

3.2 Aggregate demand and aggregate supply

Name: _____ Class: _____ Date: _____

Total: 24 marks

KEY WORDS aggregate demand • aggregate supply

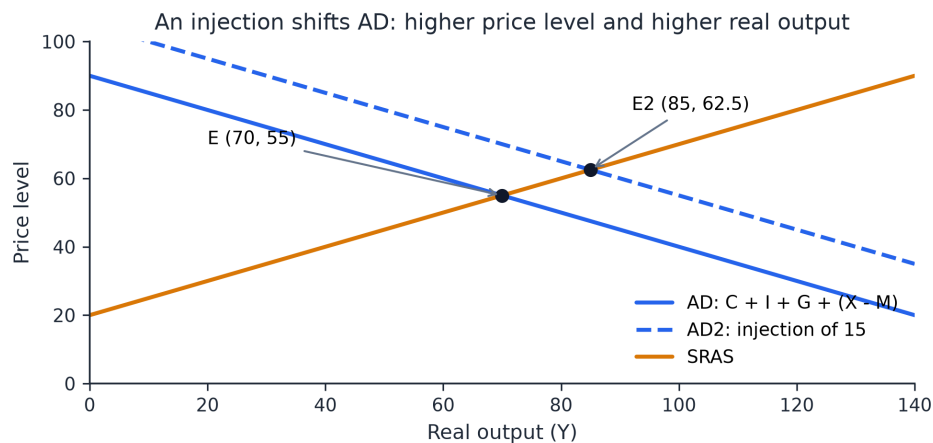
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Objective

Use the AD equation and its components' influences, movements versus shifts, SRAS shift factors and the Keynesian and classical LRAS shapes with the equilibrium model (spec 2.3.2–2.3.3).

1 Key knowledge and worked examples

AD and AS. $AD = C + I + G + (X - M)$; a price-level change moves along AD, a component change shifts it. SRAS shifts with input costs, exchange rates and taxes. LRAS is Keynesian (flat with spare capacity, vertical at capacity) or classical (vertical at full employment). The worked model: AD is $P = 90 - Y/2$, SRAS is $P = 20 + Y/2$, equilibrium (70, 55); an injection of 15 shifts AD to equilibrium (85, 62.5).



Original model; both equilibria are computed in the worked examples.

2 Practice

2.1 Write the AD equation. With $C = 60$, $I = 20$, $G = 20$, $X = 25$ and $M = 25$, calculate AD. [2]

2.2 For each event, state whether it moves the economy along AD or shifts AD (and in which direction): (a) the price level rises; (b) consumer confidence collapses. [2]

2.3 Name any four of the six influences on consumption. [2]

2.4 Distinguish gross investment from net investment. [2]

2.5 The world oil price rises. Which curve shifts, in which direction, and why? [2]

2.6 With heavy spare capacity, what does the Keynesian LRAS imply about the price effect of a rise in AD? [2]

3 Exam-style questions

3.1 (*Original.*) In the model AD: $P = 90 - Y/2$ and SRAS: $P = 20 + Y/2$, an investment injection shifts AD up by 15 at every output. Find both equilibria and describe the adjustment. [4]

3.2 (*Original.*) Explain two factors that shift LONG-run aggregate supply, with the mechanism for each. [4]

3.3 (*Original.*) Analyse how a currency depreciation affects the net trade balance component of AD. [4]
