**2.1 Aggregate Demand/Supply**

2.1.1 Aggregate Demand

1. The Characteristics of AD

a) The concept of AD.

b) Components of aggregate demand:

• C + I + G + (X−M) = AD

• the AD curve.

c) The distinction between a movement along, and a shift of, the AD curve.

2. Consumption

a) Influences on consumption:

• disposable income

• interest rates

• consumer confidence

• level of welfare payments

• wealth effects

• availability of credit.

b) The relationship between savings and consumption.

c) The definition of the ‘savings ratio’.

d) Causes and effects of changes in the savings ratio.

3. Investment

a) The distinction between gross investment and net investment.

b) Influences on investment:

• the rate of economic growth

• interest rates

• business confidence and expectations

• availability of credit

• tax on company profits.

c) Government policy to promote investment:

• tax relief

• subsidies

• reductions on the rate of corporation tax

4. Government Expenditure

a) Influences on government expenditure:

• fiscal policy

• the level of economic activity

• correction of market failures

• political priorities

5. Net Trade Balance

a) The impact on the net trade balance of changes in:

• real income

• the exchange rate

• the state of the global economy

• degree of protectionism

• non-price factors.

2.2.2 Aggregate Supply

1. The Characteristics of AS

a) The concept of AS.

b) The AS curve.

c) The distinction between a movement along and a shift of the AS curve.

2. Short-Run AS(SRAS)

a) Factors influencing SRAS. Changes in:

• costs of raw materials and energy

• exchange rates

• tax rates

3. Long-Run AS(LRAS)

a) Different shapes of AS curve:

• Keynesian

• classical.

b) Factors influencing LRAS. Changes in:

• the state of technology

• productivity

• education and skills

• government regulations and tax

• demography and net migration

• competition policy