eLearneconomics: AD – G + (X–M) (1)

Student response

(a) What is aggregate demand?

(b) Indicate the direction the aggregate demand curve will shift for the situations given in the table below.

Situation		Direction that AD shifts inward or outward
(i)	Income tax rates fall	
(ii)	A fall in business confidence	
(iii)	A larger than expected budget deficit	
(iv)	Interest rates rise	
(v)	The government announces that indirect tax rates will increase in eight months time	
(vi)	Direct tax rates increase	
(vii)	Interest rates increase	
(viii)	Business confidence increases	
(ix)	Transfer payments are cut	
(x)	Net exports $1 912m surplus	
(xi)	The Central Bank Governor lowers the base interest rate and interest rates fall	
(xii)	Contractionary fiscal policy	
(xiii)	A net migration gain	
(xiv)	A government operating surplus	
(xv)	A large increase in households starting to save for their retirement	
(xvi)	Consumers go on a spending spree fearing price rises in the future	

(c) Tick (✓) which of the following will cause the AD curve to shift.

direct (income) tax

transfer payments

interest rates

indirect taxes

depreciation of the $NZ

wages

GST/sales tax

business confidence

fiscal policy

a budget deficit

migration

technology

boom

recession

appreciation of the $NZ

savings

productivity

(d) Explain the effect of a net migration gain on aggregate demand.

eLearneconomics: AD – G + (X–M) (1a)

Solution

(a) What is aggregate demand?

Total demand in the economy. Equivalent to national income. AD = C + I + G + (X – M)

(b) Indicate the direction the aggregate demand curve will shift for the situations given in the table below.

Situation	Direction that AD shifts inward or outward
(i) Income tax rates fall	outward
(ii) A fall in business confidence	inward
(iii) A larger than expected budget deficit	outward
(iv) Interest rates rise	inward
(v) The government announces that indirect tax rates will increase in eight months time	outward
(vi) Direct tax rates increase	inward
(vii) Interest rates increase	inward
(viii) Business confidence increases	outward
(ix) Transfer payments are cut	inward
(x) Net exports $1 912m surplus	outward
(xi) The Central Bank Governor lowers the base interest rate and interest rates fall	outward
(xii) Contractionary fiscal policy	inward
(xiii) A net migration gain	outward
(xiv) A government operating surplus	inward
(xv) A large increase in households starting to save for their retirement	inward
(xvi) Consumers go on a spending spree fearing price rises in the future	outward

(c) Tick (✓) which of the following will cause the AD curve to shift.

direct (income) tax ✓

transfer payments ✓

interest rates ✓

indirect taxes

depreciation of the $NZ ✓

wages

GST/sales tax

business confidence ✓

fiscal policy ✓

a budget deficit ✓

migration ✓

technology

boom ✓

recession ✓

appreciation of the $NZ ✓

savings ✓

productivity

(d) Explain the effect of a net migration gain on aggregate demand.

When new migrants arrive in a country they will look to set up house and buy whiteware (appliances) and other household effects. They will also buy or build houses. Aggregate demand will therefore shift outward.

