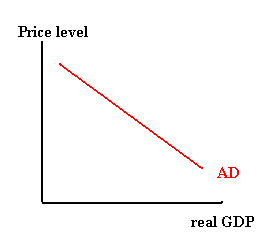
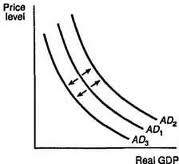
## Deriving the Aggregate Demand Curve (AD)



1. According to the AD curve, what is the relationship between the price level and real GDP?
2. Explain how each of the following effects helps explain why the AD curve is downward sloping.
   1. Wealth effect (or real-balance effect) -
   2. Interest rate effect -
   3. Net export effect -
3. In what ways do the reasons that explain the downward slope of the AD curve differ from the reasons that explain the downward slope of the demand curve for a single product?

## Shifts to Aggregate Demand



1. Using the diagram above, determine whether each situation below will cause an increase, decrease or no change in AD. Always start at curve AD1. If the situation would cause an increase in AD, draw an up arrow in column 1. If it causes a decrease, draw a down arrow. If there is no change, write NC. For each situation that causes a change in aggregate demand, write the label of the new demand curve (AD2 or AD3) in column 2. Move only one curve.

|  |  |  |
| --- | --- | --- |
| **Situation** | **Change in AD** | **New AD Curve** |
| A) Congress cuts taxes |  |  |
| B) Stock market collapses; investors lose billions. |  |  |
| C) Government spending to increase next fiscal year; president promises no increase in taxes. |  |  |
| D) Survey shows consumer confidence jumps |  |  |
| E) President cuts defense spending by 20 percent; no increase in domestic spending. |  |  |

