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→ Aggregate demand - total planned spending on final goods / service in economy at given price level.

→ Aggregate quantity demand → the real GDP demanded at specific price level

→ Aggregate demand curve → downward sloping curve showing the inverse relationship b/w price level and real GDP demanded. It slops down due to wealth, interest rate and net export effects

→ Aggregate supply → Total output firms are willing to produce at given price level

→ Aggregate quantity supplied → the real GDP supplied at specific price level.

→ Aggregate supply curve → shows the relationship

between price level and real GDP supplied.
- short run AS (SRAS) upward sloping because many inputs price are sticky. so higher output prices increase profitability & output
- long Run AS → vertical at potential GDP, determined by technology & institution.

→ change in aggregate demand ⇒ shift to AD curve caused by changes in C, I, G, NX independent of price level
→ change in aggregate supply ⇒ shift of AS caused by input price changes productivity. shocks.
→ Macroeconomic equilibrium ⇒ the point where AD = AS, defining equilibrium price level & real GDP.

Distinguish Curves:

* changes in Aggregate Demand (AD shifts)
- In short run (A) AD (shift right) leads to higher price level & higher Real GDP lead to lower price level Real GDP
- In long run changes in AD only affect price level not Real GDP which returns to its potential level.

* change in Aggregate supply (AS shifts)
- positive AS shock leads to higher Real GDP & lower price level (shifts right)
- negative AS (shifts left) leads to lower real GDP and higher price level.
- shift in LRAS (rightward from growth leftward from destruction) changes the economy full employment potential output. long run growth is driven by shifts in LRAS curve.