

CHAPTER  
11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 1

# CHAPTER

## *Aggregate Demand and Aggregate Supply*

# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

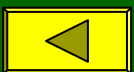
Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 2

# AGGREGATE DEMAND

**Defined: The amounts of real output that buyers collectively desire to purchase at each possible price level**

**Aggregate Demand Curve  
Down Sloping Due To:**

- Real-Balances Effect
- Interest-Rate Effect
- Foreign Purchases Effect



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

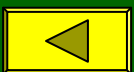
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

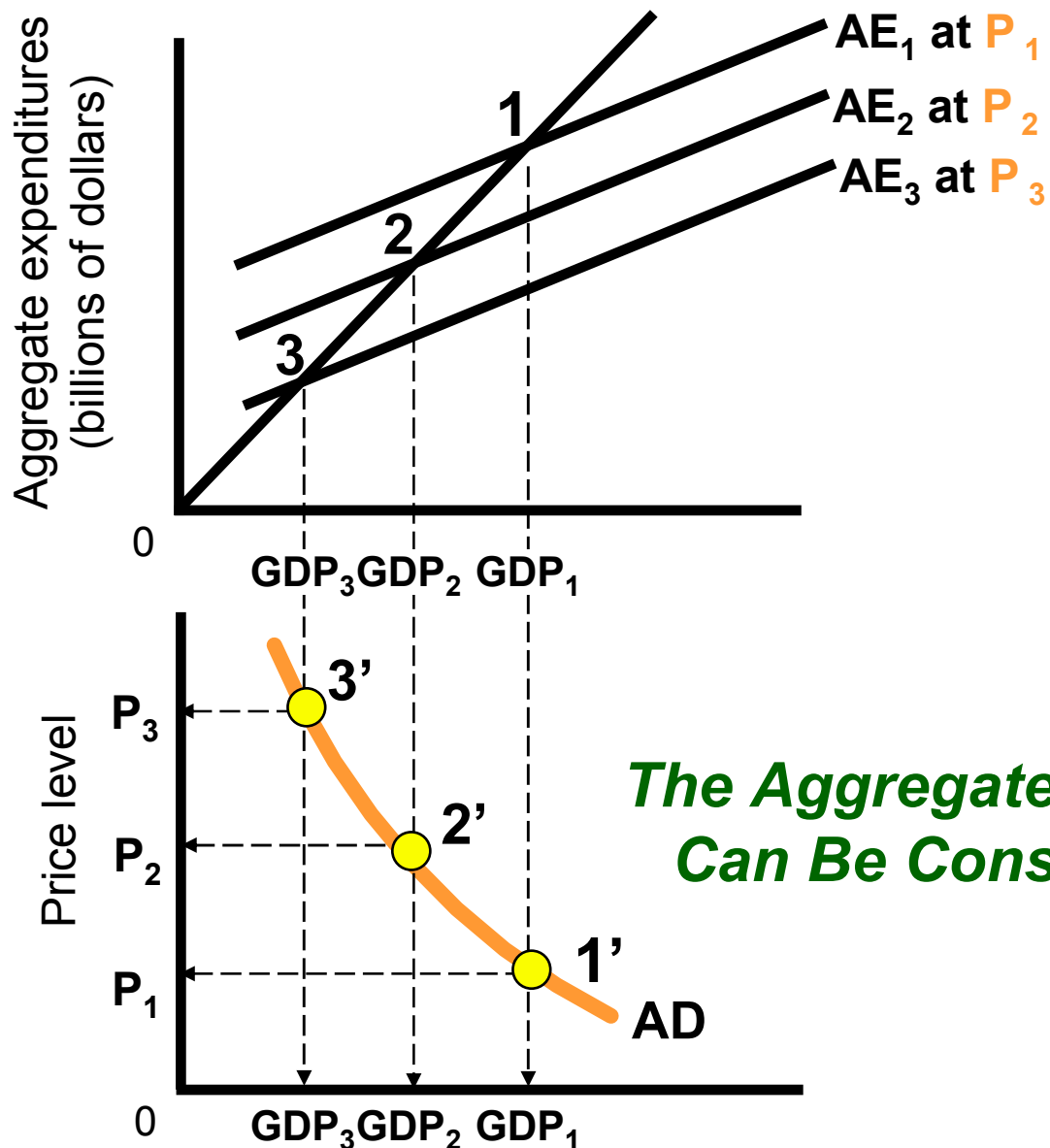
Next Slide

End Show



11 - 3

## DERIVATION OF THE AGGREGATE DEMAND CURVE



*The Aggregate Demand Can Be Constructed*

# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

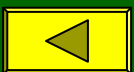
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

