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1. What is the meaning of each of the following terms:

- Aggregate demand: The total planned spending on all final goods and services in an economy at a given price level in a given period. It is the sum of Consumption, Investment, Government Spending, and Net Exports.
- Aggregate demand curve: A downward-sloping curve showing the relationship between the economy's overall price level and the total quantity of real GDP demanded, all else equal.
- Aggregate quantity demanded: The specific amount of real GDP that buyers are willing and able to purchase at a particular price level.
- Aggregate quantity supplied: The specific amount of real GDP that producers are willing and able to produce and sell at a particular price level.
- Aggregate supply: The total quantity of final goods and services that all firms are willing and able to supply at a given price level in a given period.
- Aggregate supply curve: A curve showing the

relationship between the overall price level and the total quantity of real GDP supplied. In the short run, it slopes upward; in the long run, it is

· Change in aggregate demand: A shift of the entire AD curve caused by changes in factors other than the price level, such as consumer confidence, fiscal policy, or foreign income.

· Change in aggregate supply: A shift of the entire AS curve caused by changes in input prices, technology, productivity, or supply shocks.

· Macroeconomic equilibrium: The point where Aggregate Demand equals Aggregate Supply—the price level and real GDP at which the quantity of real GDP demanded equals the quantity supplied.

2.

- Distinguish an aggregate demand curve from a market demand curve and explain why an aggregate demand curve is downward sloping.

A market demand curve refers to demand for a single good or service, while the aggregate demand curve refers to demand for all goods and services in the economy (real GDP). The price on the vertical axis for market demand is the price of that specific good; for aggregate demand, it is the general price level of the entire economy.

The aggregate demand curve slopes downward due to three main effects:

1. Wealth Effect: A lower price level increases the real value of money holdings, making people feel wealthier and increasing consumption.
2. Interest Rate Effect: A lower price level reduces demand for money for transactions, lowering interest rates, which stimulates investment and consumption.
3. International Trade Effect: A lower domestic price level makes exports cheaper and imports more expensive, increasing net exports.

- Distinguish an aggregate supply curve from a market supply curve and explain the shape of an aggregate supply curve prevailing in the short run.

A market supply curve shows the quantity supplied of a single good at different prices for that good. The aggregate supply curve shows the total quantity of real GDP supplied at different economy-wide price

In the short run, the aggregate supply curve slopes upward because many input prices (like wages) are fixed by contracts. If the overall price level rises while input costs remain sticky, firms' profit margins increase, so they are willing to produce and supply more output.

- Discuss the concept of macroeconomic equilibrium and identify the point of macroeconomic equilibrium on an aggregate demand-aggregate supply graph.

Macroeconomic equilibrium occurs at the intersection of the AD and AS curves. At this point, the aggregate quantity of real GDP demanded equals the aggregate quantity supplied. On the graph, this is where the downward-sloping AD curve crosses the upward-sloping short-run AS curve. The corresponding price level is the equilibrium price level, and the corresponding output is the equilibrium real GDP.

- Show how changes in aggregate demand can affect macroeconomic equilibrium.

· Increase in AD (AD shifts right): Leads to a new equilibrium with a higher price level and higher real GDP. This can cause economic expansion and potential inflationary pressure.
· Decrease in AD (AD shifts left): Leads to a new equilibrium with a lower price level and lower real GDP, resulting in a recession with higher

- Show how changes in aggregate supply can affect macroeconomic equilibrium.

· Increase in AS (AS shifts right): Leads to a new equilibrium with a lower price level and higher real GDP, promoting non-inflationary growth.
· Decrease in AS (AS shifts left): Leads to a new equilibrium with a higher price level and lower real GDP, causing stagflation (inflation combined with falling output).