

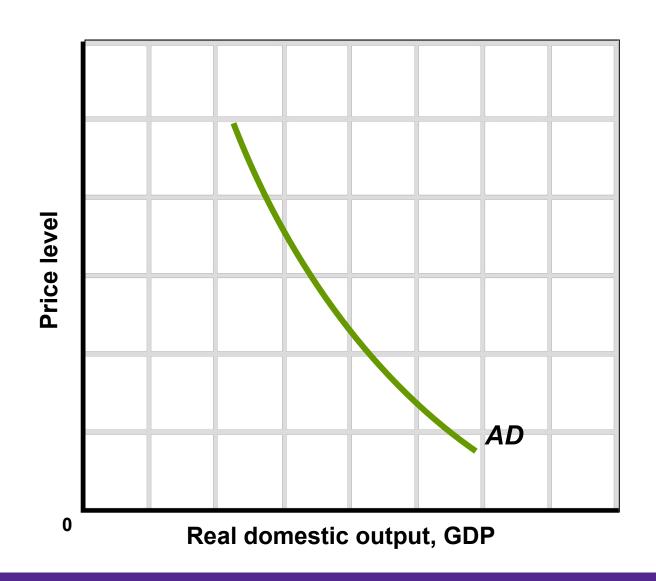
Aggregate Demand and Aggregate Supply



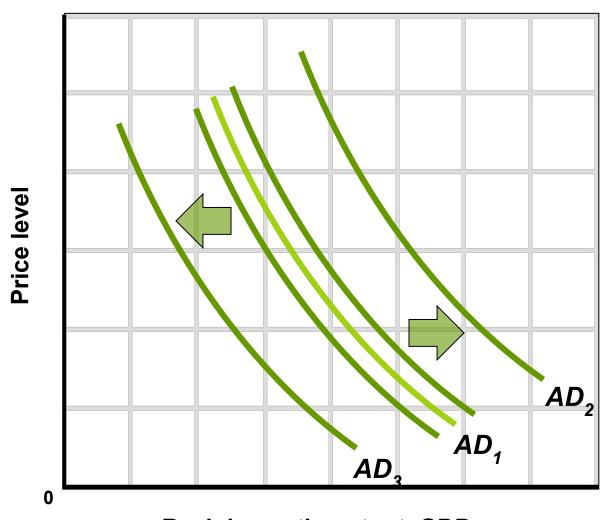
Aggregate Demand

- Real GDP desired at each price level
- Inverse relationship
 - Real balances effect
 - Interest effect
 - Foreign purchases effect

Aggregate Demand



Changes in Aggregate Demand



Real domestic output, GDP

Consumer Spending

- Consumer wealth
- Household borrowing
- Consumer expectations
- Personal taxes

L01

Investment Spending

- Real interest rates
- Expected returns
 - Expectations about future business conditions
 - Technology
 - Degree of excess capacity
 - Business taxes

Government Spending

- Government spending increases
 - Aggregate demand increases (as long as interest rates and tax rates do not change)
 - More transportation projects
- Government spending decreases
 - Aggregate demand decreases
 - Less military spending

Net Export Spending

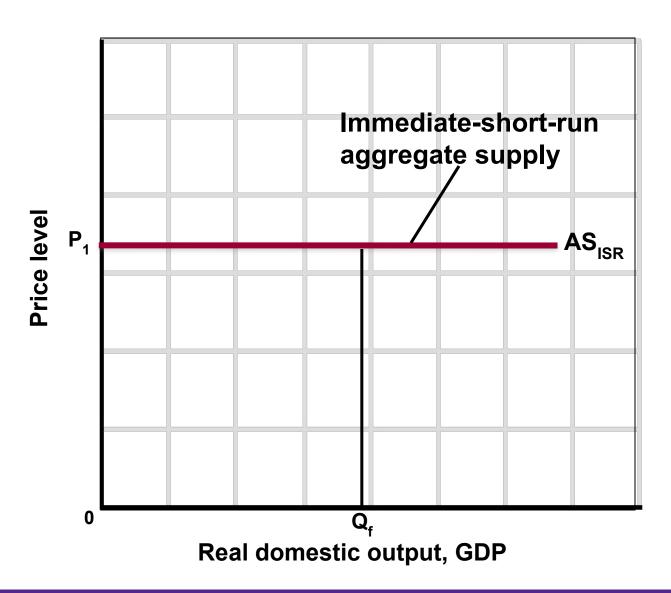
- National income abroad
- Exchange rates
 - Dollar depreciation
 - Dollar appreciation

