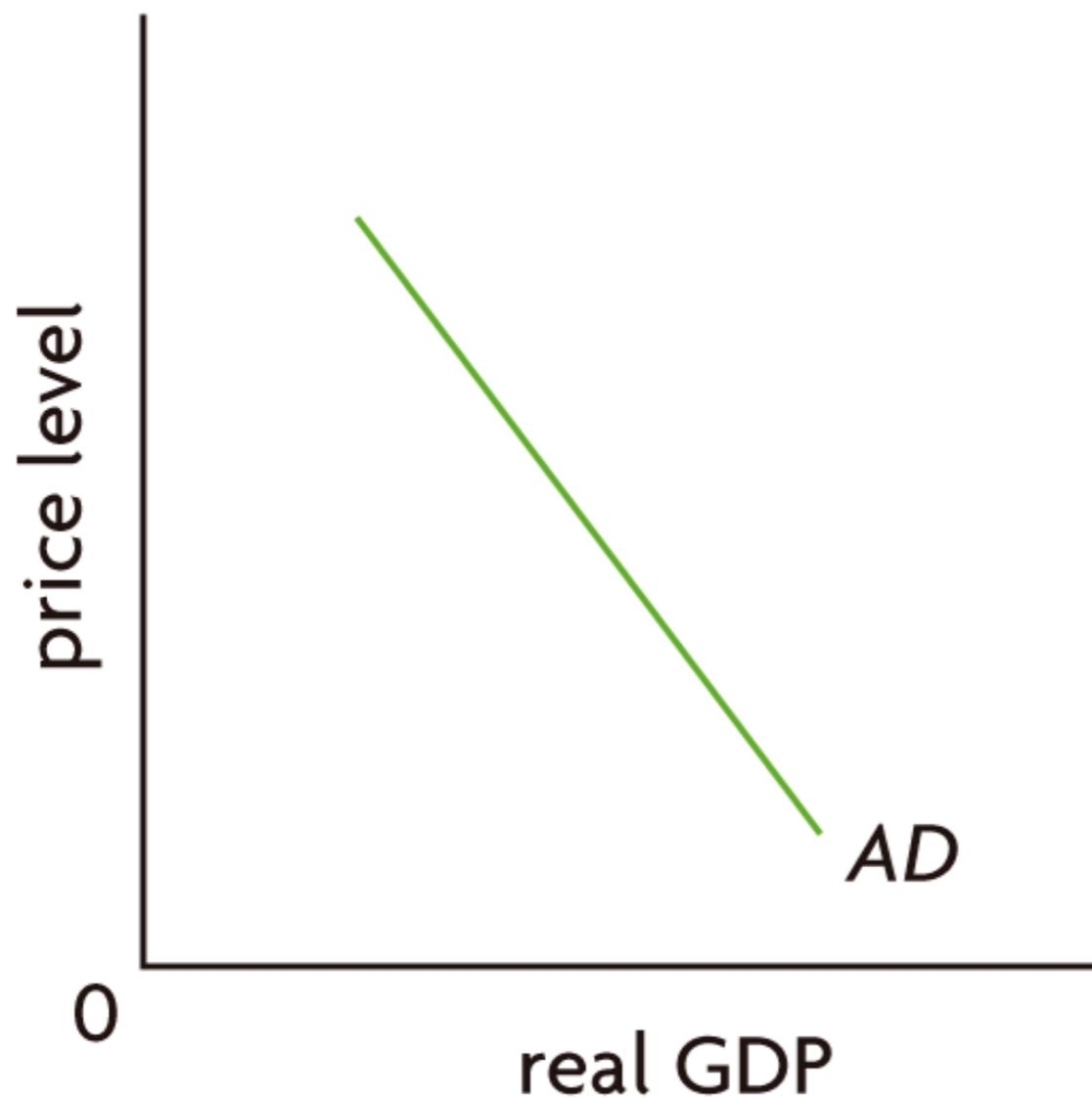


Aggregate Demand

- **Aggregate** = total
- **Aggregate demand** – how much of everything does everyone want to buy?
- Total quantity of output that all buyers in an economy want to buy at different price levels.

