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Aggregate Demand and Supply Concepts

Definitions

1. Aggregate Demand (AD): The total amount of spending in the economy at a given price level.
2. Aggregate Demand Curve: A graph showing the relationship between the price level and the quantity of real GDP demanded.
3. Aggregate Quantity Demanded: The total quantity of goods and services demanded in the economy at a given price level.
4. Aggregate Quantity Supplied: The total quantity of goods and services supplied in the economy at a given price level.
5. Aggregate Supply (AS): The total amount of production in the economy at a given price level.
6. Aggregate Supply Curve: A graph showing the relationship between the price level and the quantity of real GDP supplied.
7. Change in Aggregate Demand: A shift in the aggregate demand curve due to changes in factors such as consumer spending, investment, government spending, or net exports.
8. Change in Aggregate Supply: A shift in the aggregate supply curve due to changes in factors such as technology, productivity, or resource prices.

the entire economy.

- Market Supply Curve: Shows the relationship between the price of a specific good and the quantity supplied of that good.
- The short-run aggregate supply curve is upward sloping due to:
    - Sticky Wages and Prices: Firms increase production in response to higher prices, as some costs are fixed in the short run.
    - Menu Costs: Firms may not adjust prices immediately, leading to increased production.

Macroeconomic Equilibrium

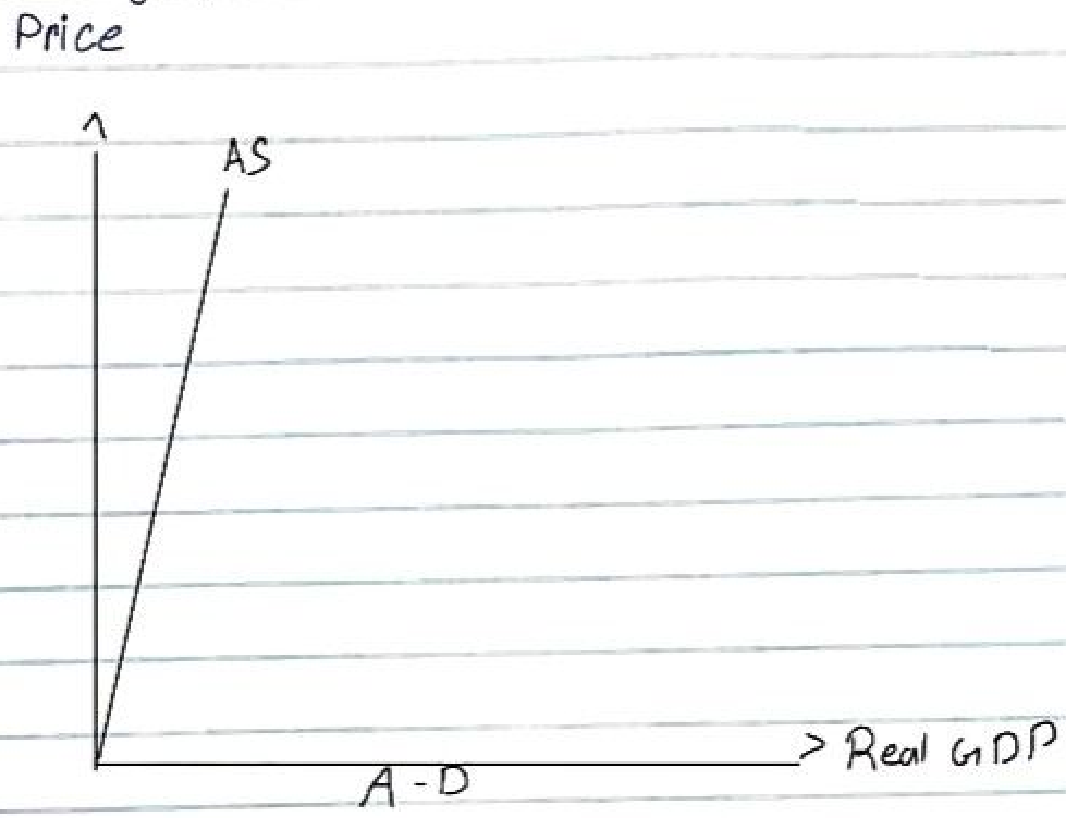
- Macroeconomic Equilibrium: The point where AD = AS, resulting in equilibrium price level and real GDP.
- Changes in aggregate demand or supply can shift the equilibrium:
    - Increase in AD: Shifts AD curve right, increasing price level and real GDP.
    - Decrease in AD: Shifts AD curve left, decreasing price level and real GDP.
    - Increase in AS: Shifts AS curve right, decreasing price level and increasing real GDP.
    - Decrease in AS: Shifts AS curve left, increasing price level and decreasing real GDP.

9. Macroeconomic Equilibrium: The point where aggregate demand equals aggregate supply, resulting in no tendency for the price level or real GDP to change.

Aggregate Demand Curve vs Market Demand Curve
- Aggregate Demand Curve: Shows the relationship between the price level and real GDP demanded for the entire economy.
- Market Demand Curve: Shows the relationship between the price of a specific good and the quantity demanded of that good.
- The aggregate demand curve is downward sloping due to:
    - Wealth Effect: A lower price level increases the real value of wealth, leading to increased
    - Interest Rate Effect: A lower price level reduces interest rates, increasing investment and
    - International Trade Effect: A lower price level makes exports cheaper and imports more expensive, increasing net exports.

Aggregate Supply Curve vs Market Supply Curve
- Aggregate Supply Curve: Shows the relationship between the price level and real GDP supplied for

Let's graph it:



Equilibrium: AD = AS