

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

AD

INTEREST RATE
Effect

AD

FOREIGN TRADE
Effect

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 _____."

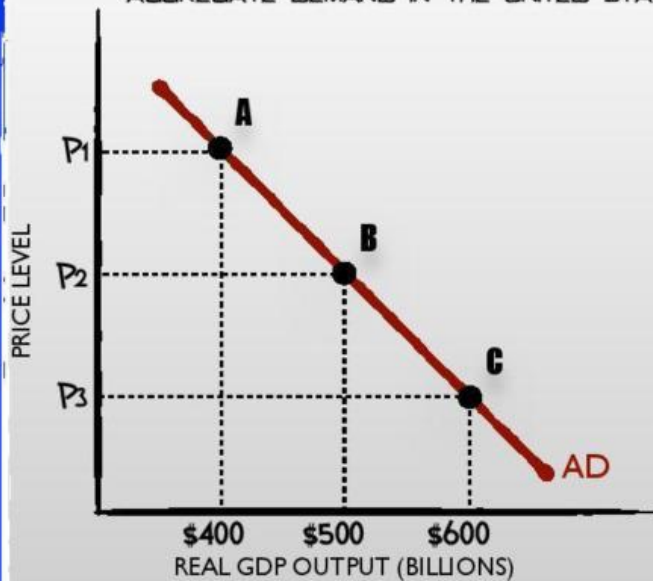
CHANGING

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**.

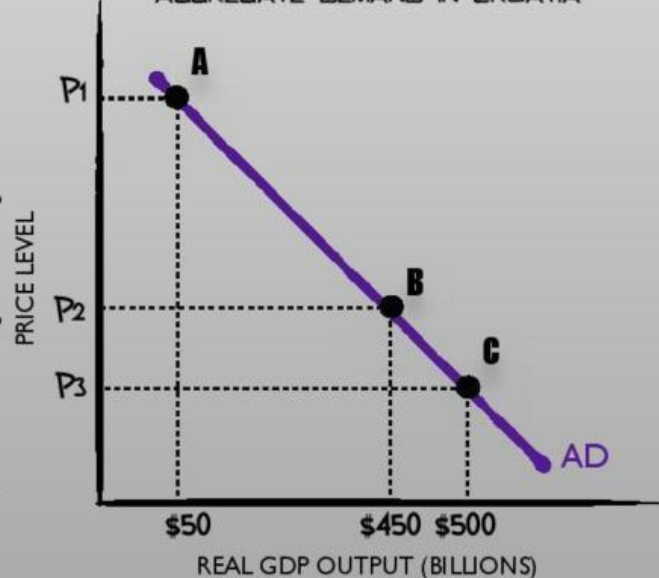
AGGREGATE DEMAND IN THE UNITED STATES



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

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**.



A CHANGE IN

Definition:

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



A CHANGE IN

Definition:

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



A CHANGE IN

Definition:

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



A CHANGE IN

Definition:

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

SHIFTING

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.

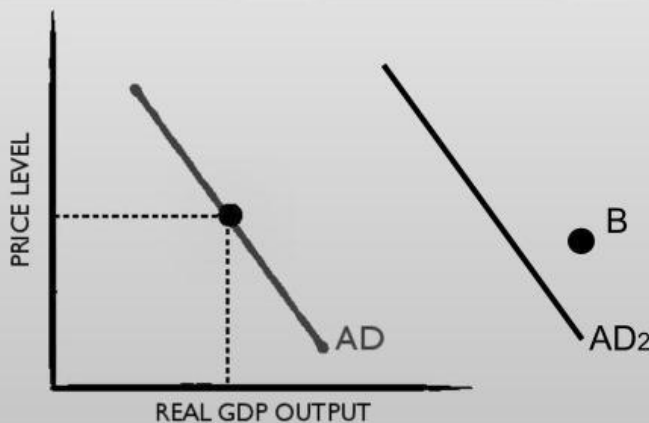
The Aggregate Demand curve will shift with **A CHANGE IN:**

AD

AD

AD

AD

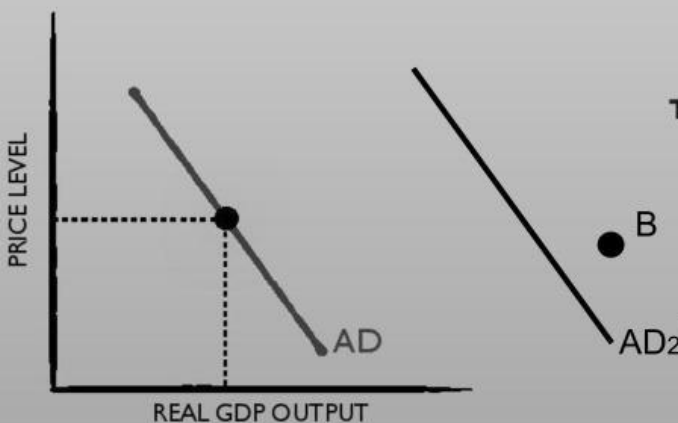


GREAT BRITAIN

BRITISH CONSUMER CONFIDENCE SOARS

Graph/label the appropriate change
What change has occurred?

Which determinant caused this change (if applicable)?



SOUTH KOREA

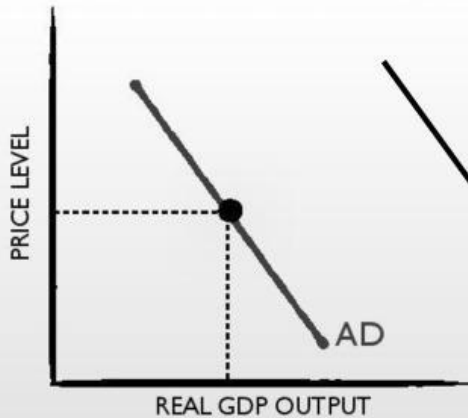
THE SOUTH KOREAN GOVERNMENT VOTES TO SHRINK THE SIZE OF ITS MILITARY

Graph/label the appropriate change
What change has occurred?

