3.1 Aggregate Demand (AD)

Name: ____________ Class: ________ Date: __________ **Total: 10 marks**

KEY WORDS aggregate demand 总需求 • price level 价格水平 • wealth effect 财富效应

Objective

Build the skills to answer exam questions on **aggregate demand (AD)**.

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

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ Aggregate demand

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

■ 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.

■ 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.

2 Practice

2.1 Define aggregate demand. [1]

2.2 Name the three effects that explain the downward slope of AD. [2]

2.3 List the four components of aggregate demand. [2]

3 Exam-style questions

3.1 The AD curve slopes downward partly because of the [1]

A B
C D

- **A** wealth effect
- **B** law of supply
- **C** menu costs
- **D** multiplier

3.2 A rise in consumer confidence shifts AD [1]

A B
C D

- **A** to the left
- **B** to the right
- **C** not at all
- **D** vertically

3.3 Investment spending falls sharply across the economy.

(a) State the effect on aggregate demand. [1]

(b) State the direction AD shifts. [1]

(c) Name one other component of AD. [1]