# 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

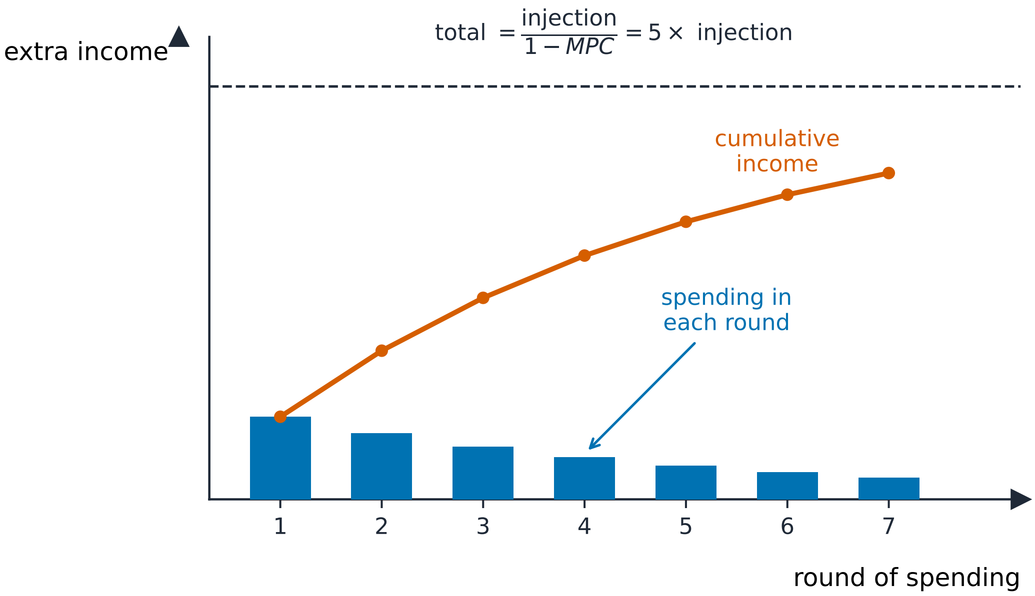
### ■ 1 Aggregate demand

**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]