3 Aggregate demand and the multiplier – Part 1

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)
Aggregate demand	总需求	
multiplier effect	乘数效应	
marginal propensity to consume	边际消费倾向	

Recall

You already know that spending drives an economy:

- When people spend more, businesses sell more and may hire more.
- Total spending in a country adds up to its output.
- One person's spending is another person's income.

This sheet lines up total demand and the multiplier. Each idea has a worked example.

New ideas

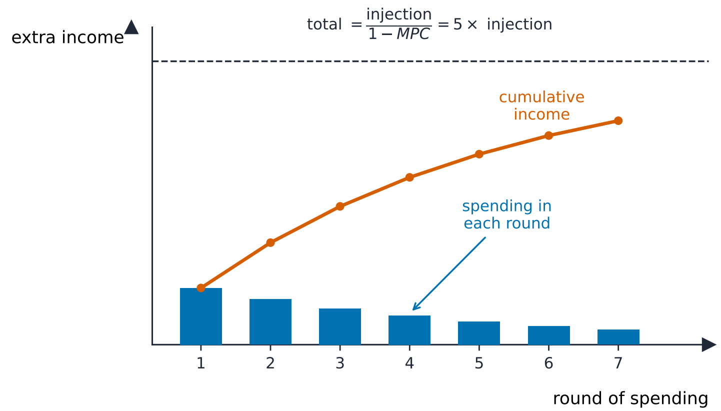
■ 1 Aggregate demand

Aggregate demand 总需求 is the total spending in an economy at each price level: consumption + investment + government + net exports ($C + I + G + X_n$). It slopes **downward** against the price level.

$AD = C + I + G + (X - M)$: total spending on a country's goods and services

■ 2 The multiplier effect

A change in spending sets off further rounds of spending, so the final change in output is **larger** – the **multiplier effect** 乘数效应.



■ 3 The spending multiplier

The multiplier depends on the **marginal propensity to consume** 边际消费倾向 (MPC), the fraction of extra income that is spent:

$$\text{multiplier} = \frac{1}{1 - MPC}.$$

Worked example. If $MPC = 0.8$, the multiplier is $\frac{1}{1-0.8} = 5$. So \$10b of extra government spending raises output by $5 \times \$10 = \$50$b.

■ **4 What shifts AD**

Aggregate demand shifts when any of C, I, G, or net exports changes – for example, more consumer confidence or higher government spending shifts it **right**.

Watch out: the multiplier is bigger when people **spend** more of each extra dollar (a higher MPC). If they save more, the multiplier is smaller, because less is passed on in each round.

Practice

Try these in order. The methods are all above.

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

2.2 Explain what the multiplier effect is. [2]

2.3 If $MPC = 0.75$, find the spending multiplier. [2]

2.4 Using that multiplier, find the change in output from a $20b rise in government spending. [2]

2.5 State one thing that would shift aggregate demand to the right. [1]