4.3 Aggregate Demand and Aggregate Supply analysis

Name: ______________ Class: __________ Date: ____________ **Total: 26 marks**

Objective

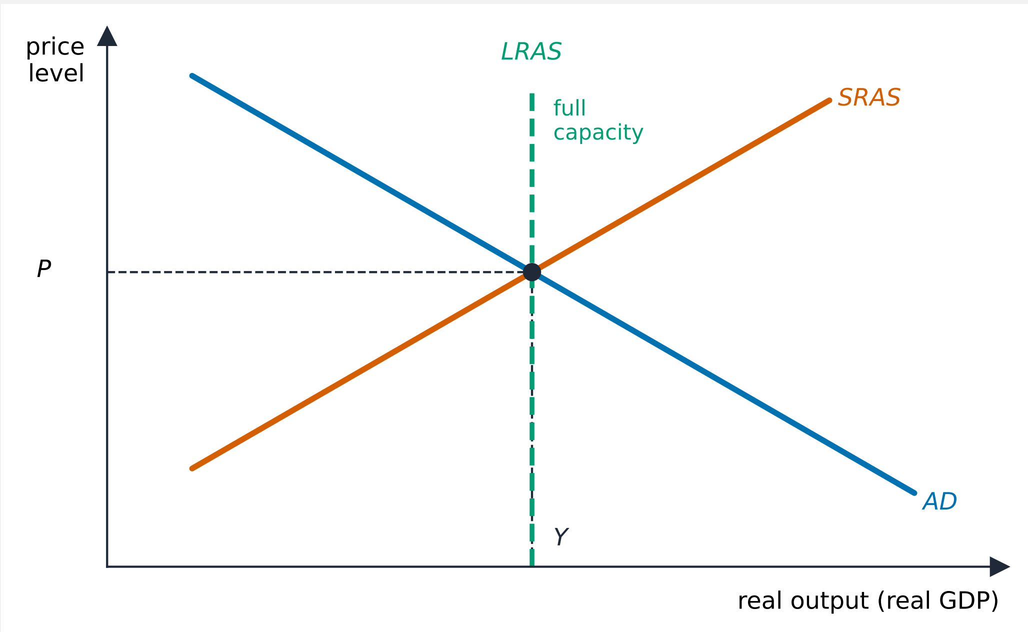
Build the skills to answer exam questions on **aggregate demand and aggregate supply** 总需求与总供给 (AD–AS) —the components of **AD** 总需求, **SRAS and LRAS** 短期/长期总供给, and **macroeconomic equilibrium** 宏观经济均衡.

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 Worked examples

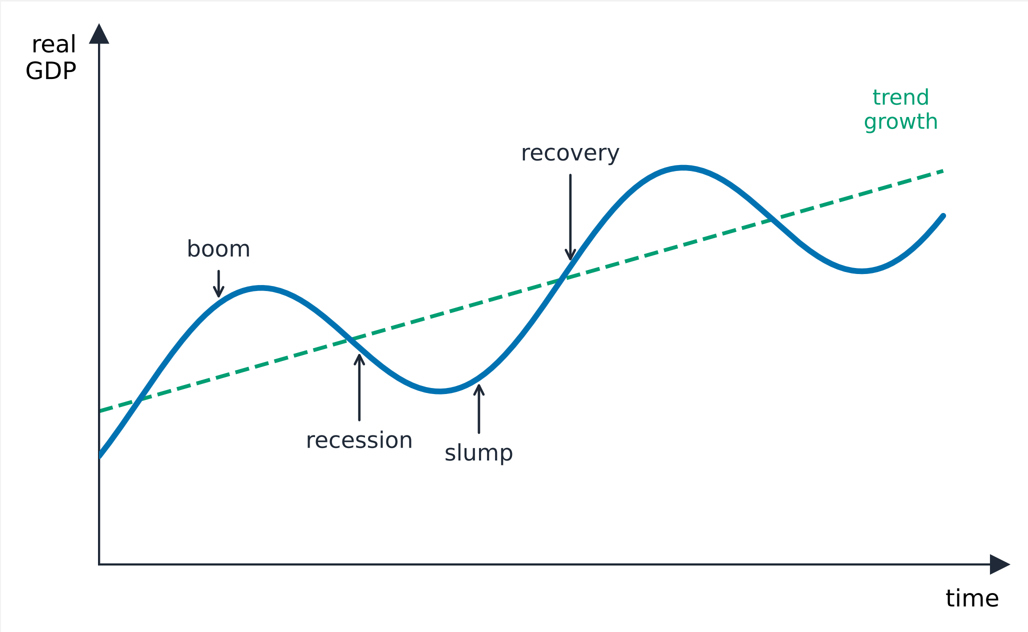
■ AD–AS equilibrium



Vertical LRAS marks full capacity 生产能力

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

- **C** consumption, **I** investment, **G** government spending, **(X − M)** net exports.
- **SRAS** 短期总供给 slopes up (shifts when costs change); **LRAS** 长期总供给 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]

- **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]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **4.3 Aggregate Demand and Aggregate Supply analysis** past-paper sheet in the Library, or try these in **Practice mode**:

- 9708/11 N25 —Q21 (aggregate demand)
- 9708/12 N25 —Q16 (AD–AS)
- 9708/12 N25 —Q17 (macroeconomic equilibrium)

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 consumption (C), investment (I), government spending (G), net exports (X − M) (2 for all four; 1 for two or three).

2.2 SRAS slopes upward and shifts when production costs change; LRAS is vertical and shows full productive capacity, shifting only when factors change (2 for a clear difference; 1 for a partial idea).

2.3 any one of: a rise in C/I/G; a tax cut; a fall in interest rates; a rise in exports (1).

3.1 B. A tax cut raises disposable income and consumption, shifting AD right.

3.2 *[8]* AO1 1 + **AO3 diagram up to 4** (AD shifts right, SRAS upward-sloping, new equilibrium) + AO2/AO3 up to 3 —higher AD raises both the price level and real output along SRAS; near full capacity (steep AS) most of the rise is in prices, while with spare capacity (flat AS) most is in output.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For:** higher AD raises output and employment when there is spare capacity. **Against:** near full capacity it mainly causes demand-pull inflation, may worsen the current account (more imports) and is unsustainable. Judgement: the effect depends on how close the economy is to full capacity — beneficial in a recession, inflationary in a boom.