Aggregate Demand

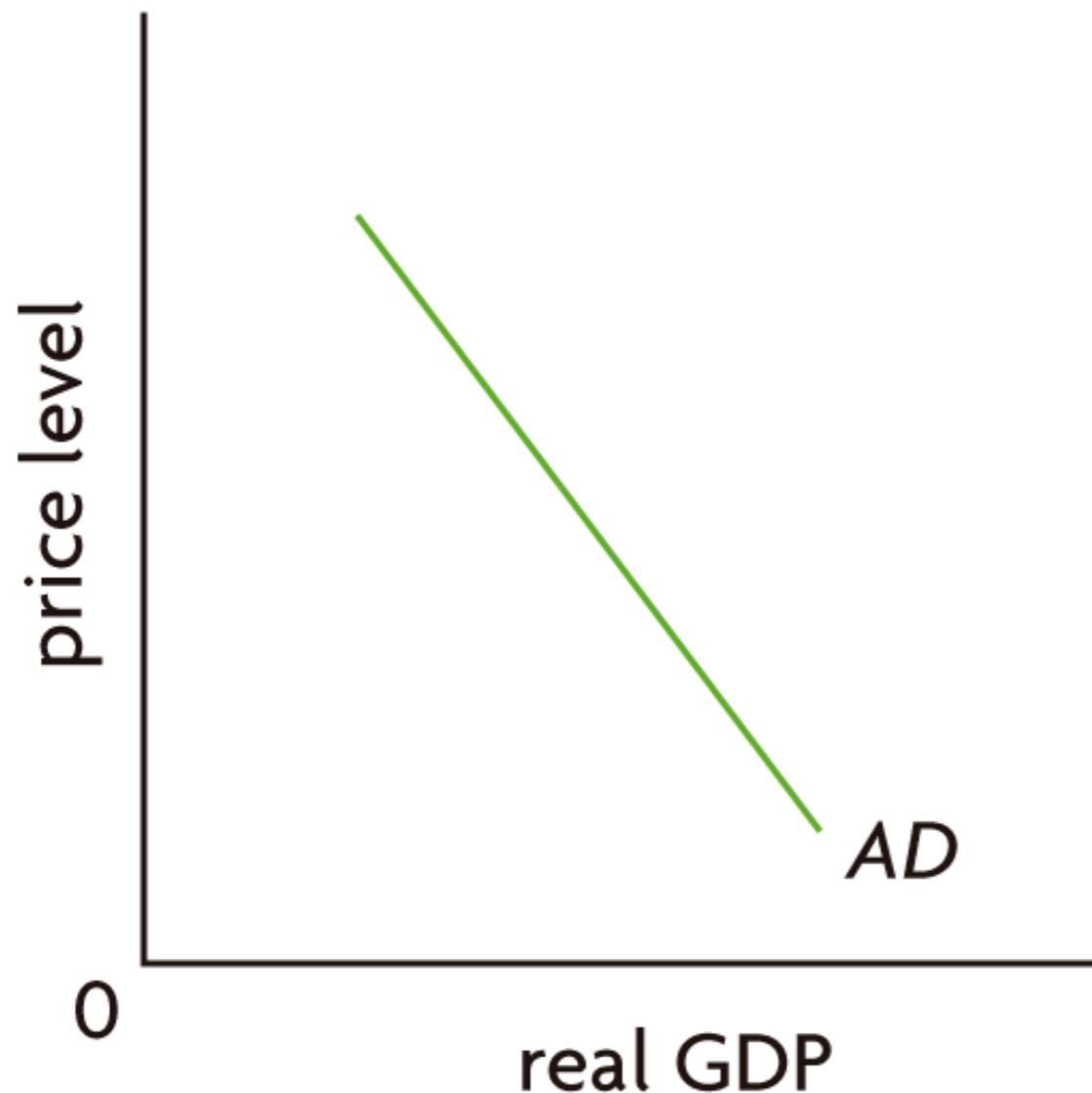
The aggregate demand curve



- Notice that when we look at an entire economy (macroeconomics) our x and y axes change.
- Instead of having the price and quantity of a single good, we now have the general price level of all things, and the quantity of everything in an economy (Real GDP)

Aggregate Demand

The aggregate demand curve



As the general ***price level*** in a country falls, the quantity of goods demanded increase.

This is the law of demand on an aggregate level.

