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

3.2 A rise in consumer confidence shifts AD [1]

- **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]

Solutions

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

2.2 the wealth effect, the interest rate effect, the exchange rate effect.

2.3 consumption, investment, government spending, net exports.

3.1 **A**.

3.2 **B**.

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