CONCEPT: AGGREGATE DEMAND

● The ***aggregate demand and aggregate supply model (AD-AS Model)*** explains short-run fluctuations in GDP and price

☐ ***Aggregate Demand*** is closely related to our calculation for GDP

> Recall, that GDP = ____________________

> Aggregate demand follows the same rule as demand in a single market: ____________________

- As price levels fall, the quantity of real GDP demanded ______________

Aggregate Demand Curve

● We are dealing with the economy as a whole, so we need *macroeconomic* explanations for the "DD"

☐ In a single market, Q_d falls as P increases because customers ____________ their demand to other goods

> Example: Apples and Oranges

☐ The ***wealth effect*** describes how price levels affect __________________

You have $1. Candy costs $1. → _________________	You have $1. Candy costs $0.50. → _______________
As price levels decrease, the ***real value*** of money ____________, allowing you to purchase more goods (Q_d _____)	

☐ The ***interest-rate effect*** describes how price levels affect __________________

> Prices decrease → Households save more → Interest rates ____ → Investment spending ____

☐ For now, we will assume that *government spending stays constant*

☐ The ***exchange-rate effect*** describes how price levels affect __________________

> Prices decrease → Foreign Demand ____ → Exports _____