

Unit 03 Preview

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October 12, 2021

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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.

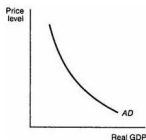


Figure 1 An aggregate demand curve

Multipliers

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