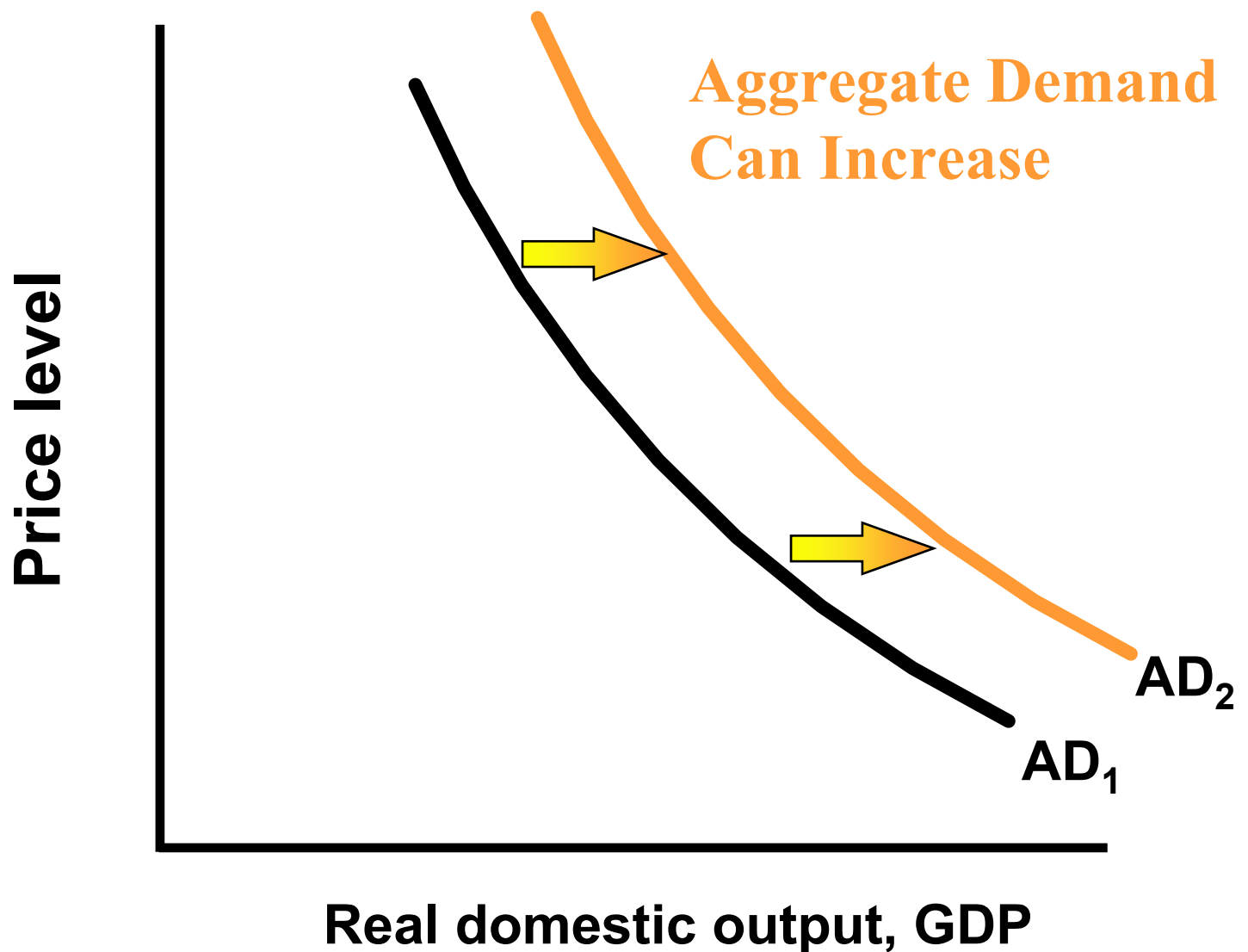
Next Slide

End Show



11 - 4

## CHANGES IN AGGREGATE DEMAND



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

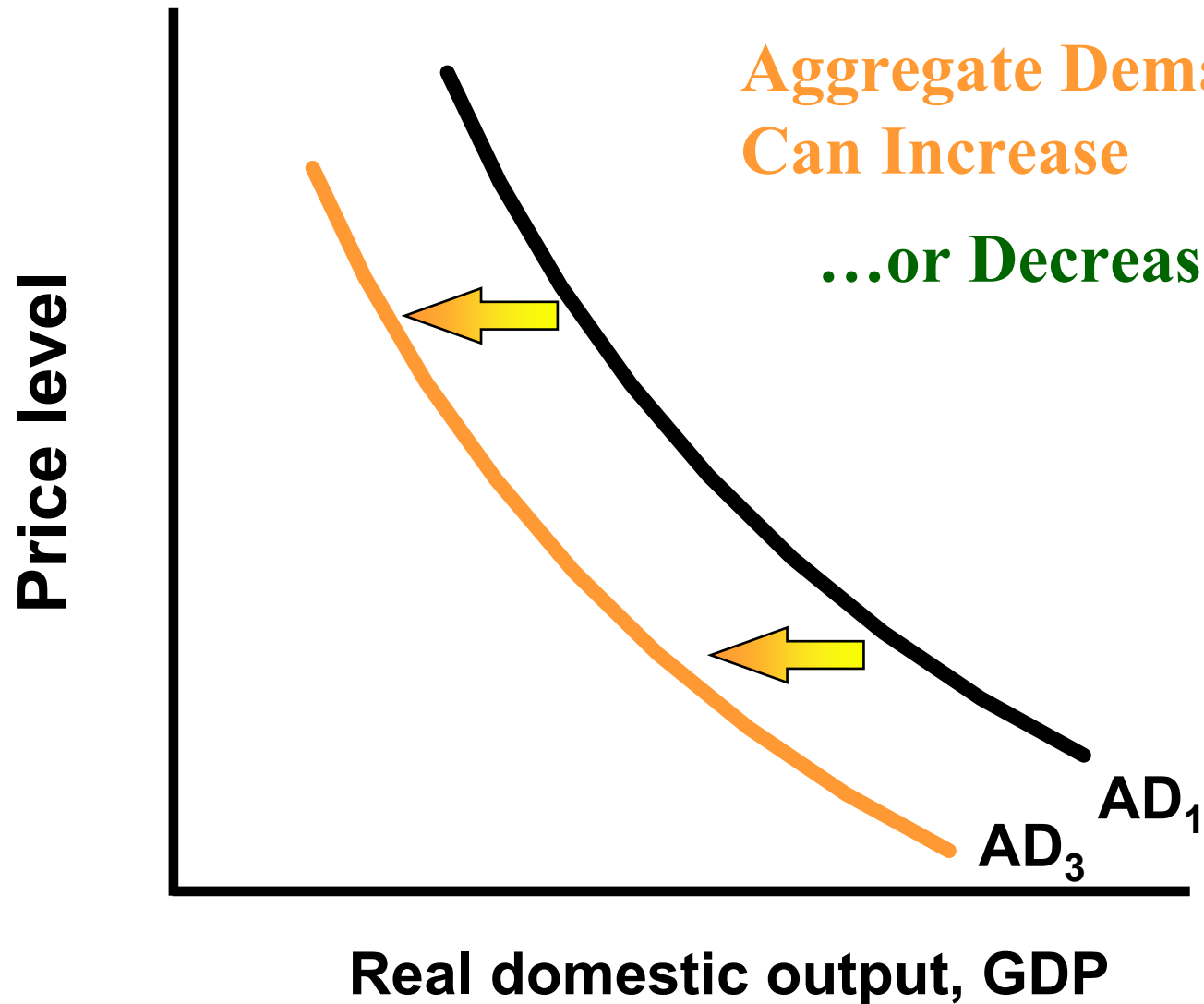
Next Slide

End Show



11 - 5

## CHANGES IN AGGREGATE DEMAND



# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

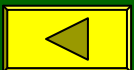
Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 6

## DETERMINANTS OF AGGREGATE DEMAND

### Change in Consumer Spending

- Consumer Wealth
- Consumer Expectations
- Consumer Indebtedness
- Taxes

### Change in Investment Spending

- Real Interest Rates
- Expected Returns
  - Expected Future Business Conditions
- Technology
- Degree of Excess Capacity
- Business Taxes

# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 7

## DETERMINANTS OF AGGREGATE DEMAND Government Spending

### Net Export Spending

- National Income Abroad
- Exchange Rates

---

Changes in Aggregate Demand Shifts  
and the Aggregate Expenditures Model  
*Illustrated...*

# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

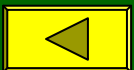
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

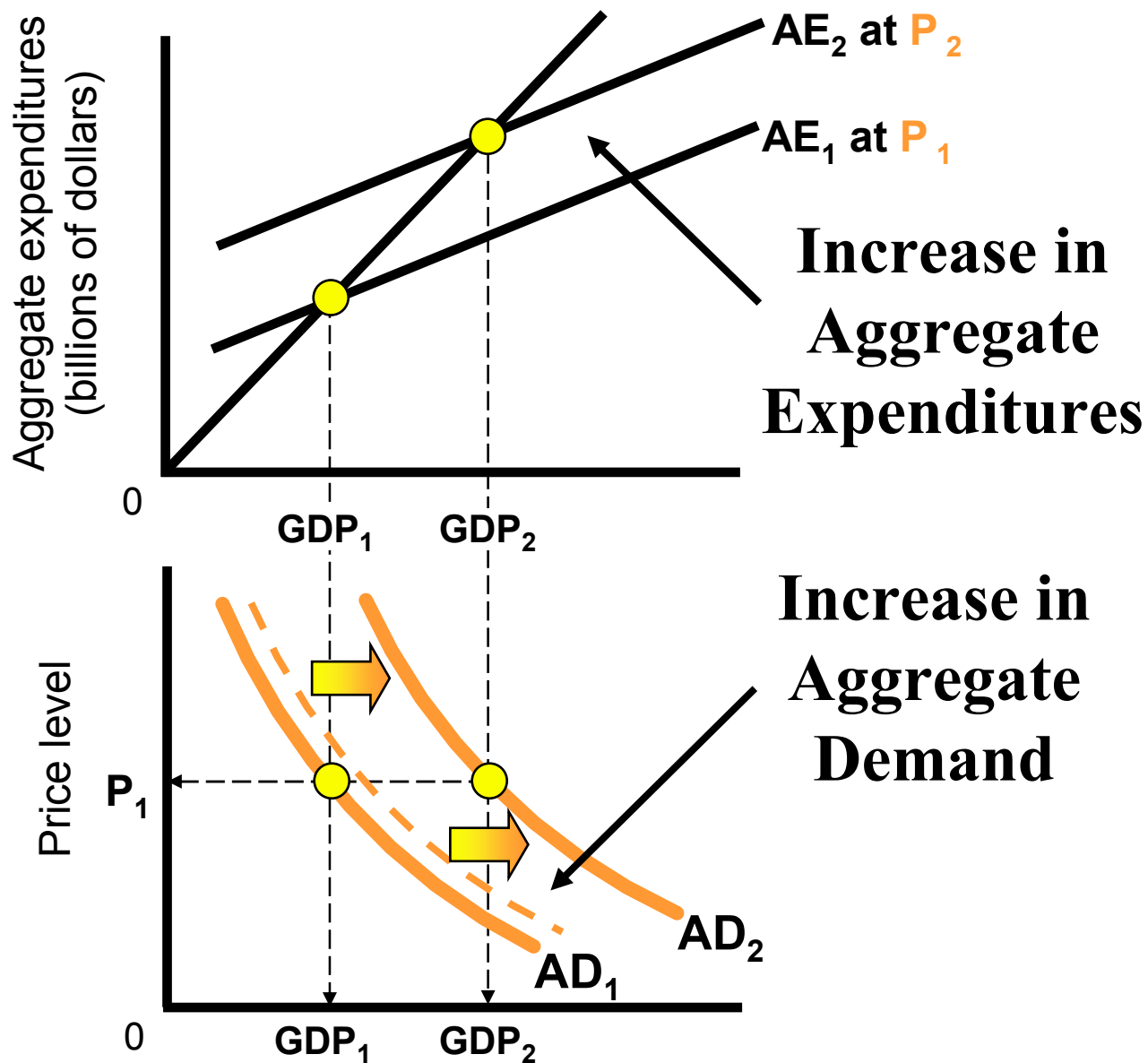
Next Slide

End Show



11 - 8

## SHIFTS IN THE AGGREGATE EXPENDITURES SCHEDULE & THE AGGREGATE DEMAND CURVE





# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

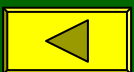
Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 9

