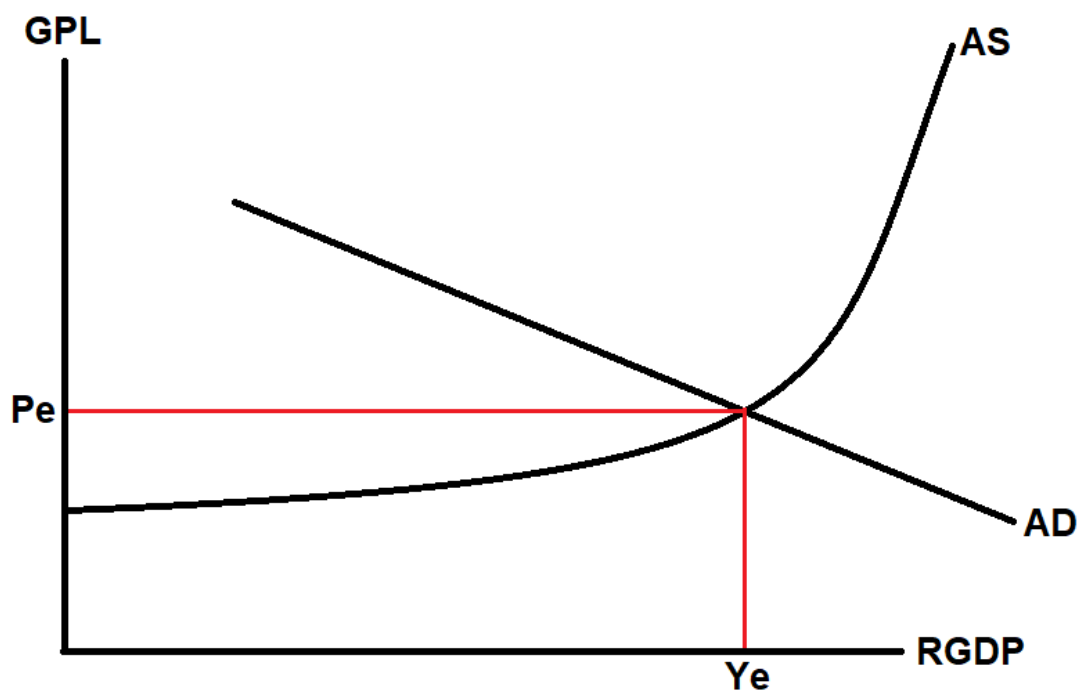


2.4.3 Equilibrium Levels of RNO

The Concept of the Equilibrium Level of RNO

- Equilibrium point is at the intersection of AD with AS
- This point tells us the price level and real GDP of a country



- At the Equilibrium, there is no tendency for Price Level or RGDP to change

- When price is not at equilibrium level it moves towards it due to unbalanced AD/AS causing surplus or shortage

The use of AD/AS Diagrams to demonstrate effects of shifts on Equilibrium price level and RNO

- An increase in AD causes a right shift in AD curve, leading to a higher equilibrium price level and an increase in RNO
 - The degree to which both factors (GPL and RGDP) increase depend on the elasticity of AS
 - With the classical LRAS curve, an increase in AD leads only to an increase in the price level as economy is at full employment and cannot output any more
- A decrease in AS causes a left shift in AS curve, leading to a higher equilibrium

price level and a reduction in RNO

- The degree to which the factors (GPL and RGDP) change depend on the elasticity of AD