

## Aggregate Demand

1. What is meant by the term **aggregate**?

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2. In very basic terms what do you understand by the term aggregate demand?

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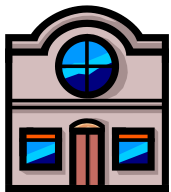
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3. Who demands goods and services in the economy?



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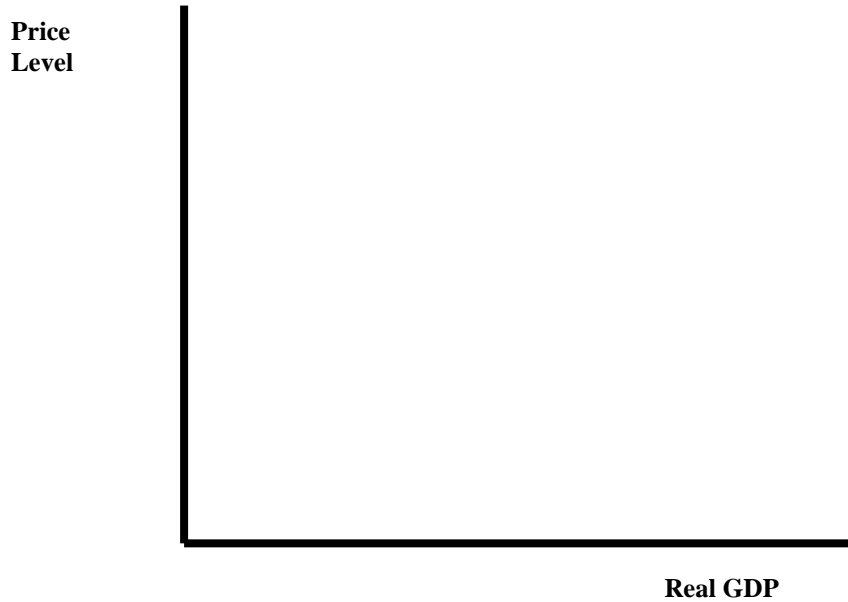
4. Therefore aggregate demand comprises of the following four components.

- ◆ \_\_\_\_\_
- ◆ \_\_\_\_\_
- ◆ \_\_\_\_\_
- ◆ \_\_\_\_\_

5. What will be the relationship between **aggregate demand and the prices level**?

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6. Illustrate this relationship on the diagram below.



7. How is the price level calculated?

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8. We need to consider the factors that determine the **four** components of **aggregate demand**.

### *Consumption*

There are several factors that would lead to a change in consumption.

9. **Income** – How might a change in income lead to a change in consumption?

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10. **Interest rates** –

- Give examples of goods and services that people buy using credit (i.e. they borrow money)

- a) \_\_\_\_\_
- b) \_\_\_\_\_
- c) \_\_\_\_\_

11. How would a change in interest rates lead to a change in consumption?

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12. What is the difference between a person's income and their wealth?

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\_\_\_\_\_

13 Give examples of assets that would be considered as wealth?

Physical Assets	Financial Assets

14 What two main factors tend to lead to a change in peoples' wealth in the economy?

- \_\_\_\_\_
- \_\_\_\_\_

15. How are changes in wealth linked to changes in consumption?

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16. How might the level of consumer confidence or optimism be linked to the levels of consumption in an economy?



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17. What do you notice about the fluctuations in US consumer confidence from the graph to the left?

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## ***Investment***

18 – How might one define the term ‘interest rate’?

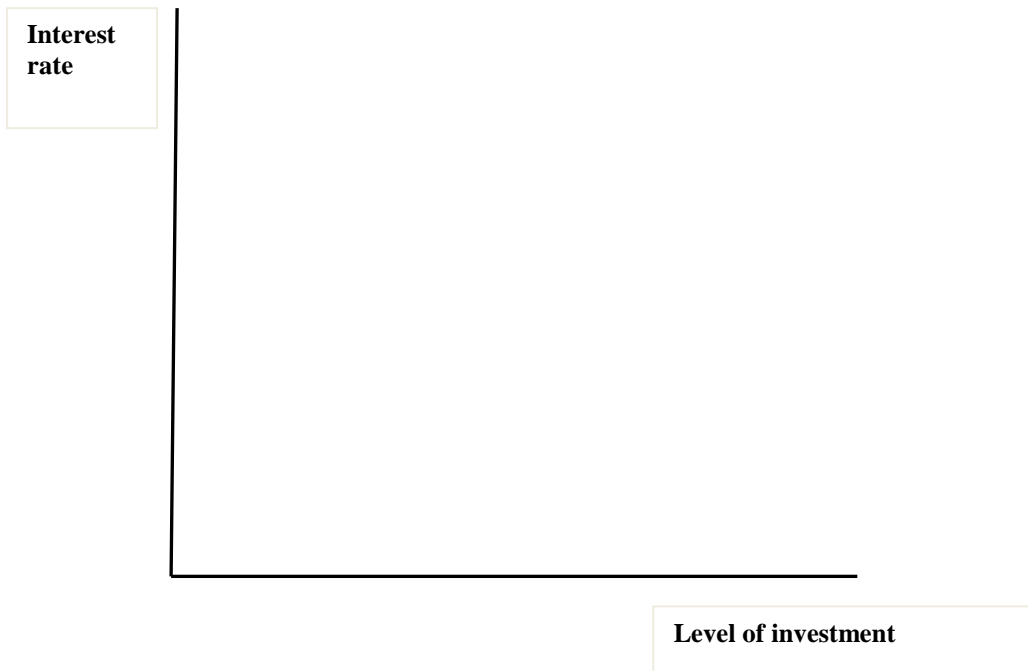
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19 – How is the level of investment in an economy influenced by changes in the rate of interest?