# AGGREGATE SUPPLY

**Defined:** The amounts of real output that firms will produce at each possible price level

**Higher Price Levels Provide An Incentive to Produce More**  
**Aggregate Supply Has Three Segments or Ranges:**

- 1 - Horizontal Range
- 2 - Intermediate (Upsloping) Range
- 3 - Vertical Range

# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

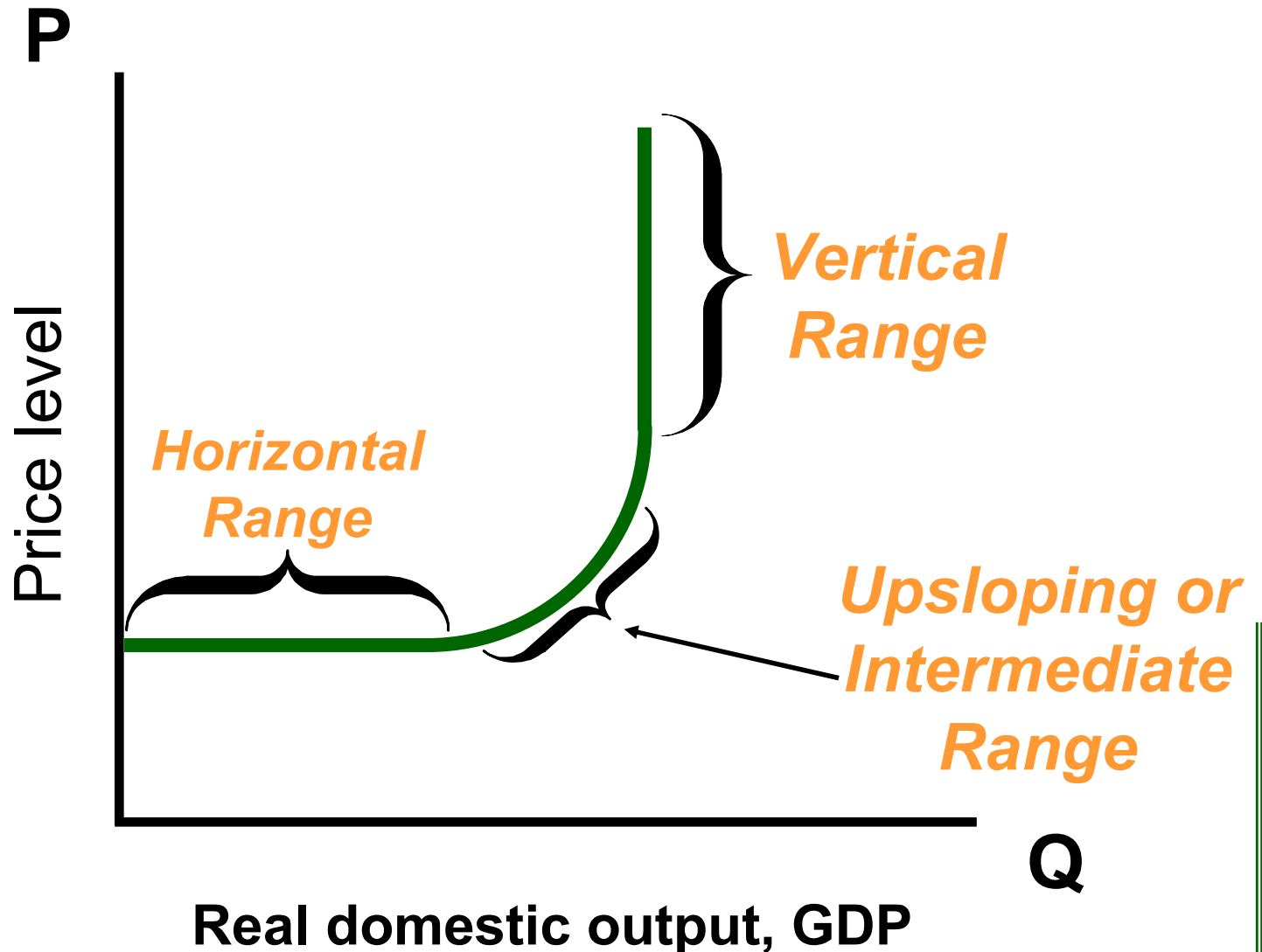
Next Slide

End Show



11 - 10

# AGGREGATE SUPPLY



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

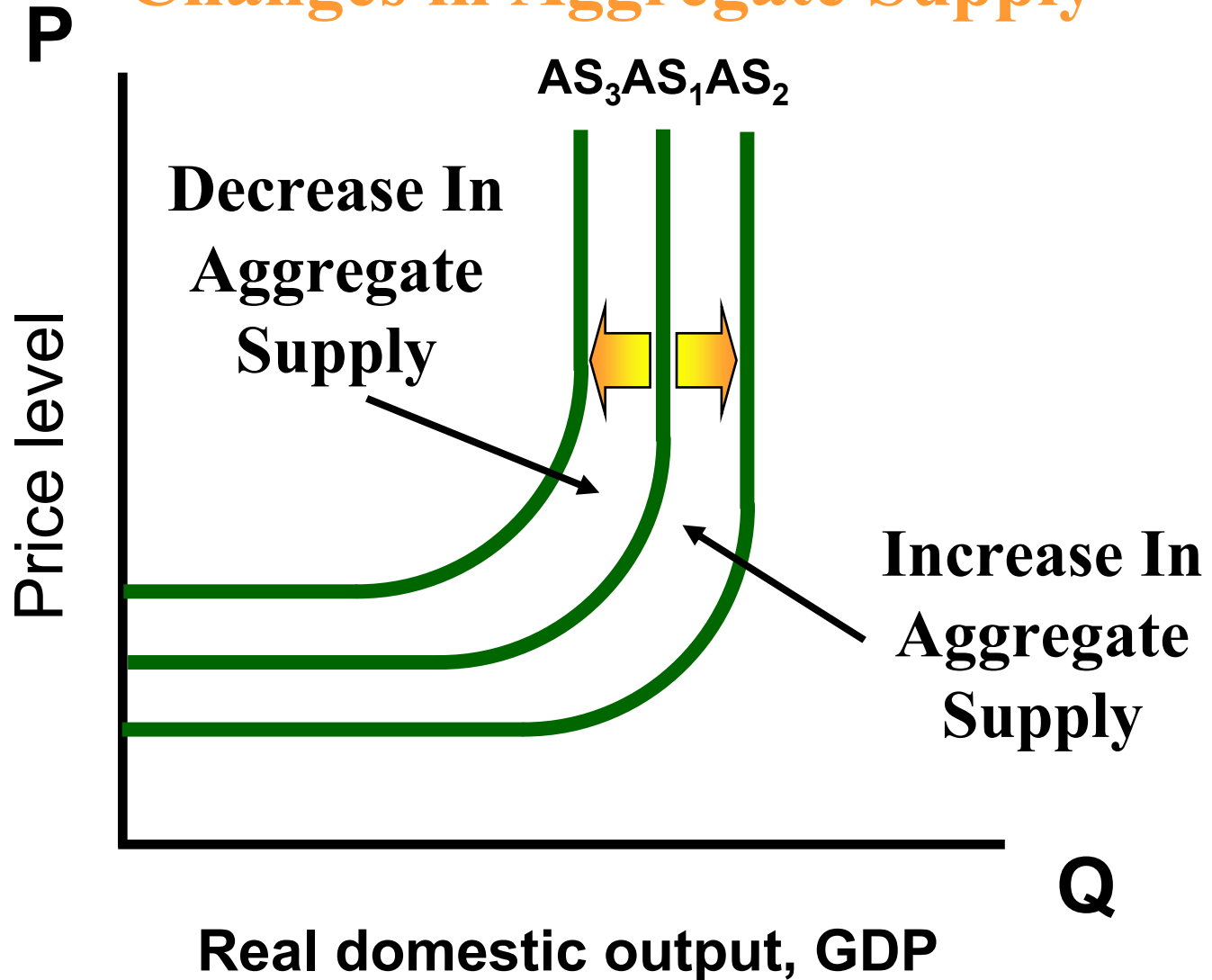
End Show



11 - 11

# AGGREGATE SUPPLY

## Changes in Aggregate Supply



# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

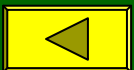
Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 12