L01

Aggregate Supply

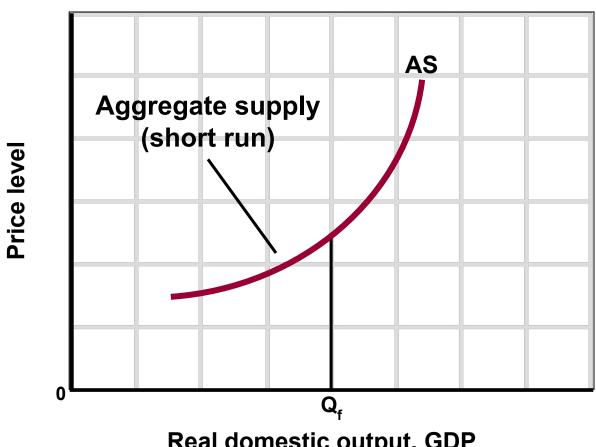
- Total real output produced at each price level
- Relationship depends on time horizon
 - Immediate short run
 - Short run
 - Long run

AS: Immediate Short Run



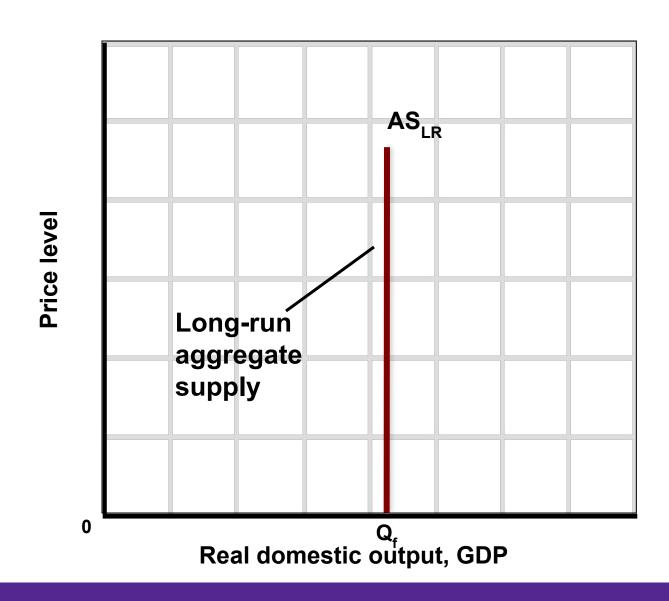
LO2 29-1

Aggregate Supply: Short Run



Real domestic output, GDP

Aggregate Supply: Long Run

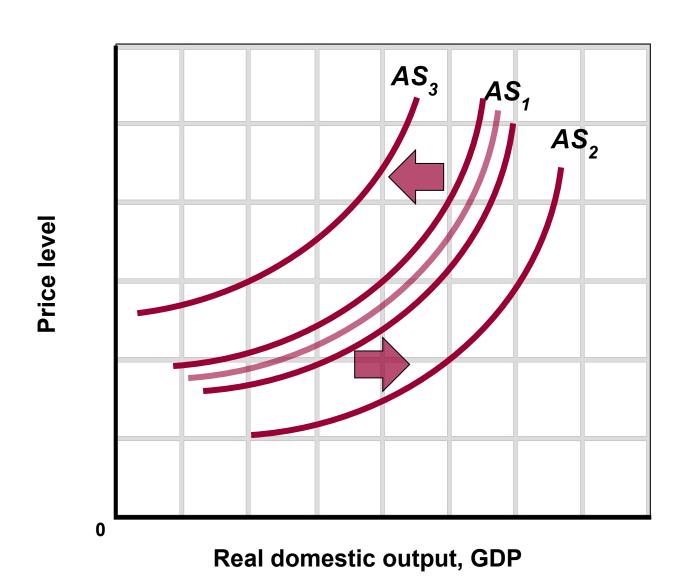


Changes in Aggregate Supply

- Determinants of aggregate supply
 - Shift factors
- Collectively position the AS curve
- Changes raise or lower per-unit production costs

LO2 29-1

Changes in Aggregate Supply



LO₂

Input Prices

- Domestic resource prices
 - Labor
 - Capital
 - Land
- Prices of imported resources
 - Imported oil
 - Exchange rates

Productivity

- Real output per unit of input
 - Increases in productivity reduce costs
 - Decreases in productivity increase
 costs
 total output

total inputs

Per-unit production cost
$$=$$
 $\frac{\text{total input cost}}{\text{total output}}$

Legal-Institutional Environment

- Legal changes alter per-unit costs of output
 - Taxes and subsidies
 - Extent of government regulation

