Masters Macroeconomics | Fall 2015
Short Questions #9 | Due: 2 December

Chapter 14 outlines three theories of the short-run aggregate supply curve: the sticky-price model, the sticky-wage model, and the imperfect-information model. All of them lead to an SRAS curve of the form $Y = \overline{Y} + \alpha\left(P - P^e\right)$, where P^e is the expected price level.

1. Tell a verbal story in a short paragraph explaining how the sticky-price model leads to this form of SRAS curve.

2. Tell a verbal story in a short paragraph explaining how the sticky-wage model leads to this form of SRAS curve.

3. Tell a verbal story in a short paragraph explaining how the imperfect-information model leads to this form of SRAS curve.

4. Are these three stories mutually exclusive or could all three of them be working in the macroeconomy to create the frictions needed to support an upward-sloping SRAS?

5. Explain the following passage from Friedman's "Role of Monetary Policy" article:

> Phillips' analysis of the relation between unemployment and wage change is deservedly celebrated as an important and original contribution. But, unfortunately, it contains a basic defect—the failure to distinguish between *nominal* wages and *real* wages. (Emphasis in original.)

How does this insight lead us from the simple Phillips curve to the modern version discussed on page 450 of Mankiw's text?