National Income and Price Determination
Aggregate Demand and Aggregate Supply

Terms		
Wealth effect	aggregate demand	nominal wage
Interest rate effect	aggregate supply	sticky wage
Foreign purchases effect	demand shock	potential output
Determinants of aggregate demand	supply shock	long run equilibrium
Determinants of aggregate supply	short run equilibrium	output gap

Watch Macro 3.1 – Aggregate Demand Practice at https://www.youtube.com/watch?v=l6Udc6uDX8o

1. Aggregate Demand is the demand for _____.

2. The four components of GDP are also the components of Aggregate demand. List them.

3. Draw an aggregate demand graph like the example Mr. Clifford gives.

4. List and explain the two reasons that the AD curve is downward sloping. (Yes, we had three in out notes – I don't know why Mr. Clifford only goes over two.)

5. What causes the AD curve to shift?

6. Follow Mr. Clifford's examples and determine if the AD curve will increase or decrease.
   1. A significant boom in the stock market.
   2. A decrease in government spending.
   3. Widespread fear of a recession.
   4. Increase in the incomes of a close trading partner.

Watch the Khan Academy video on Aggregate Demand at https://www.youtube.com/watch?v=oLhohwfwf_U

1. The Aggregate demand curve is not for one product it is for _____. 2. If prices are high, GDP will _____ and if prices are low, GDP will _____.

3. There are three major theories on why the aggregate demand curve is downward sloping:

- Wealth Effect – "with the same amount of money that I have in my wallet I can now buy more. I feel _____." People will then go and demand _____ goods and services.
- Interest Rate Effect – Follow the chain of events that is explained here
  - If things get cheaper people will spend _____ on goods and services
  - People will be able to save _____.
  - Money goes into the financial system and it gets _____ to other people.
  - The supply of money to be lent goes _____
  - the price of borrowing the money will go _____
  - interest rates go _____
  - Investment spending goes _____ which caused the economy to expand
- Foreign Exchange Effect – • Interest rates go _____
  - The foreign exchange is effected (we will skip the details for now)
  - To foreign consumers American goods are _____
  - Americans will export _____ and GDP will expand

Watch Macro 3.2 – Aggregate Supply Practice at https://www.youtube.com/watch?v=UwAQRnpVMzI

1. Draw an aggregate supply graph like the example Mr. Clifford gives.

2. Mr. Clifford gives three examples of things that would cause the AS curve to shift. List them.

3. Follow Mr. Clifford's examples and determine if AS will increase or decrease.
   1. A significant increase in nominal wages.
   2. An increase in physical capital.
   3. A decrease in cooperate taxes on producers.
   4. An increase in expected inflation.

Watch the Khan Academy Long-run aggregate supply video https://www.youtube.com/watch?v=8W0iZk8Yxhs

1. Explain what economists mean when they talk about the long run.

2. In the long run real GDP does not depend on _____. 3. The LRAS is at a _____ level of productivity for the economy.