

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

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

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