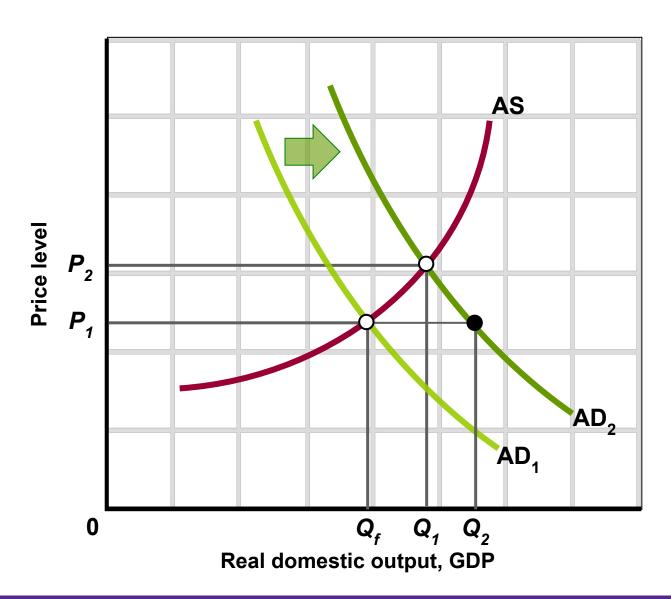
Equilibrium



Real Output Demanded (Billions)	Price Level (Index Number)	Real Output Supplied (Billions)
\$506	108	\$513
508	104	512
510	100	510
512	96	507
514	92	502

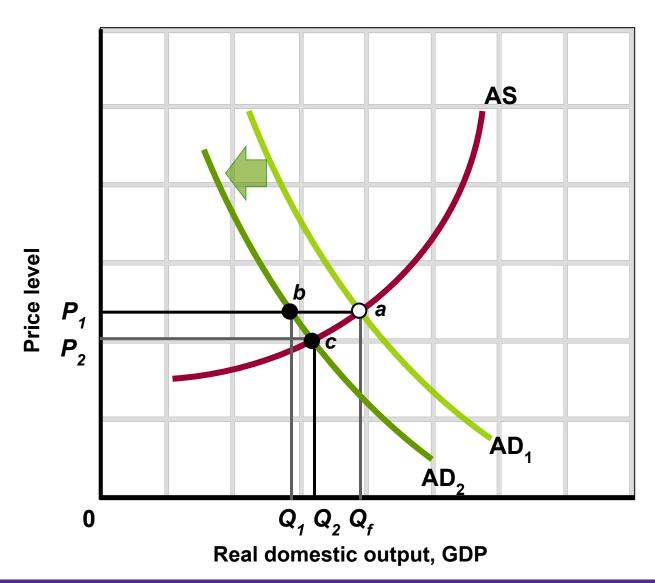
Real domestic output, GDP (billions of dollars)

Increases in AD: Demand-Pull Inflation



LO4 29-1

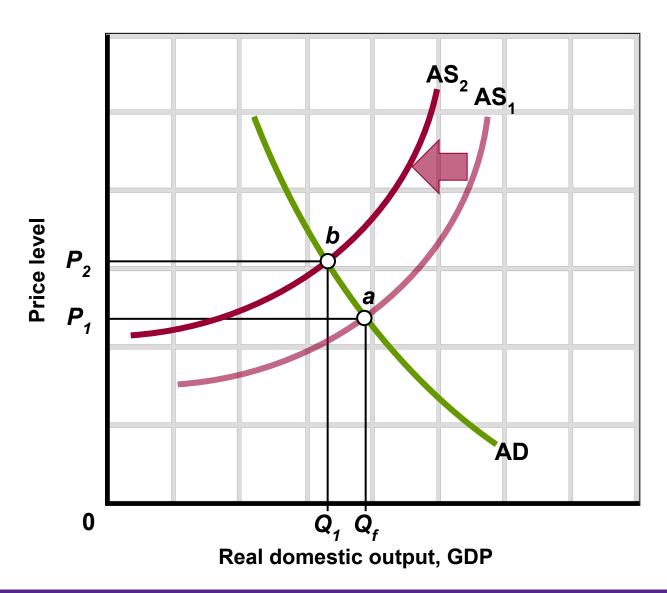
Decreases in AD: Recession



LO4

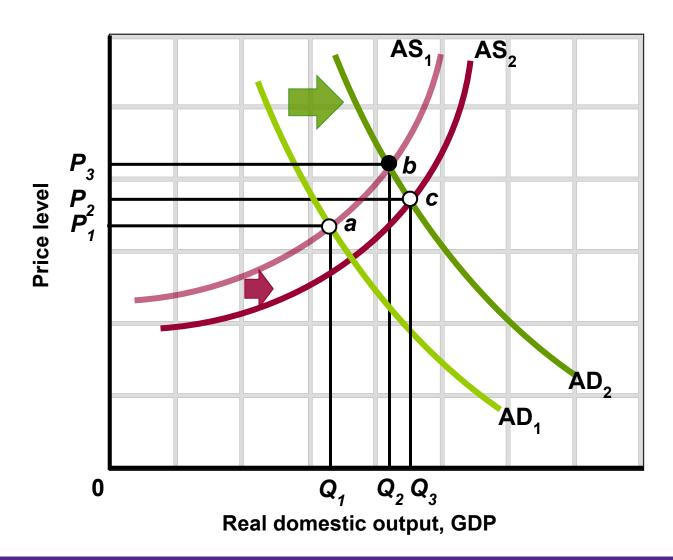
29-2

Decreases in AS: Cost-Push Inflation



LO4 29-2

Increases in AS: Full-Employment



LO4 29-2