Exercise walk-through

Aggregate Demand (AD) ▪ 3.1

eXercise

You must be able to

- define **aggregate demand 总需求** as total real output demanded at each price level
- explain the downward slope using the **wealth**, **interest rate**, and **exchange rate** effects
- identify the components: consumption, investment, government spending, net exports
- distinguish a movement along AD from a **shift** of AD

Method — Aggregate demand

The total quantity of real output all buyers want at each price level.

Method — Why AD slopes down

- **Wealth effect** — a lower price level raises the real value of money.
- **Interest rate effect** — lower prices lower interest rates, boosting investment.
- **Exchange rate effect** — lower prices make exports cheaper.

Method — Components and shifts

$AD = C + I + G + (X - M)$. A change in any component (e.g. confidence, interest rates, expectations) **shifts** the whole AD curve.

Practice 2.1 ▪ 1 mark

Define aggregate demand.

Solution 2.1

Method: Aggregate demand

Worked steps

the total quantity of real output demanded in an economy at each price level **B1**.

Practice 2.2 ▪ 2 marks

Name the three effects that explain the downward slope of AD.

Solution 2.2

Worked steps

the wealth effect, the interest rate effect, the exchange rate effect **B1** **B1** *for any two; for all three*.

Practice 2.3 ▪ 2 marks

List the four components of aggregate demand.

Solution 2.3

Method: Aggregate demand

Worked steps

consumption, investment, government spending, net exports **B1** **B1** *for two; for all four*.

Exam-style 3.1 ▪ 1 mark

The AD curve slopes downward partly because of the

A wealth effect

B law of supply

C menu costs

D multiplier

Solution 3.1

A wealth effect ✓

B law of supply

C menu costs

D multiplier

Worked steps

A.

Exam-style 3.2 ▪ 1 mark

A rise in consumer confidence shifts AD

A to the left

B to the right

C not at all

D vertically

Solution 3.2

Method: Components and shifts

A to the left

B to the right ✓

C not at all

D vertically

Worked steps

B.

Exam-style 3.3 ▪ 1 mark

Investment spending falls sharply across the economy.
(a) State the effect on aggregate demand.
(b) State the direction AD shifts.
(c) Name one other component of AD.

Solution 3.3

Worked steps

(a) AD falls **B1**. (b) to the left **B1**. (c) any one of: consumption, government spending, net exports **B1**.