

DETERMINANTS OF AGGREGATE DEMAND

<i>Event</i>	<i>Related Effects (if any)</i>	<i>Component of AD</i>	<i>Impact on AD</i>	<i>Give an Example</i>
A. Consumer Spending (C)				
Consumer Spending Increases				
Consumer Spending Decreases				
1) <i>“Wealth Effect”</i>				
Real Value of Consumer Wealth Increases				
Real Value of Consumer Wealth Decrease				
2) <i>Consumer Expectations</i>				
Expect REAL Incomes to Increase				
Expect REAL Incomes to Decrease				
FUTURE Inflation (ahead of the period of inflation)				
FUTURE Deflation (ahead of the period of deflation)				
3) <i>Household Indebtedness</i> (relative to previous level of indebtedness)				
Household Indebtedness Decreases				
Household Indebtedness Increases				
4) <i>Taxes</i> (Primarily Personal Income Taxes)				
Tax Cuts				
Tax Hikes				
B. Investment Spending (Ig)				
Investment Increases				
Investment Decreases				
1) <i>Real Interest Rates (i)</i>				
Real Interest Rates Decrease				
Real Interest Rates Increase				
2) <i>Expected Returns (r)</i>				
Rate of Return Increases				
Rate of Return Decreases				
a) <i>Technology</i>				
Technology Advances				
Technology Retreats				
b) <i>Degree of Excess Capacity</i>				
Unused Capital Decreases				
Unused Capital Increases				

c) Business Taxes

Business Taxes Decrease

Business Taxes Increase

C. Government Spending (G) (see Fiscal Policy)

Government Spending Increases

Government Spending Decreases

D. Net Export Spending (Xn)

Exports Increase

Exports Decrease

Imports Increase

Imports Decrease

1) *National Income Abroad*

National Income Abroad Increases

National Income Abroad Decreases

2) *Exchange Rates*

\$US Depreciates

\$US Appreciates