Topic 11.12.2025

1. Definitions

## Aggregate Demand (AD)

- Meaning: Aggregate demand is the total quantity of goods and services that all households, businesses, government, and foreign buyers are willing

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consumption (C) - household spending
Investment (I) - business spending on capital

- Government spending (G) - public expendi[ture]
- Net Exports (X-M) - exports minus impor[ts]

Formula:

$$AD = C + I + G + (X - M)$$

## Aggregate Demand Curve

- Meaning: A graph that shows the relationship between the price level and aggregate quantity demanded.

- Shape: Downward sloping because

1. Wealth effect
2. Interest rate effect
3. Net export effect.

Aggregate Quality Demanded

- Meaning: The total amount of goods and services
- Ex: If price level is 100, the economy demands 5,000 units of output.

Aggregate Supply Curve

- Meaning: A graph showing the relationships between price level and aggregate ~~quant~~ quantity supplied.
- Short run shape: Upward sloping because
- Higher prices → higher profits for firms → increase production
- wages and some cost are sticky in the short run
- Long-run shape: Vertical at full ~~ep~~ employment output.

Aggregate Quantity supplied.

- Meaning: the total amount of goods and services firms are willing to supply at a specific price level

~~Aggregate~~ Change in Aggregate Demand

- Meaning: A shift of AS curve due to factors other that price level such as:
- Changes in resource prices → AS shifts right.

- Increase in productive capacity
  → AS shifts right.
- Decrease in productive capacity
  → AS shifts left.

Macroeconomic Equilibrium

- Meaning: The point where aggregate demand equals aggregate supply
- Graphically: Intersection of AD and AS curves.
- Interpretation: At this point, the economy output (real GDP) and price level are stable

Effects of changes in AD on equilibrium

- AD increases (shift right.
- Higher output and higher price level
- AD decreases
- Lower output and lower price level

2. Distinction

| concept | Market Demand / supply | Aggregate Demand |
| --- | --- | --- |
| scope | One good or service | whole economy |
| curve direction | Demand: downward<br>Supply: upward | AD: downward<br>upward, vertic |
| Drivers of shift | Price, consumer preferences, costs | Aggregate consumption |
| Units | Quantity of single product | Real GDP / national output. |

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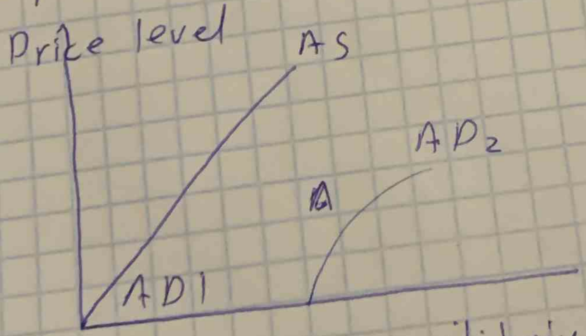
3 How AD changes Affect Macroeconomic Equilibrium

1. AD shifts right:
- Output ↑
- Price level ↑ (inflation)

2. AD shifts left:
- Output ↓
- Price level ↓ (deflation / recession)

Graphically
- Original equilibrium at intersection of $AD_1$ and AS
- AD shift ⟶ new intersection ⟶ new price level & output.




$AD_1$ ⟶ Initial equilibrium ⟶ New equilibri
$AD_2$ ⟶ shift in AD