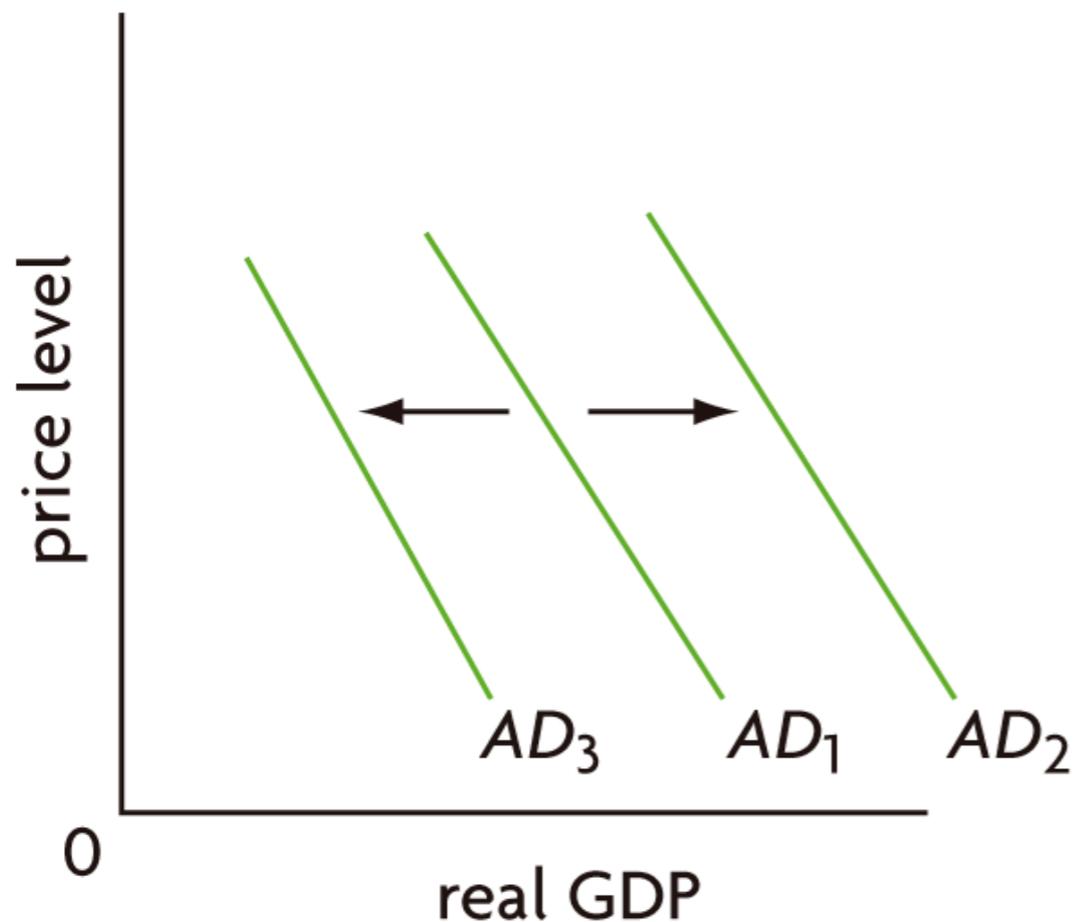
There are four parts of aggregate demand.

C I G (X-M)

Guess what each letter (or formula) stands for.

Change in Aggregate Demand

Shifts in the aggregate demand curve



Four parts of aggregate demand:

C: Demand of consumers

I: Demand of businesses (capital goods) - think investment

G: Demand of government

(X-M): Net exports (exports minus imports)

These are 4 things - other than price - that can shift the AD curve left or right.

Change in Aggregate Demand

DEMAND OF CONSUMERS

C

What determines consumption aspect of aggregate demand:

- Changes in consumer income/taxes
- Changes in consumer wealth
- Changes in interest rates
- Household debt
- Consumer confidence

DEMAND OF BUSINESSES

I

What determines investment aspect of aggregate demand:

- Changes in business confidence
- Changes in interest rates
- Changes in business taxes
- Changes in corporate debt

DEMAND OF GOVERNMENTS

G

What determines government aspect of aggregate demand:

- Changes in political goals
- Changes in economic goals
- Emergencies / crises; wars

NET EXPORTS

(X-M)

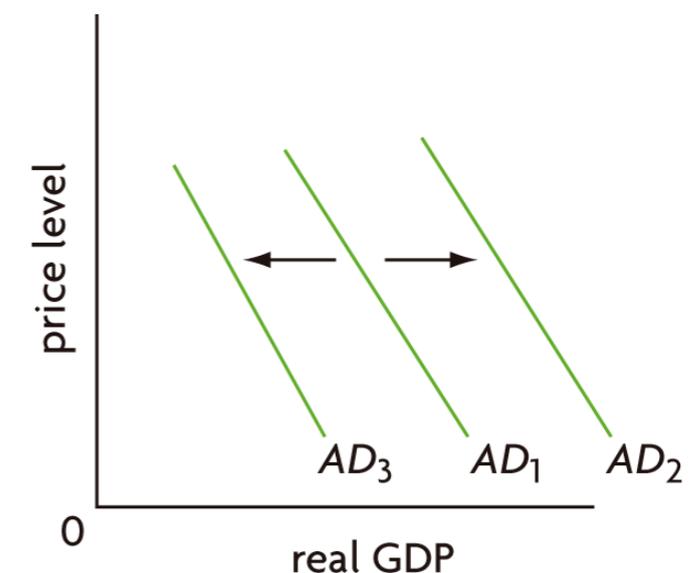
What determines net exports aspect of aggregate demand:

- Foreign national income
- Exchange rates for currencies
- Rules of international trade

Many fiscal and monetary policies aim to increase aggregate demand in order to help the economy expand.

It is quite possible for demand of one or two elements (say, investment and government) to be increasing while other elements (C and (X-M)) might be decreasing. The aggregate demand curve will move further right [increase in aggregate demand] if the stronger change elements are growing in demand, but will shift left [decrease in aggregate demand] if the opposite is true.

Shifts in the aggregate demand curve



Change in Aggregate Supply

Factors that can cause a change in AS:

In the short run:

Production costs:

- Taxes
- Subsidies
- Wages / salaries
- Price of raw materials

may cause aggregate supply to change

In the long run:

- State of the economy
- Technology
- Capital
- Availability of Labor

