Notes — Week 5

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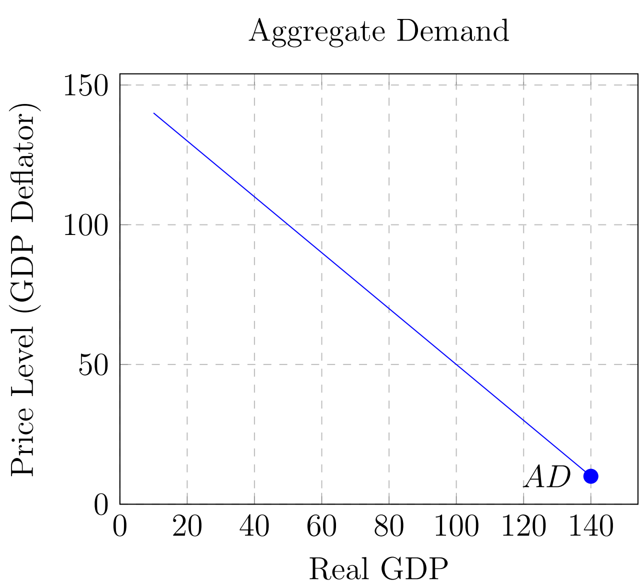
Period 3

1. Exclusions from GDP:
   - Used goods
   - Overseas production
   - Underground economy
   - Transfer payments
   - Intermediate items
2. The Aggregate-Demand Model (AD)



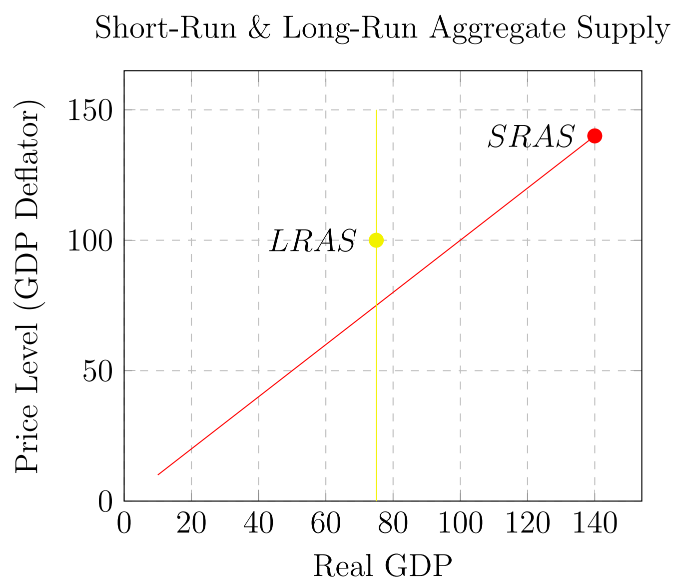
3. Why does the Aggregate Demand Curve Slope Down?
   - Wealth Effect — Decrease in prices increases the real value of money, hence we experience the effect of having more money (remember this one)

4. Determinants of Aggregate Demand

   - Changes in consumer spending (C)
   - Changes in investment spending (I)
   - Changes in government spending (G)
   - Changes in net export spending (NX)

5. The Aggregate Supply Model (AS)

   - Short-Run Aggregate Supply (SRAS) slopes up
   - Long-Run Aggregate Supply (LRAS) is vertical
   - Definition of Long-Run: When prices have had enough time to adjust to current conditions



6. Determinants of Aggregate Supply

   - Changes in the prices of inputs (land, labor, capital)
   - Changes in productivity
   - Changes in technology
   - Changes in government taxes, subsidies, and regulations