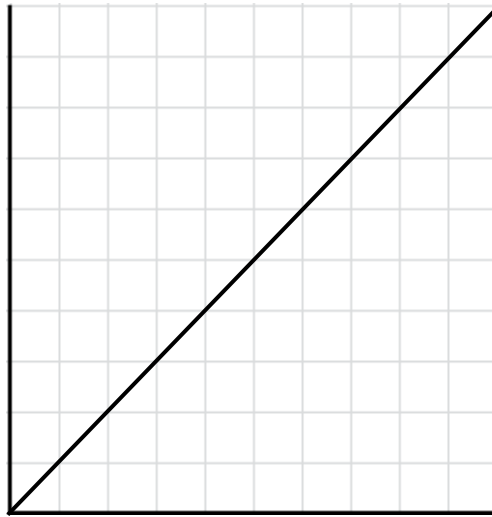


## CONCEPT: AGGREGATE DEMAND AND THE AGGREGATE EXPENDITURES MODEL

- The aggregate expenditures model can be used to derive the **aggregate demand curve**
  - Price levels are a determinant of consumption (lower prices, more consumption) → shift AE curve
  - Price levels are the y-axis of the aggregate demand graph → movement along AD curve

Aggregate Expenditures Model

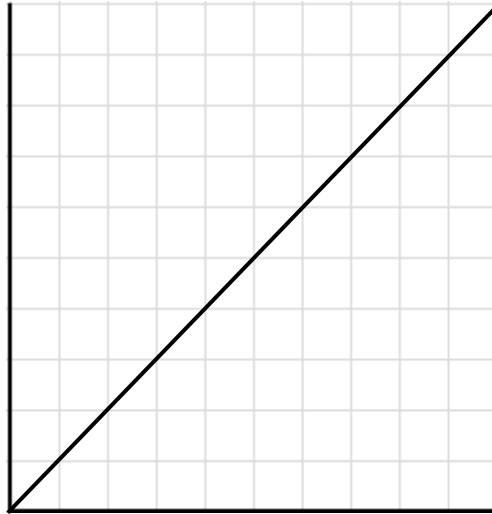


Aggregate Demand Curve



- The derivation is reinforced when we shift the AE curve due to a change in a determinant of AE:
  - > Example: Investment spending increases leading to an overall increase in aggregate expenditures

Aggregate Expenditures Model



Aggregate Demand Curve

