AD

C + I + G + X

AGGREGATE DEMAND

PART A

Answer the questions below about **AGGREGATE DEMAND**. Then answer the questions provided to draw conclusions about the relationship between **PRICE LEVEL** and **REAL GDP OUTPUT DEMANDED**.

Define AGGREGATE DEMAND.

Explain the relationship between PRICE LEVEL and REAL GDP OUTPUT DEMANDED in an economy.

Explain how each of these effects causes the aggregate demand curve to be DOWNWARD-SLOPING.

REAL BALANCES Effect	INTEREST RATE Effect	FOREIGN TRADE Effect
AD	AD	AD

Fill in the blanks below to reveal TWO ECONOMIC LAWS.

"WHEN PRICES INCREASE, THE AGGREGATE REAL GDP OUTPUT DEMANDED ________________."

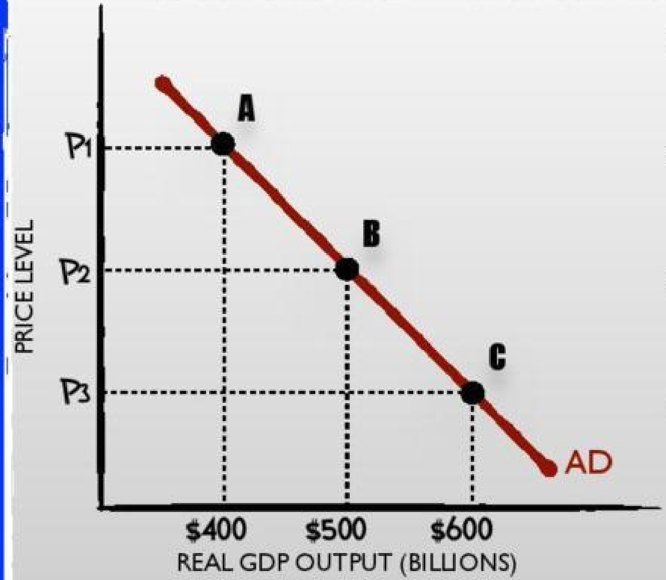
"WHEN PRICES DECREASE, THE AGGREGATE REAL GDP OUTPUT DEMANDED ________________."

CHANGING REAL GDP OUTPUT DEMANDED

PART B

Use the data and the **AGGREGATE DEMAND CURVES** provided to draw conclusions about the relationship between **PRICE LEVEL** and **REAL GDP OUTPUT DEMANDED**.

AGGREGATE DEMAND IN THE UNITED STATES



1. In the United States, what quantity of Real GDP output is demanded at a price level of P2?

2. If the price level changes from P2 to P1, what will be the change in quantity of Real GDP output demanded?

3. If the price level changes from P1 to P3, what will be the change in quantity of Real GDP output demanded?

4. Using the "REAL BALANCES" effect, explain why consumers may be more willing or able to purchase a greater quantity of goods as prices fall from P1 to P3.

---

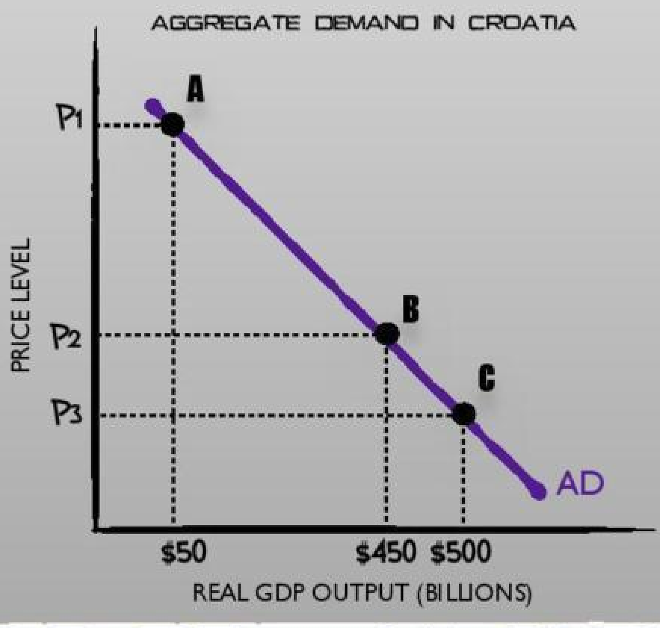
1. In Croatia, what quantity of Real GDP output is demanded at a price level of P3?

