

# 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



**Figure 1** An aggregate demand curve

## Interest Rate Effect

# 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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# Automatic Stabilizers

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