Which determinant caused this change (if applicable)?

SHIFTING

AGGREGATE DEMAND

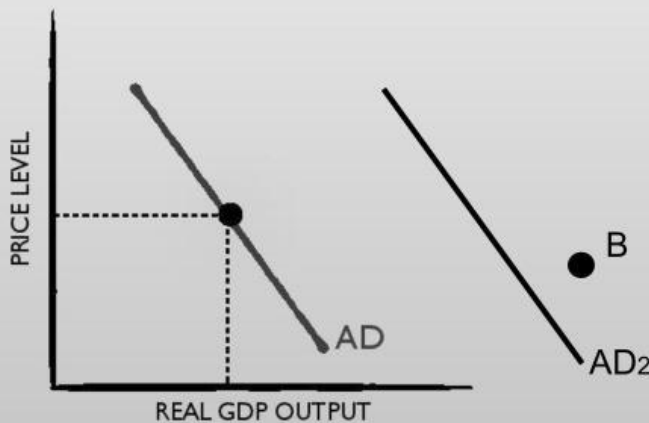


THE UNITED STATES

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)?

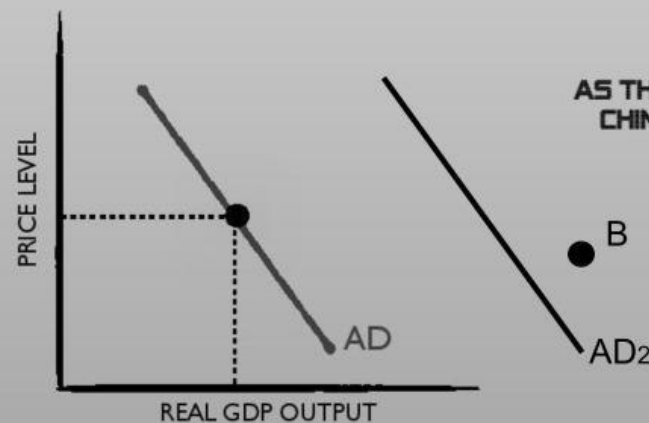


ITALY

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?

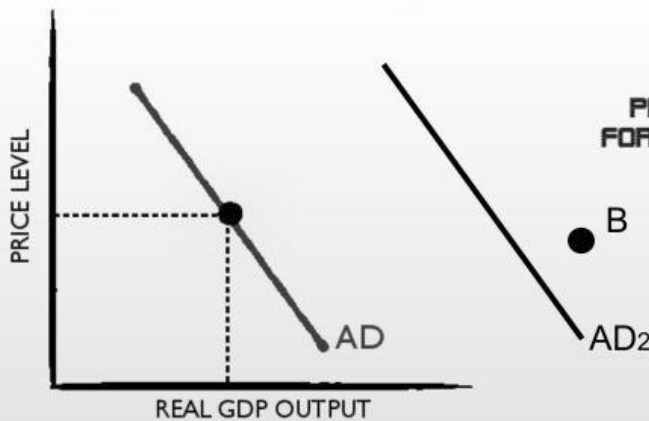
Which determinant caused this change (if applicable)?

SHIFTING

AGGREGATE DEMAND

MEXICO

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

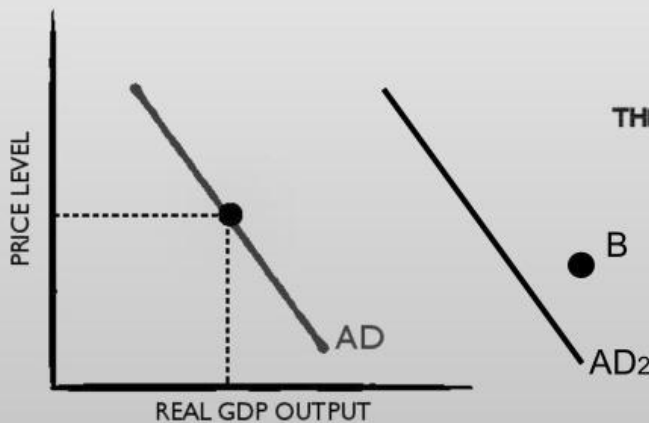


Graph/label the appropriate change
What change has occurred?

Which determinant caused this change (if applicable)?

SOUTH AFRICA

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

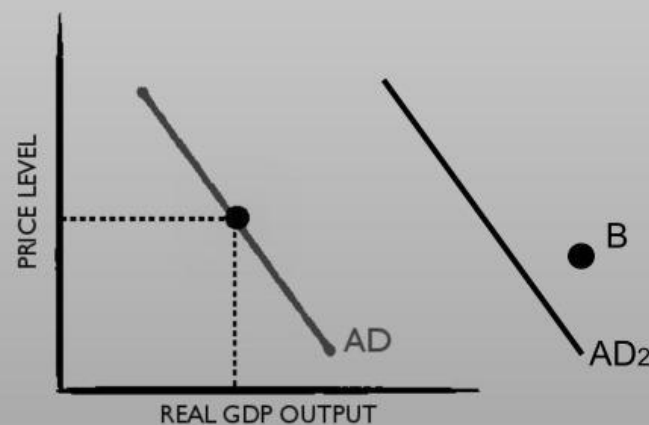


Graph/label the appropriate change
What change has occurred?

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)?