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20. Illustrate this relationship below on the diagram



21 – How would changes in the level of **real GDP** have an influence of the level of investment in an economy?

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22 - Does business confidence have an impact upon the level of investment in an economy and, if so, to what extent?



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### ***Government Spending***

23. Using the pictures below, identify the factors that might lead to a change in government spending.

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**Exports**

24 – In the table below explain the factors that could lead to a change in a nation’s level of exports.

Factor	Explanation
Changes in the real GDP of foreign nations	
Exchange rate	
Trade policies	
Inflation	

## Imports

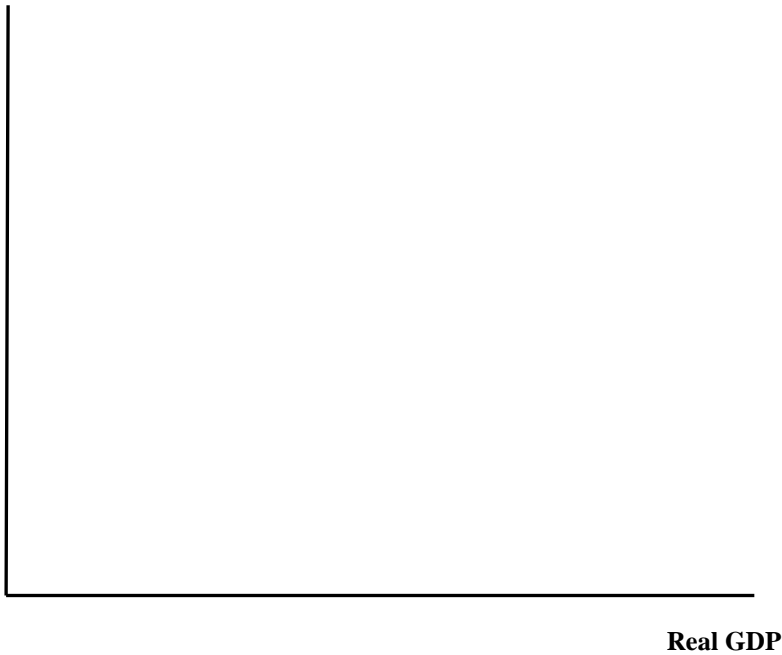
25 – How might the level of a nation's imports be influenced by the level of domestic real GDP?

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26 – Can you illustrate the above relationship on the diagram below.

Imports,  
Exports

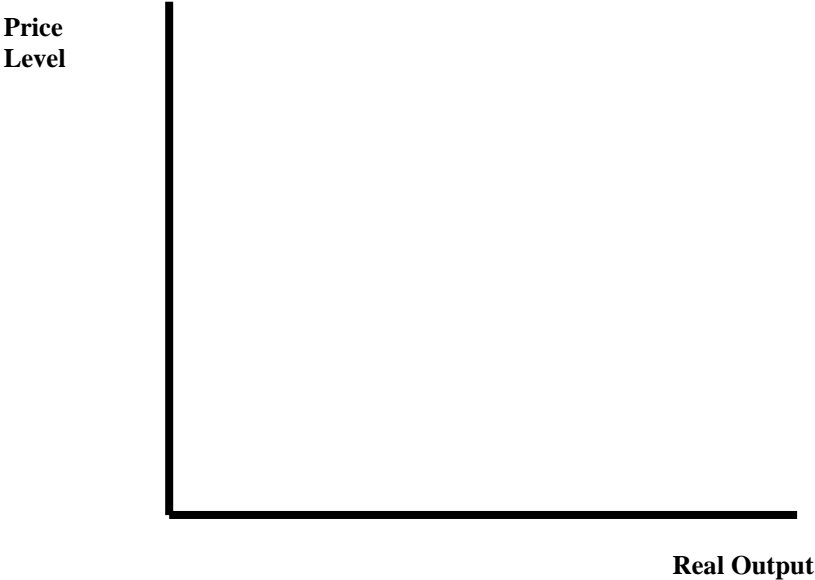


27 – In the table below explain how changes in the exchange rate, inflation rate and trade policies of a nation might influence its level of imports.

Factor	Impact on imports
• Depreciation of the exchange rate	
• Appreciation of the exchange rate	
• Removal of trade barriers	
• Introduction of trade barriers	
• High domestic inflation rate compared to foreign nations	
• Low domestic inflation rate compare to foreign nations	

28 - We now need to consider what factors might lead to a **shift** in the aggregate demand (AD) curve.

✚ On the diagram on the next page can you illustrate a rightward shift in aggregate demand and give three reasons why this might happen.



29.

- ✚ \_\_\_\_\_
- ✚ \_\_\_\_\_
- ✚ \_\_\_\_\_

30 - On the diagram on the next page can you illustrate a leftward shift in aggregate demand and give three reasons why this might happen.





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