## DETERMINANTS OF AGGREGATE SUPPLY

### Change in Input Prices

### Domestic Resource

### Availability

- Land
- Labor
- Capital
- Entrepreneurial Ability

### Prices of Imported Goods

### Market Power

# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

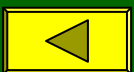
Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 13

## DETERMINANTS OF AGGREGATE SUPPLY

### Change in Productivity

$$\text{Productivity} = \frac{\text{Real Output}}{\text{Input}}$$

### Change in Legal-Institutional Environment

- Business Taxes and Subsidies
- Government Regulation

# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

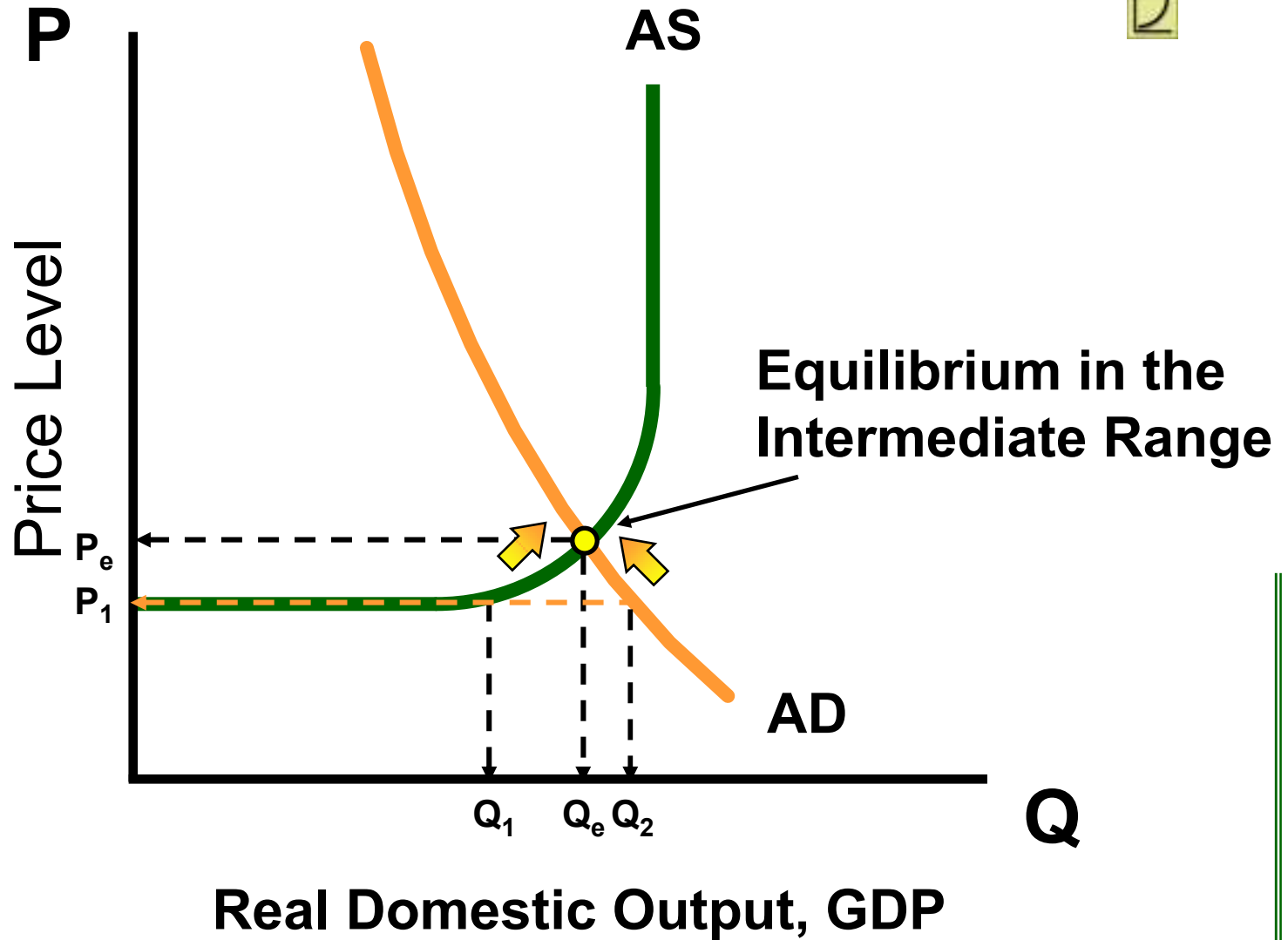
Next Slide

End Show



11 - 14

## EQUILIBRIUM: REAL OUTPUT AND THE PRICE LEVEL



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

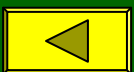
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

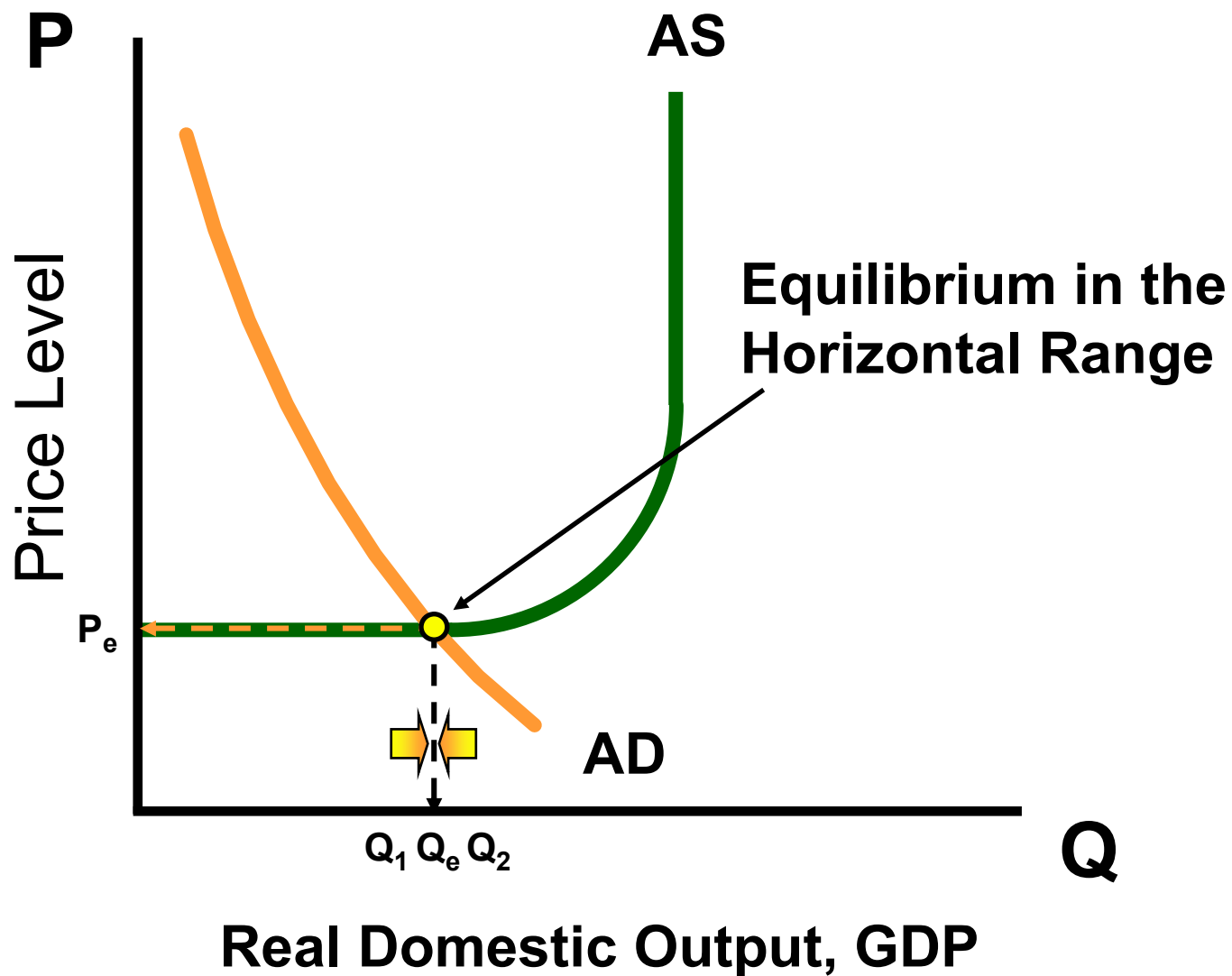
Next Slide

End Show



11 - 15

## EQUILIBRIUM: REAL OUTPUT AND THE PRICE LEVEL



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

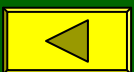
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

