

AD-AS model 3 (supply and demand shock)

AS = Aggregate supply
 PL = Price level

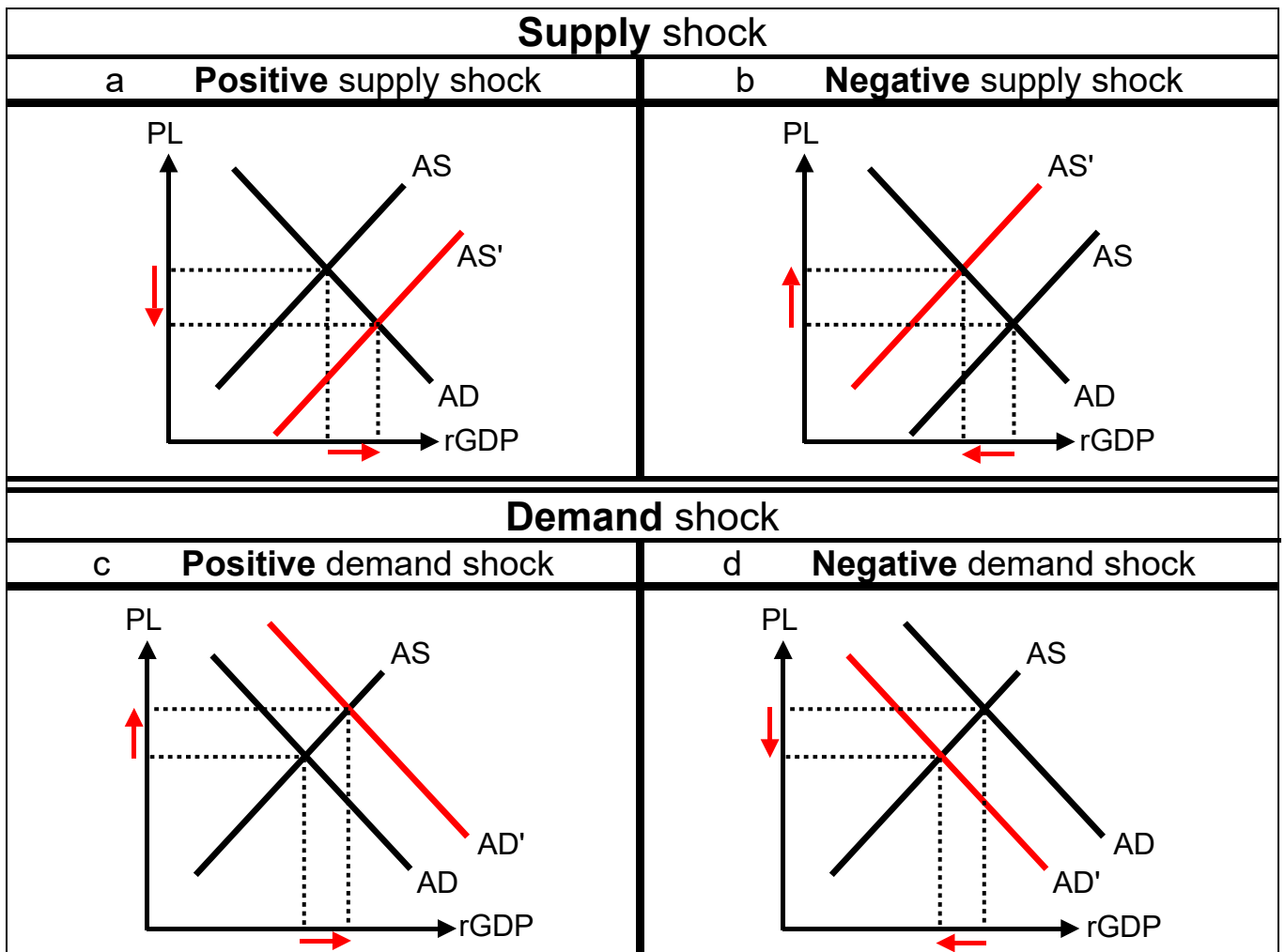
AD = Aggregate demand = $C + I + G + (X - M)$
 rGDP = real gross domestic product

1 Shocks are unexpected events that have a significant impact on AD and AS.

2 Overview

Types of shock	Impact	Example
a Positive supply shock (considered advantageous)	AS shifts to the right (PL -, rGDP +)	On 9.3.2020, the oil price fell by 30 %.
b Negative supply shock (considered disadvantageous)	AS shifts to the left (PL +, rGDP -)	Oil crisis 1973
c Positive demand shock (considered advantageous)	AD shifts to the right (PL +, rGDP +)	Unexpected and significant stock market boom
d Negative demand shock (considered disadvantageous)	AD shifts to the left (PL -, rGDP -)	New York 9/11

3 Types of shock, represented graphically



4 Example of application

4.1 The are events that have an impact on both AD and AS.

Example: Coronavirus pandemic 2020

- Negative supply shock: Decline in production due to an interruption of supply chains
- Negative demand shock: Decline in consumption due to fear, uncertainty, government intervention

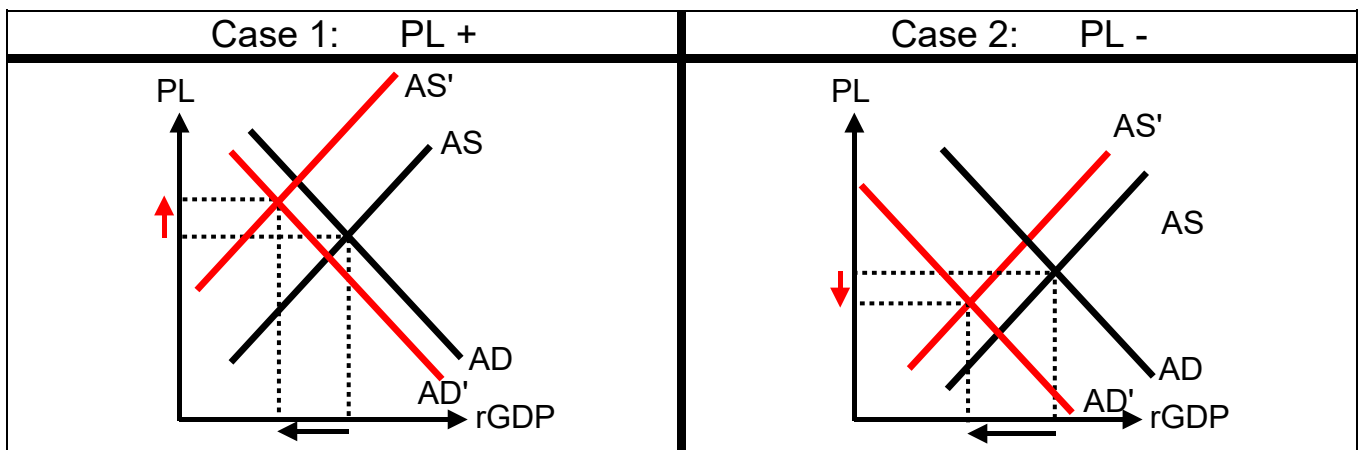
4.2 Impacts:

- | | | | |
|---|---|------|--------|
| | • Negative supply shock
AS shifts to the left: | PL + | rGDP - |
| + | • Negative demand shock
AD shifts to the left: | PL - | rGDP - |

Cumulative impact PL + or PL - or PL unchanged *

* Whether PL rises, falls or stays the same, depends on the extent to which AD and AS shift.

4.3 **Cumulative impact, graphically represented:** PL + and PL -



Case 1 shows **stagflation** → Combination of inflation (PL +) and recession (rGDP -).