

# Unit 03 Preview

---

Neo Wang

October 12, 2021

Westlake High School

# Table of Contents

Aggregate Demand

Multipliers

Short-Run Aggregate Supply (SRAS)

Long-Run Aggregate Supply (LRAS)

Equilibrium in the Aggregate Demand-Aggregate Supply (AD-DS) Model

Change in the AD-AS Model in the Short Run

Long-Run Self Adjustment

Fiscal Policy

Automatic Stabilizers

# Aggregate Demand

---

## The Wealth Effect

- Higher price levels reduce the purchasing power of money, which decreases the quantity of expenditures.
- Lower price levels increase purchasing power and increase expenditures

## Interest Rate Effect

- When the price level increases, lenders charge higher interest to get a REAL return on their loans

## Foreign Trade Effect

- When price levels rise, foreign buyers purchase fewer U.S. goods and Americans buy more foreign goods.  $X_n$  decreases.



Figure 1  
An aggregate demand curve



Figure 1  
An aggregate demand curve

# Multipliers

---

- Marginal Propensity to Save (MPS); How much people save instead of consume when there is a change in income. Expressed as

$$MPS = \frac{\Delta \text{savings}}{\Delta \text{Disposable Income}}$$

- Marginal Propensity to Consume (MPC); How much people consume rather than saving when disposable income changes. Expressed as a fraction:

$$MPC = \frac{\Delta \text{consumption}}{\Delta \text{Disposable Income}}$$

- Spending Multiplier

$$\frac{1}{MPS} = \frac{1}{1 - MPC}$$

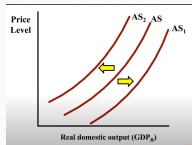
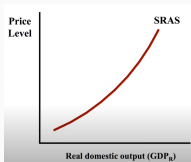
- Simple Tax Multiplier

$$\frac{MPS}{MPC}$$



## Short-Run Aggregate Supply (SRAS)

---



## Long-Run Aggregate Supply (LRAS)

---

## **Equilibrium in the Aggregate Demand-Aggregate Supply (AD-DS) Model**

---

## **Change in the AD-AS Model in the Short Run**

---



## Long-Run Self Adjustment

---

## Fiscal Policy

---

## **Automatic Stabilizers**

---