2. If the price level changes from P3 to P1, what will be the change in quantity of Real GDP output demanded?

3. If the price level changes from P1 to P2, what will be the change in quantity of Real GDP output demanded?

4. Using the "FOREIGN TRADE" effect, explain why foreign consumers may be less willing or able to purchase Croatian goods as prices rise from P3 to P1.

AGGREGATE DEMAND IN CROATIA



COMPONENTS OF

C + I + G + X

AGGREGATE DEMAND

PART C

List and define the **FOUR COMPONENTS** of aggregate demand below. Then explain how each of the factors listed can influence each component and **CHANGE AGGREGATE DEMAND**.

C

A CHANGE IN ____________________

Definition:

How would an INCREASE IN CONSUMER INCOME change this component of AD?

I

A CHANGE IN ____________________

Definition:

How would an DECREASE IN PROFIT EXPECTATIONS change this component of AD?

G

A CHANGE IN ____________________

Definition:

How would an INCREASE IN MILITARY SPENDING change this component of AD?

X_N

A CHANGE IN ____________________

Definition:

How would an INCREASE IN THE PRICE OF EXPORTED GOODS change this component of AD?

SHIFTING

C + I + G + X

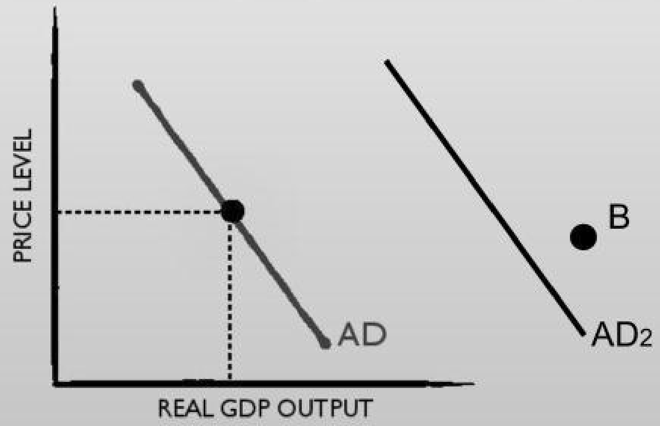
AGGREGATE DEMAND

PART D

When the AD curve **SHIFTS**, it signifies a fundamental change in the quantity of **REAL GDP OUTPUT DEMANDED** at **EVERY PRICE LEVEL**. List the 4 determinants that can shift AD. Then, using the graphs provided, determine whether the AD curve will shift or experience a movement along the AD curve, draw and label the change, list the change, and then list the determinant (if applicable) that caused the change.

The Aggregate Demand curve will shift with **A CHANGE IN**:

AD	AD	AD	AD



GREAT BRITAIN

BRITISH CONSUMER CONFIDENCE SOARS

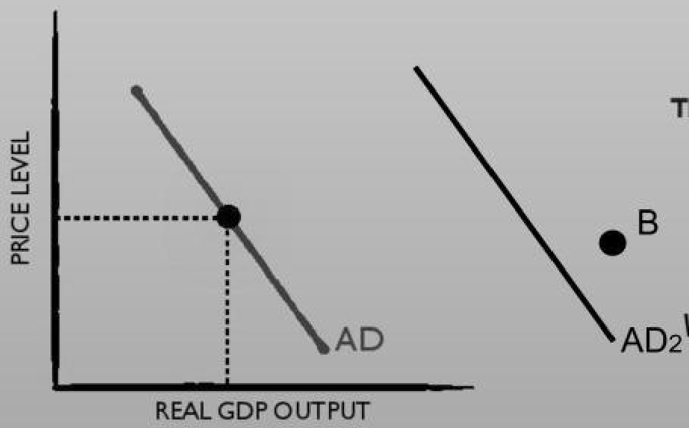
Graph/label the appropriate change

What change has occurred?

