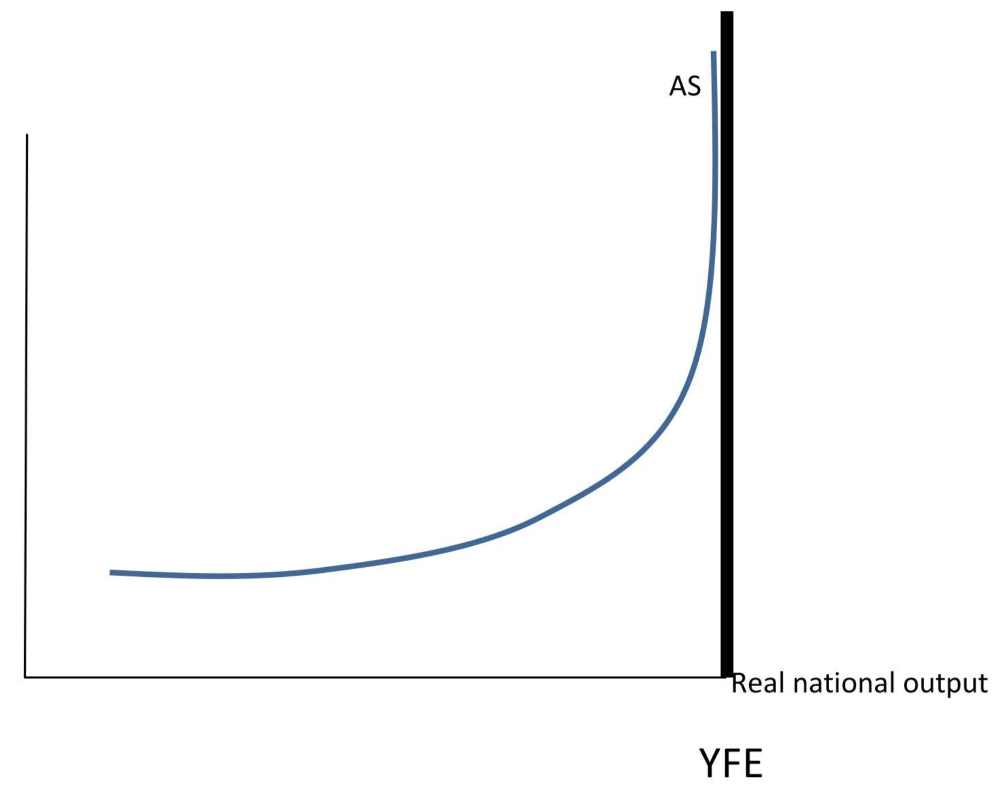
Shifts in aggregate supply: Task 2

Another way AS could shift could be something happening to costs in the economy:

Costs could increase as a result of an increase in oil prices, or VAT or wages. How might we show this on an AS diagram?



Think about:

Will the **capacity** be affected by this?

Has anything happened to the potential of the economy if costs go up, or will it mainly affect the cost of producing a given level of output?

How will we show this?

Question: Adapt the diagram and write a paragraph explaining what is happening