

# Unit 03 Preview

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# Aggregate Demand

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## 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.



**Figure 1** An aggregate demand curve

## Multipliers

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## Short-Run Aggregate Supply (SRAS)

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## Long-Run Aggregate Supply (LRAS)

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

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

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## Long-Run Self Adjustment

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## Fiscal Policy

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## **Automatic Stabilizers**

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