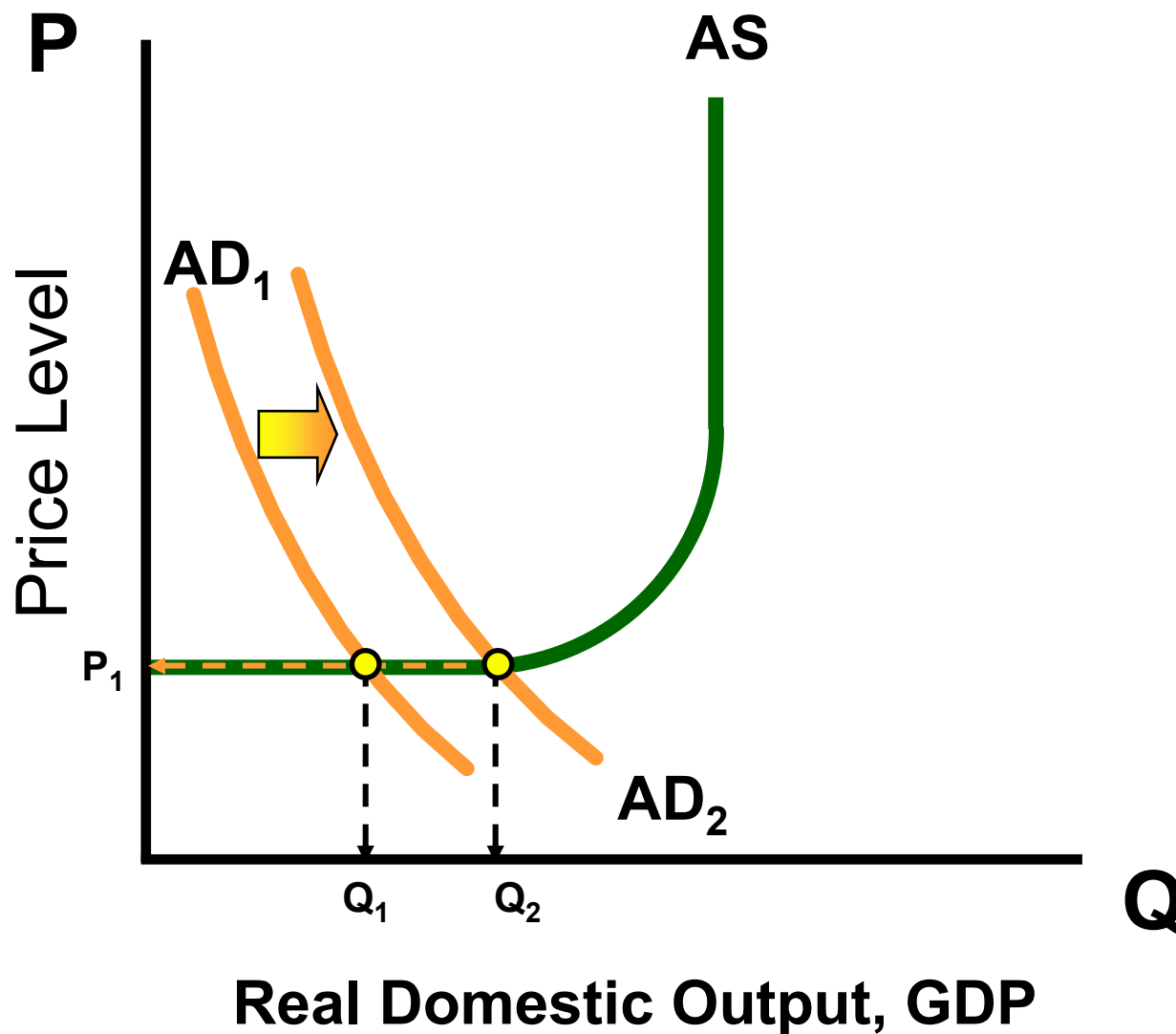
End Show



11 - 16

## CHANGES IN EQUILIBRIUM

### Increasing Demand in the Horizontal Range





# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

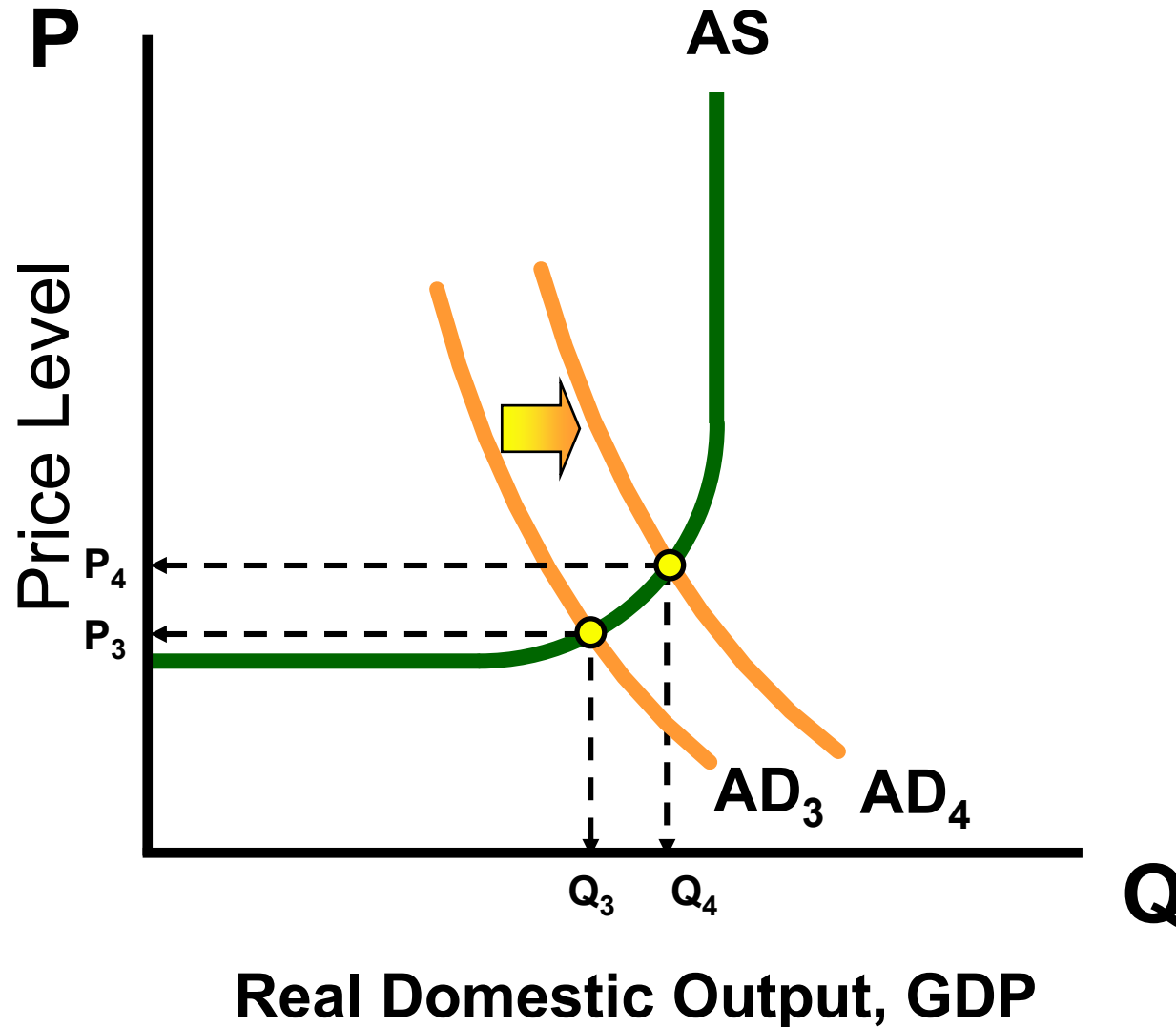
End Show



11 - 17

## CHANGES IN EQUILIBRIUM

### Increasing Demand in the Intermediate Range



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

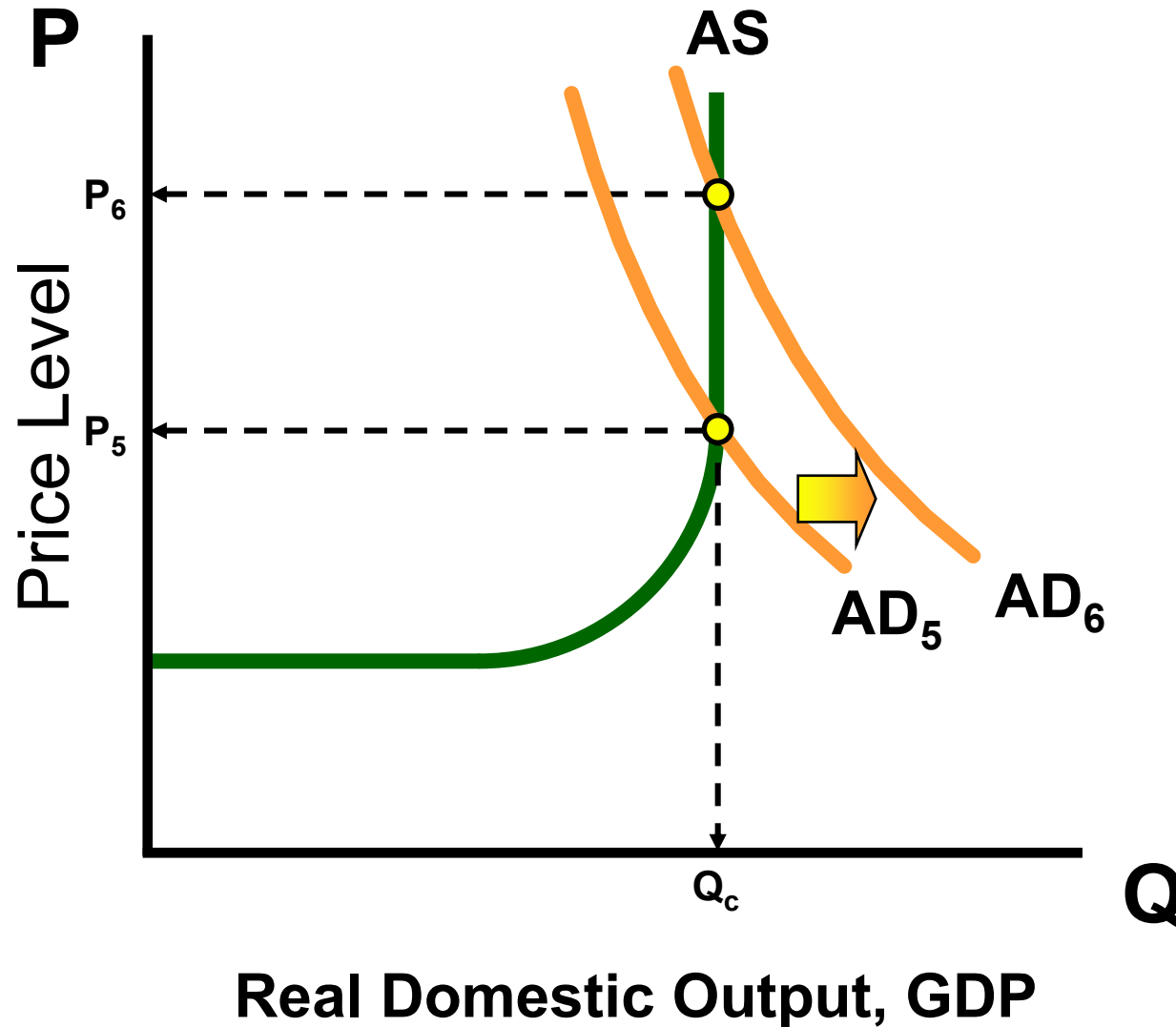
End Show



11 - 18

## CHANGES IN EQUILIBRIUM

### Increasing Demand in the Vertical Range



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

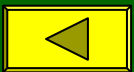