____

Which determinant caused this change (if applicable)?

____



SOUTH KOREA

THE SOUTH KOREAN GOVERNMENT VOTES TO SHRINK THE SIZE OF ITS MILITARY

Graph/label the appropriate change

What change has occurred?

____

Which determinant caused this change (if applicable)?

____

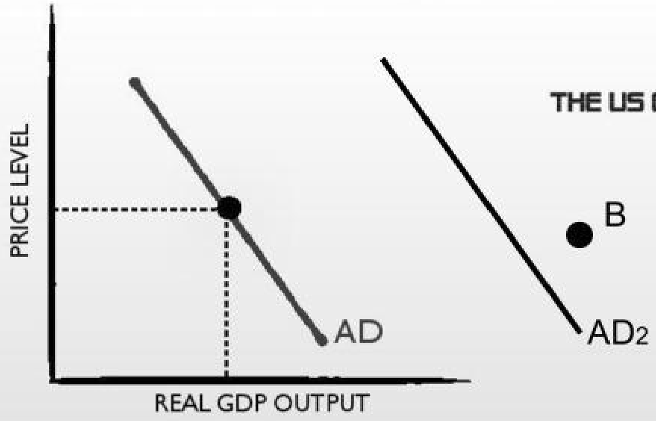
AD

C + I + G + X

SHIFTING

AGGREGATE DEMAND

THE UNITED STATES



THE US CONGRESS REMOVES A TARIFF ON IMPORTED GOODS, MAKING THEM LESS EXPENSIVE

Graph/label the appropriate change

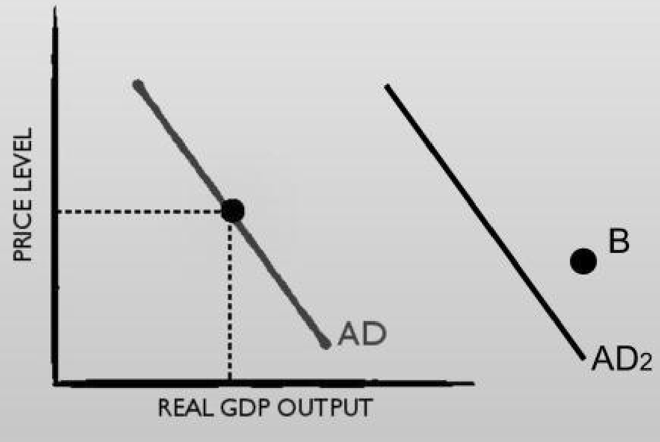
What change has occurred?

____

Which determinant caused this change (if applicable)?

____

ITALY



DUE TO SEVERE DROUGHT, ITALY'S INFLATION RATE CLIMBS BY 5%

Graph/label the appropriate change

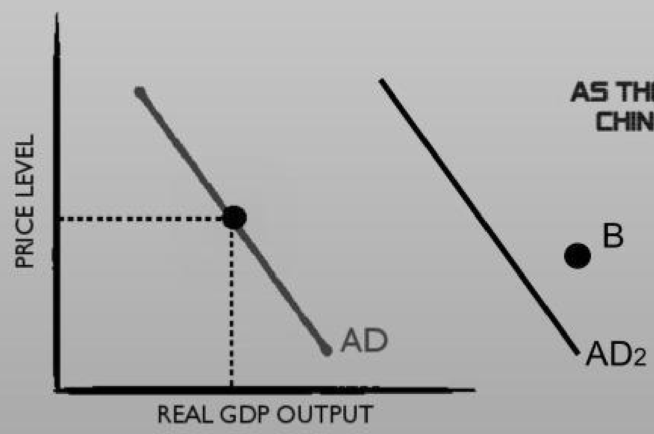
What change has occurred?

____

Which determinant caused this change (if applicable)?

