mehvish jahan 2-54

Aggregate Demand and Aggregate Supply – Definitions

1. *Aggregate demand*: Total quantity of goods and services demanded in an economy at various overall price levels and in a given time period.
2. *Aggregate demand curve*: A graphical representation showing the inverse relationship between the overall price level and the total quantity of real output
3. *Aggregate quantity demanded*: The specific total amount of goods and services consumers, businesses, and government are willing to buy at a particular price
4. *Aggregate quantity supplied*: The specific total amount of goods and services producers are willing to offer at a particular price level.
5. *Aggregate supply*: Total quantity of goods and services supplied in an economy at various overall price levels.
6. *Aggregate supply curve*: A graphical representation showing the relationship between the price level and the total quantity of real output supplied (usually upward_sloping in the short run).
7. *Change in aggregate demand*: A shift of the entire aggregate demand curve caused by non_price factors (e.g., changes in consumer confidence, fiscal policy).
8. *Change in aggregate supply*: A shift of the entire aggregate supply curve caused by non_price factors (e.g.,

technology improvements, input price changes).
9. *Macroeconomic equilibrium*: The condition where aggregate demand equals aggregate supply, determining the overall price level and real GDP.

1. *Aggregate demand (AD) vs. market demand:*
   - A market demand curve shows the total quantity of a _single_ good demanded by all consumers at various prices.
   - An aggregate demand curve represents the total spending on _all_ final goods & services in an economy at different price levels.
   - The AD curve slopes downward because of three effects: the wealth effect, the interest_rate effect, and the international_trade effect (real exchange_rate effect).

2. *Aggregate supply (AS) vs. market supply:*
   - A market supply curve reflects the total quantity of a specific good supplied by producers at various prices.
   - An aggregate supply curve shows the total quantity of all goods & services firms are willing to produce at different price levels.
   - The short_run AS curve is upward sloping because firms can increase output as prices rise (due to sticky wages or other input prices).

3. *Macroeconomic equilibrium:*
   - Macroeconomic equilibrium occurs where

aggregate demand equals aggregate supply (AD = AS), determining the overall price level and real output.

- On an AD_AS graph, the equilibrium point is the intersection of the AD and AS curves.

4. *Effect of changes in aggregate demand:*

- An increase in AD shifts the AD curve rightward, raising both the equilibrium price level and real output (expansionary effect).
- A decrease in AD shifts the curve leftward, lowering the price level and output (contractionary

5. *Effect of changes in aggregate supply:*

- An increase in AS shifts the AS curve rightward, lowering the price level and raising real
- A decrease in AS shifts the curve leftward, raising the price level and reducing output

Do you need detailed graphs or specific numerical examples for any of these points?