

4.3 Aggregate Demand and Aggregate Supply analysis

Name: _____ Class: _____ Date: _____

Total: 26 marks

KEY WORDS aggregate demand

• macroeconomic equilibrium

• aggregate supply

• equilibrium

• price level

Objective

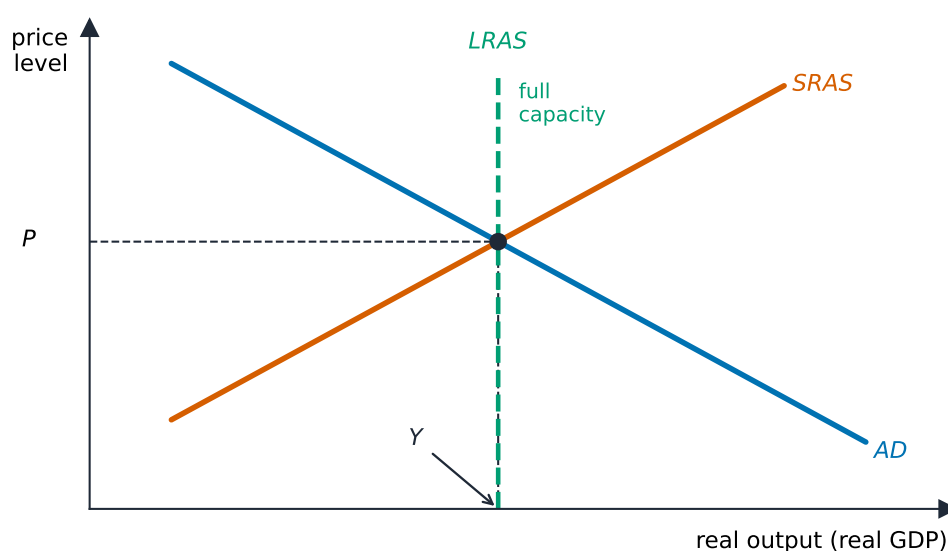
Build the skills to answer exam questions on **aggregate demand and aggregate supply** (AD–AS) – the components of **AD**, **SRAS** and **LRAS** / , and **macroeconomic equilibrium** .

You must be able to:

- state the components of AD and explain its slope
- distinguish SRAS from LRAS
- draw AD–AS and analyse a shift in equilibrium

1 Key knowledge and worked examples

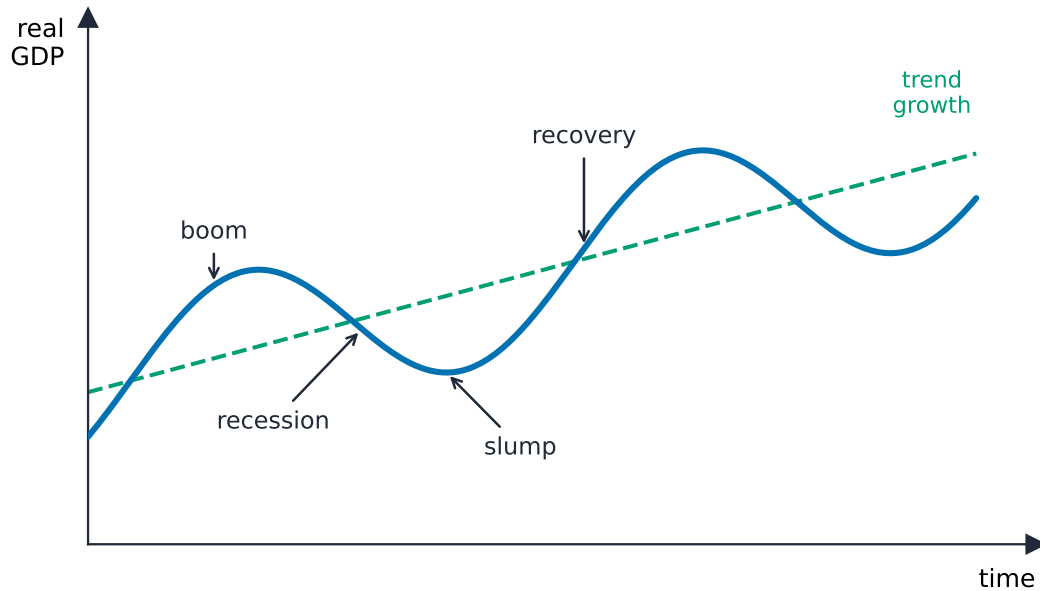
■ AD–AS equilibrium



Vertical LRAS marks full capacity

$$AD = C + I + G + (X - M)$$

- **C** consumption, **I** investment, **G** government spending, **(X – M)** net exports.
- **SRAS** slopes up (shifts when costs change); **LRAS** is vertical at full capacity.
- **Equilibrium** where AD meets AS → sets the **price level** and **real output**.



Shifts in AD or AS move the economy around the business cycle over time

Answer shapes: an **Explain** [up to 8] answer should use a labelled AD–AS diagram (AO3); **Discuss** [12] adds a judgement (AO4).

2 Practice

2.1 State the four components of aggregate demand. [2]

2.2 State the difference between SRAS and LRAS. [2]

2.3 State one cause of a rightward shift in AD. [1]

3 Exam-style questions

3.1 A cut in income tax is most likely to:

[1]

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- A** shift AD left
- B** shift AD right
- C** shift SRAS left
- D** shift LRAS right

3.2 Using an AD–AS diagram, explain how an increase in aggregate demand affects the price level and real output.

[8]

3.3 Discuss whether a rise in aggregate demand always benefits an economy. [12]