____

CHINA



AS THE ECONOMY GROWS AND PROFITS INCREASE, CHINESE FIRMS BEGIN TO BUILD MORE FACTORIES

Graph/label the appropriate change

What change has occurred?

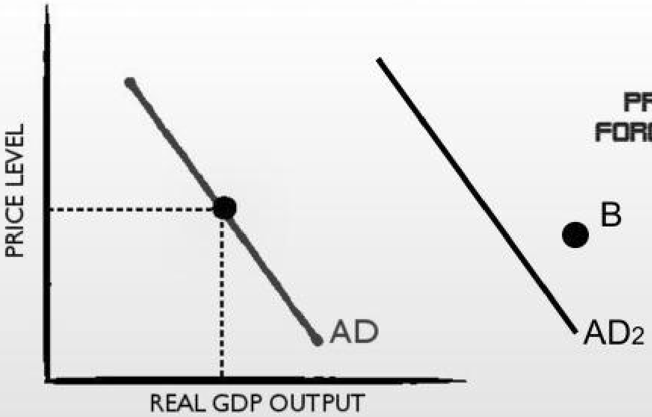
____

Which determinant caused this change (if applicable)?

____

SHIFTING AGGREGATE DEMAND

C + I + G + X



MEXICO

PRODUCTIVITY JUMPS IN THE MEXICAN LABOR FORCE, CAUSING PRICES TO FALL DRAMATICALLY

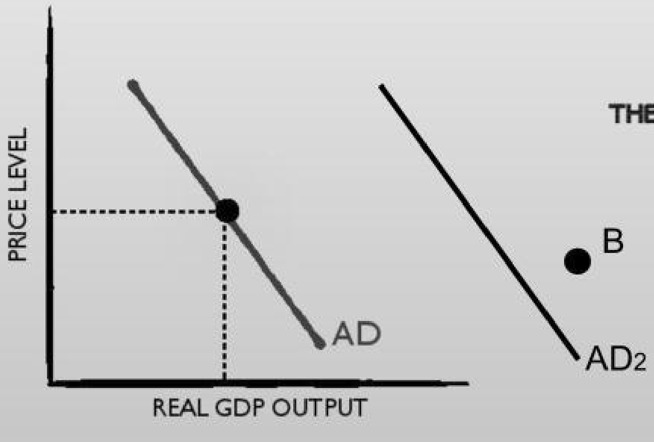
Graph/label the appropriate change

What change has occurred?

____

Which determinant caused this change (if applicable)?

____



SOUTH AFRICA

THE SOUTH AFRICAN STOCK MARKET CRASHES, AND INVESTORS LOSE BILLIONS IN WEALTH

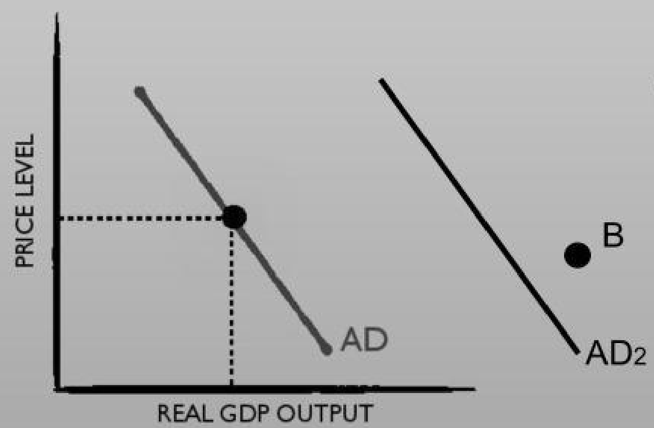
Graph/label the appropriate change

What change has occurred?

____

Which determinant caused this change (if applicable)?

____



FRANCE

THE FRENCH GOVERNMENT BEGINS BUILDING STADIUMS AND FACILITIES AFTER PARIS IS AWARDED THE OLYMPIC GAMES

Graph/label the appropriate change

What change has occurred?

____

Which determinant caused this change (if applicable)?

____