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

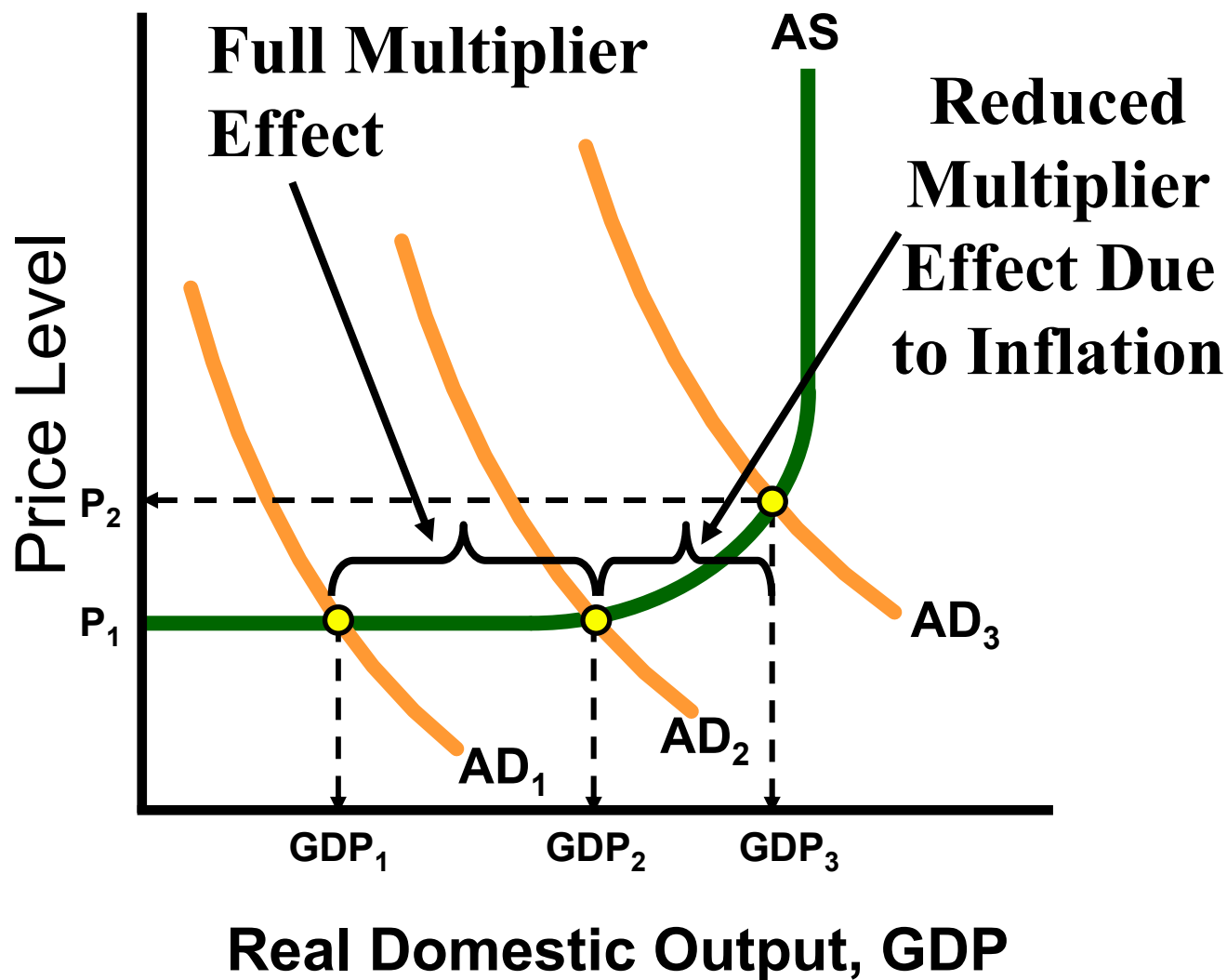
End Show



11 - 19

# MULTIPLIER WITH PRICE-LEVEL CHANGES

## Inflation and the Multiplier



# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide



Next  
Slide

End  
Show



11 - 20

## DECREASES IN AD AND RECESSION

Decreasing Demand That Causes A Recession

Recession and Cyclical Unemployment

- Wage Contracts
- Morale, Effort, and Productivity
- Efficiency Wages
- Minimum Wage
- Menu Costs
- Fear of Price Wars



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

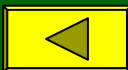
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

