

An Introduction to Aggregate Demand

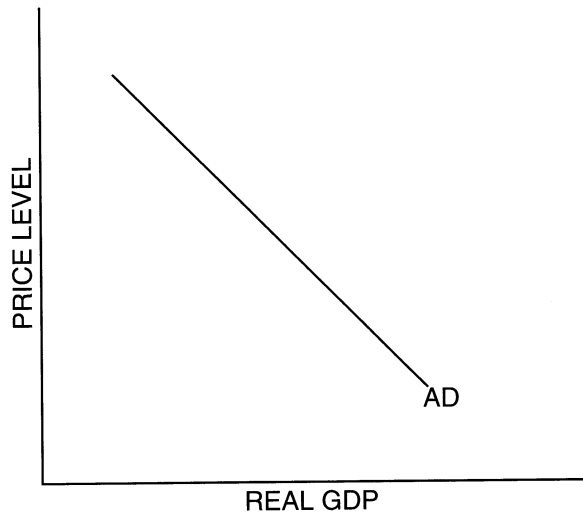
Part A

Why Is the Aggregate Demand Curve Downward Sloping?



Figure 23.1

Aggregate Demand Curve



1. According to the AD curve, what is the relationship between the price level and real GDP?
2. Explain how each of the following effects helps explain why the AD curve is downward sloping.
 - (A) Interest rate effect
 - (B) Wealth effect or real-balance effect
 - (C) Net export effect

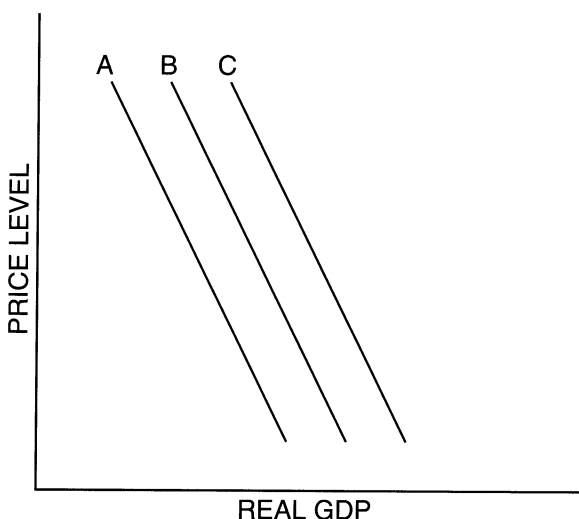
Activity written by John Morton, National Council on Economic Education, New York, N.Y.

3. In what ways do the reasons that explain the downward slope of the AD curve differ from the reasons that explain the downward slope of the demand curve for a single product?

Part B
What Shifts the Aggregate Demand Curve?



Figure 23.2
 Shifts in Aggregate Demand



4. Using Figure 23.2, determine whether each situation below will cause an increase, decrease or no change in AD. Always start at curve B. If the situation would cause an increase in AD, draw an up arrow in column 1. If it causes a decrease, draw a down arrow. If there is no change, write NC. For each situation that causes a change in aggregate demand, write the letter of the new demand curve in column 2. Move only one curve.

Situation	1. Change in AD	2. New AD Curve
(A) Congress cuts taxes.		
(B) Autonomous investment spending decreased.		
(C) Government spending to increase next fiscal year; president promises no increase in taxes.		
(D) Survey shows consumer confidence jumps.		
(E) Stock market collapses; investors lose billions.		
(F) Productivity rises for fourth straight year.		
(G) President cuts defense spending by 20 percent; no increase in domestic spending.		