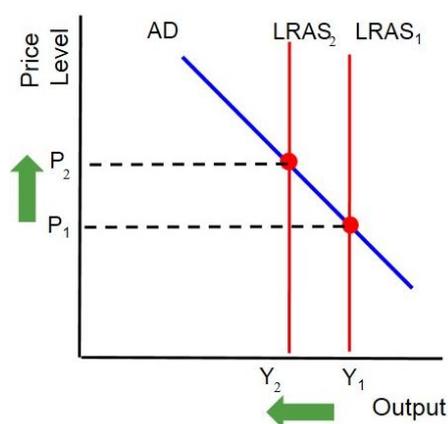


Answer on Question #65533 – Economics – Macroeconomics

A country's long run equilibrium price level has increased, but the position of its aggregate demand schedule has not changed. What has happened and what factors could have caused this?

A country's long run equilibrium price level has increased as a result of a leftward shift in the LRAS curve that means decrease in potential output.



Decrease in potential output is caused by negative changes in the quantity or quality of the factors of production. It may be:

- Less land becomes available for production.
- Depletion of natural resources.
- Decrease in the size of the labor force (extinction of the population, excessive emigration out of the national economy).
- New generation of employees become less skilled and mobile.
- Technological obsolescence.
- Destruction of production facilities.
- Government regulations negatively affect innovation process and competition.