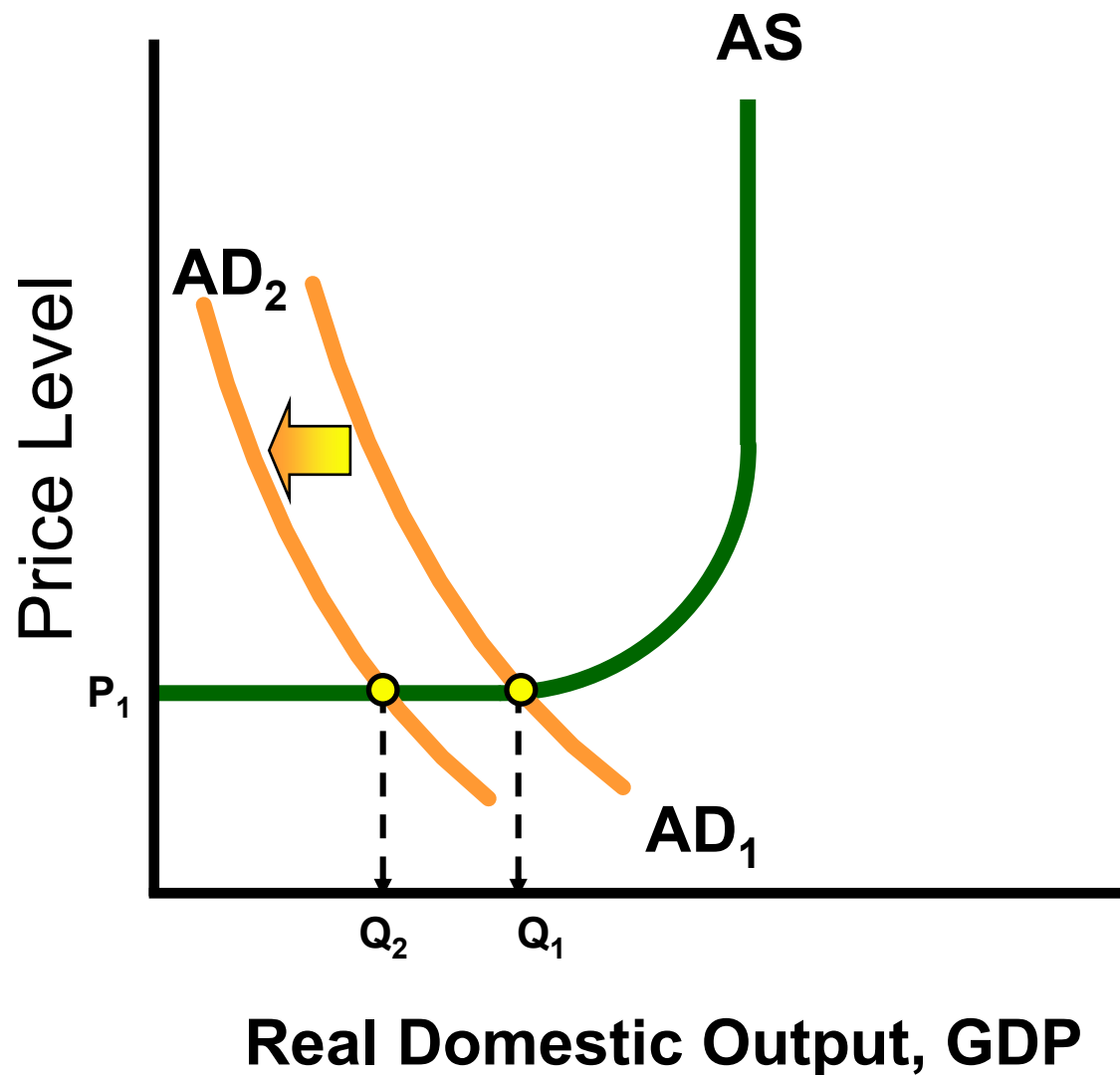
End Show



11 - 21

## DECREASES IN AD AND RECESSION

Decreasing Demand That Causes A Recession



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

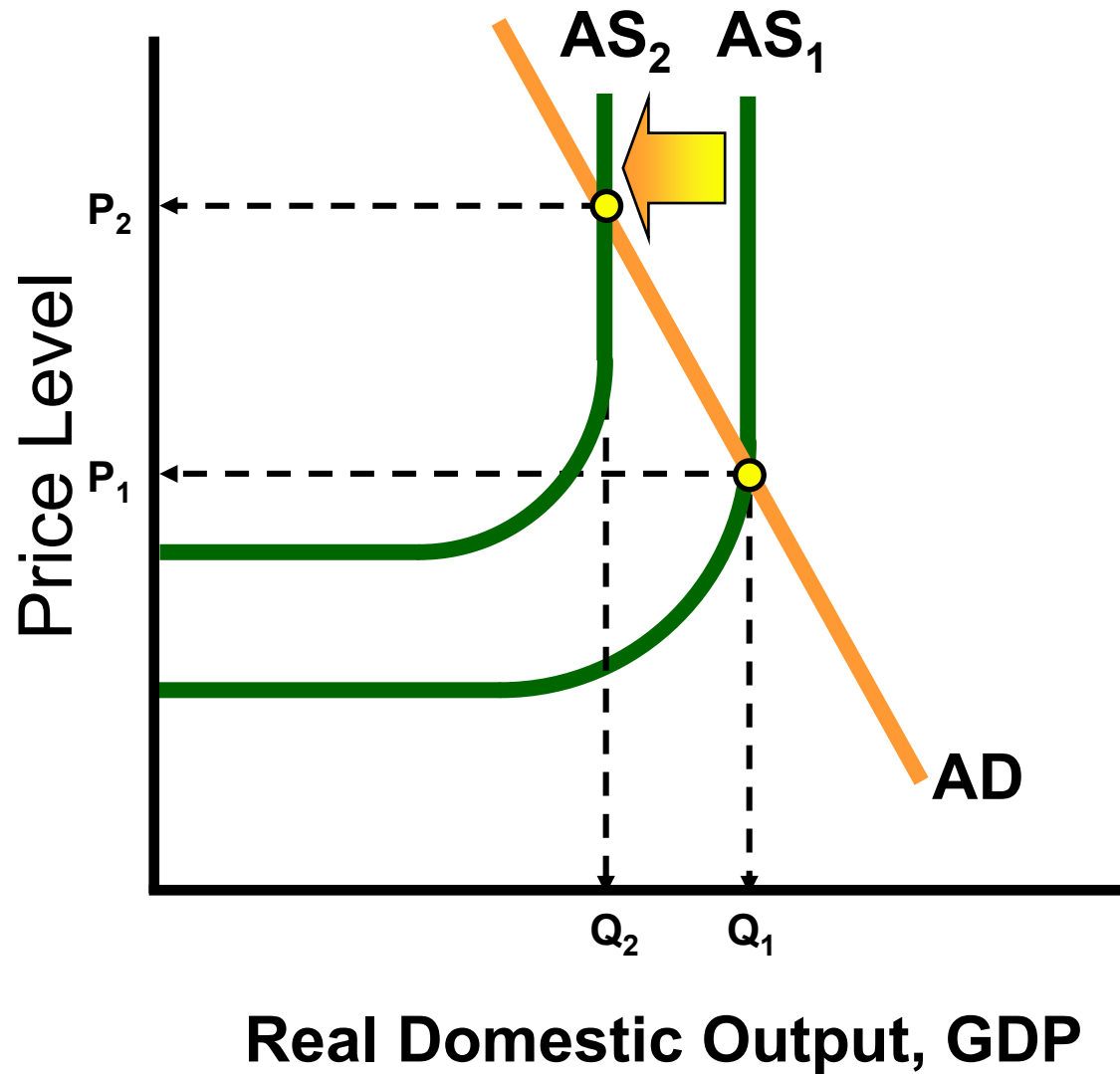
End Show



11 - 22

## DECREASES IN AD AND RECESSION

Decreasing Supply That Causes A Recession



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

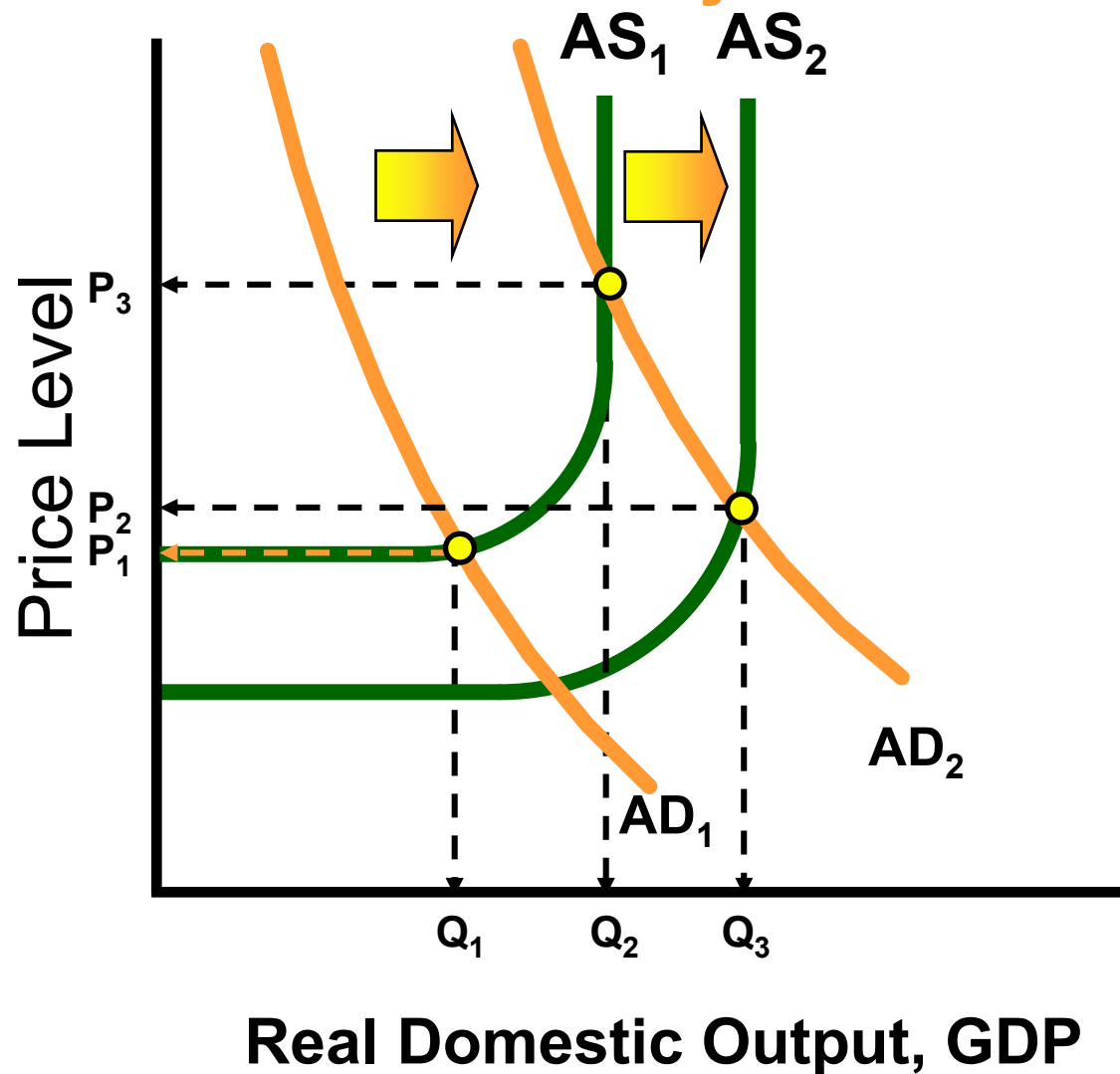
End Show



11 - 23

## INCREASES IN AS AND INFLATION

### Increasing Supply: Full-Employment and Price-Level Stability



# CHAPTER 11

Aggregate Demand

Derivation of the AD Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule and Curve

Aggregate Supply

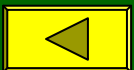
Equilibrium Real Output & Price Level

Changes in Equilibrium

Multiplier & Price Changes

Changes in AD & AS

Key Terms



Previous Slide

Next Slide

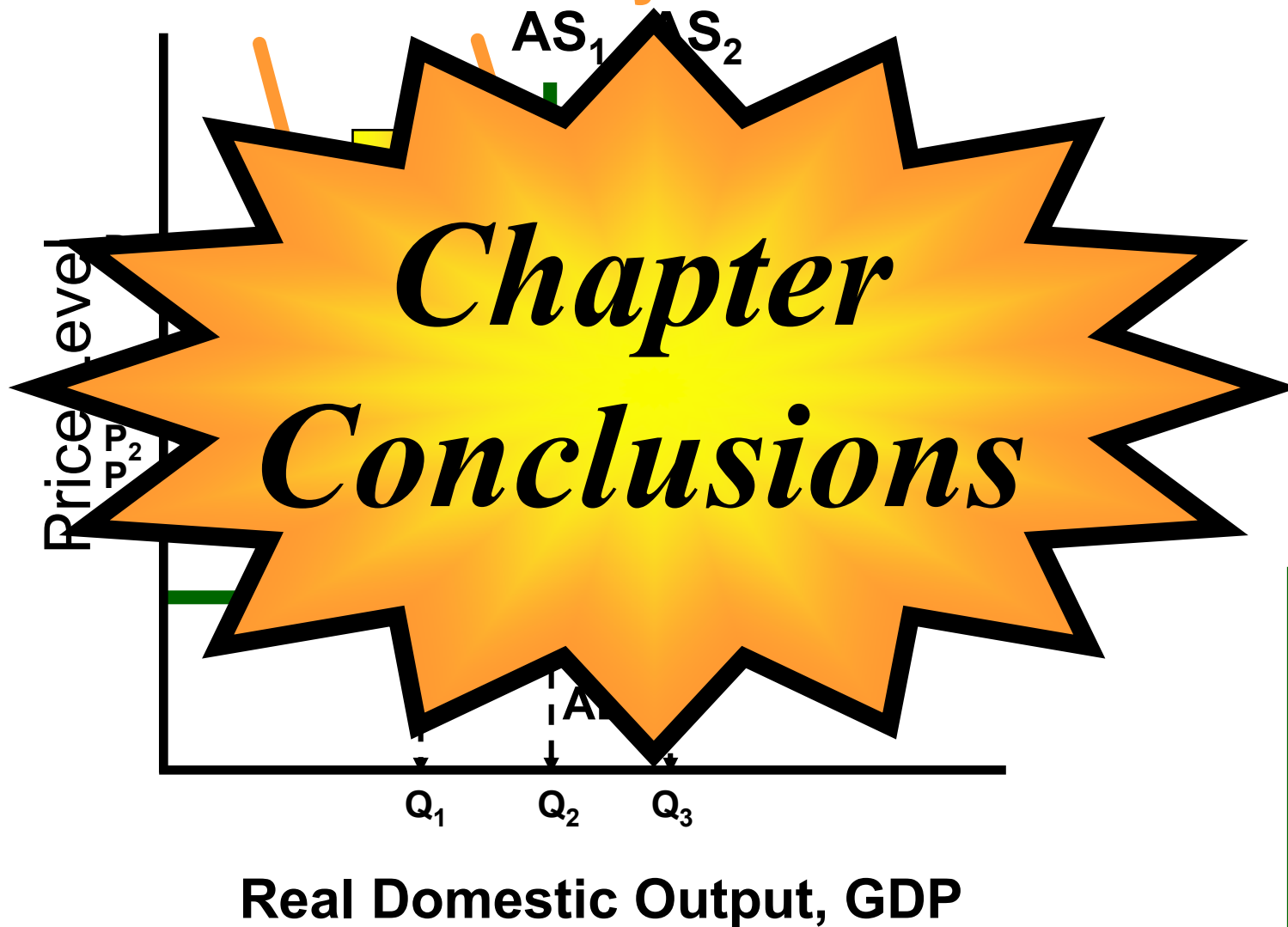
End Show



11 - 24

## INCREASES IN AS AND INFLATION

### Increasing Supply: Full-Employment and Price-Level Stability





# KEY TERMS

aggregate demand-  
aggregate supply (AD-  
AS) model

aggregate demand

real-balances effect

interest-rate effect

foreign purchases effect

determinants of aggregate  
demand

aggregate supply

horizontal range (of AS  
curve)

intermediate range (of AS  
curve)

vertical range (of AS curve)

determinants of aggregate  
supply

productivity

equilibrium price level

equilibrium real output

efficiency wages

menu costs

# CHAPTER 11

Aggregate Demand

Derivation of the AD  
Curve

Changes in AD

Determinants of AD

Shifts in AE Schedule  
and Curve

Aggregate Supply

Equilibrium Real  
Output & Price Level

Changes in  
Equilibrium

Multiplier & Price  
Changes

Changes in AD & AS

Key Terms



Previous  
Slide

Next  
Slide

End  
Show



11 - 26

*Coming next...*



*FISCAL  
POLICY*

*Chapter 12*