Chains of Reasoning

LRAS shift right (↑)

1. ↑Money spent on tech -> produce good at ↑volume/↑quality
2. ↑Productivity of labour & capital input -> ↑quantity of output
3. ↑Quality of human capital -> ↑productivity & ↑variety of G&S
4. ↓Gov't regulation -> ↓limit productivity/efficiency of firm
5. ↑Net outward migration -> ↑size of labour -> ↑output
   Ev: Migrants are of working age
6. ↑Competitive policy -> ↑competitiveness of market -> firms ↑efficiency
   ↑productivity -> not get out of business

Economic cycle

<u>Negative output gap</u>
↑Unemployed resources in economy -> labour and capital not used in full productive potential -> actual level of output < potential -> lots of spare capacity + ↓AD -> ↓inflation pressure

<u>Positive output gap</u>
Resources used beyond normal capacity eg. labour overtime -> ↑productivity -> actual level of output >> potential -> ↑AD -> ↑inflationary pressure