Sarahosseinimotlagh 227

1. Meaning of Key Terms

Aggregate Demand (AD)

Aggregate demand is the total planned expenditure on an economys final goods and services at different price levels in a given period. It is typically expressed as:
$AD = C + I + G + (X \quad M)$
where C is consumption, I is investment, G is government spending, and (X M) is net exports.

Aggregate Demand Curve

The aggregate demand curve shows the inverse relationship between the overall price level and the aggregate quantity of goods and services demanded, holding other factors constant.

Aggregate Quantity Demanded

Aggregate quantity demanded refers to the total real output (real GDP) that households, firms, government, and foreign buyers are willing and able to purchase at a given price level.

Aggregate Supply (AS)

Aggregate supply is the total quantity of final goods and services that firms are willing and able to produce and sell at different price levels in an economy.

Aggregate Supply Curve

The aggregate supply curve shows the relationship between the price level and the aggregate quantity of output supplied by firms.

Aggregate Quantity Supplied

Aggregate quantity supplied is the total real output (real GDP) that firms are willing to produce and sell at a given price level.

Change in Aggregate Demand

A change in aggregate demand refers to a shift of the entire AD curve, caused by changes in non-price determinants such as consumption, investment, government spending, taxes, or net exports.

Change in Aggregate Supply

A change in aggregate supply refers to a shift of the entire AS curve, caused by factors such as changes in production costs, technology, productivity, taxes, subsidies, or the size of the labor force.

Macroeconomic Equilibrium

Macroeconomic equilibrium occurs when aggregate quantity demanded equals aggregate quantity supplied at a particular price level and level of real output.

2. Analytical Discussion

(a) Aggregate Demand Curve vs. Market Demand Curve and the Downward Slope of AD

Distinction:

A market demand curve shows the relationship between price and quantity demanded for a single good or service.

An aggregate demand curve shows the relationship between the overall price level and total output in