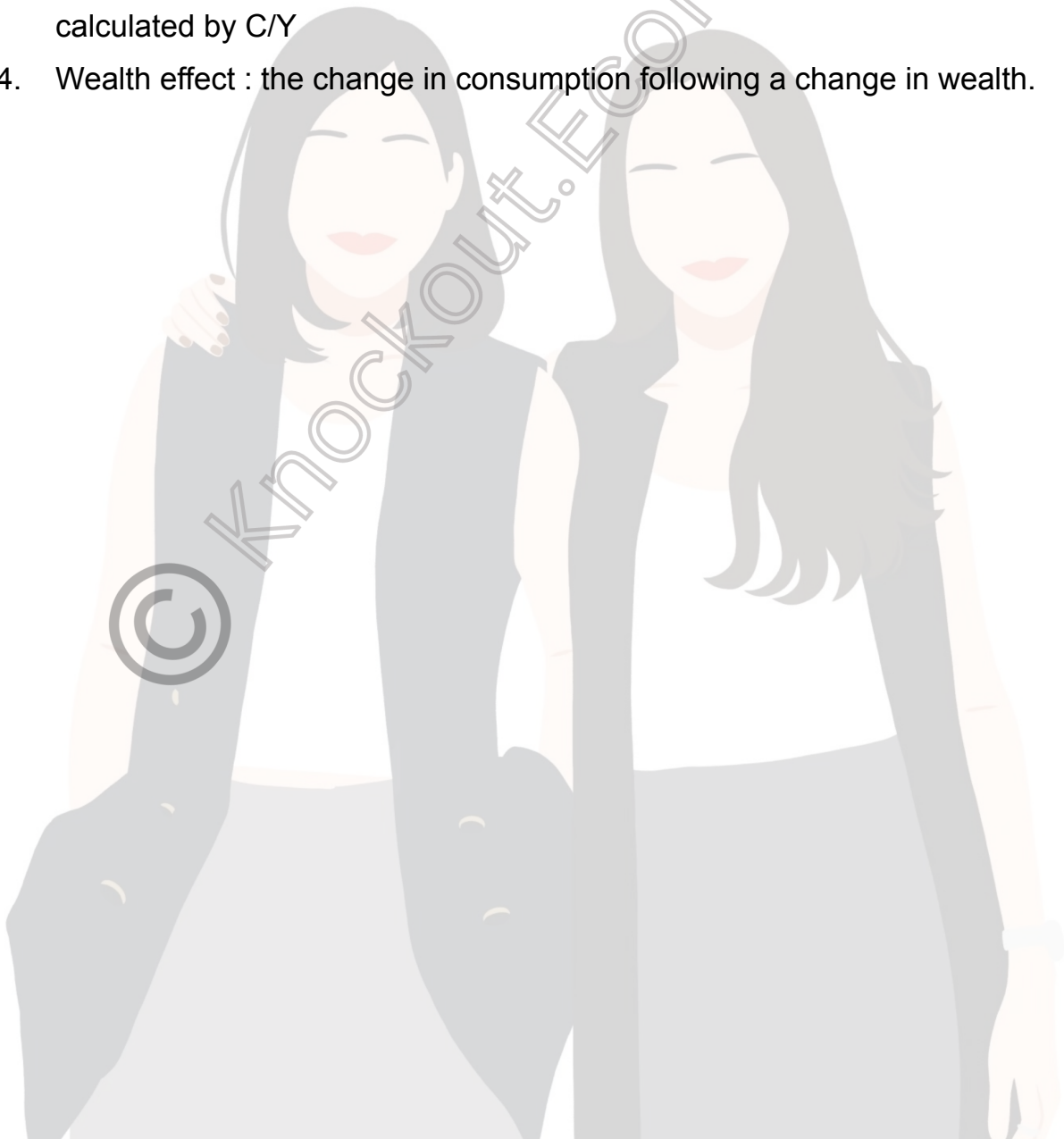


CHAPTER 27 : Characteristics of aggregate demand

Key terms

1. Aggregate demand : the total of all demand or expenditure in the economy at any given price.
2. Aggregate demand curve : shows the relationship between the price level and equilibrium national income. As the price level rises, the equilibrium level of national income falls
3. Average propensity to consume : the proportion of total income spent. It is calculated by C/Y
4. Wealth effect : the change in consumption following a change in wealth.



1. Aggregate Demand (AD)

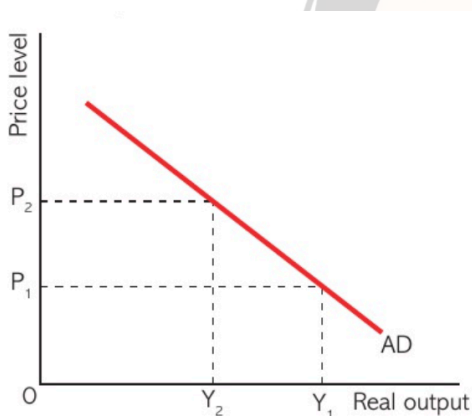
: Total of all demands or expenditures in the economy at any given price.

$$AD = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net export (Export-Import)}$$

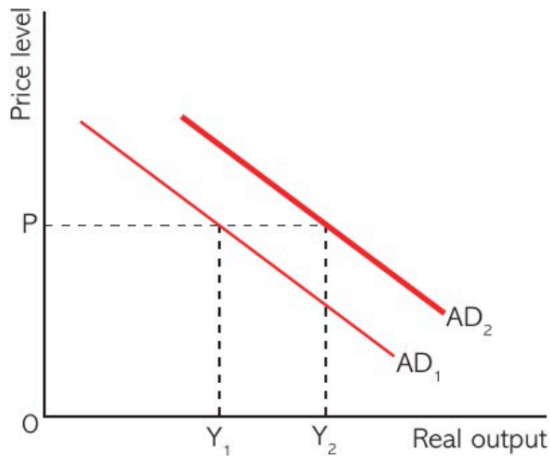
- Consumption (C) : This is spending by households on goods and services
- Investment (I) : This is spending by firms on investment goods
- Government Spending (G) : This includes current spending eg. Wages or salaries
- Export-Import (X-M) : The difference between export and import

2. Aggregate demand Curve

Diagram



3. Shifts in the AD curve



Factors shifts AD to the right	
1. Consumption	<ul style="list-style-type: none"> • Higher Wealth (Total asset) • Lower interest • Lower income tax • Higher consumer confident • Higher availability of credit
2. Investment	<ul style="list-style-type: none"> • Economic boom • Higher availability of credit • Lower Interest rate • Higher business confident • Higher expected return from project • Supporting government policy
3. Government Spending	<ul style="list-style-type: none"> • Economic recession
4. Net export	<ul style="list-style-type: none"> • Non-price factors eg. Higher quality and innovation • Lower cost of production • Depreciated currency • Higher world income