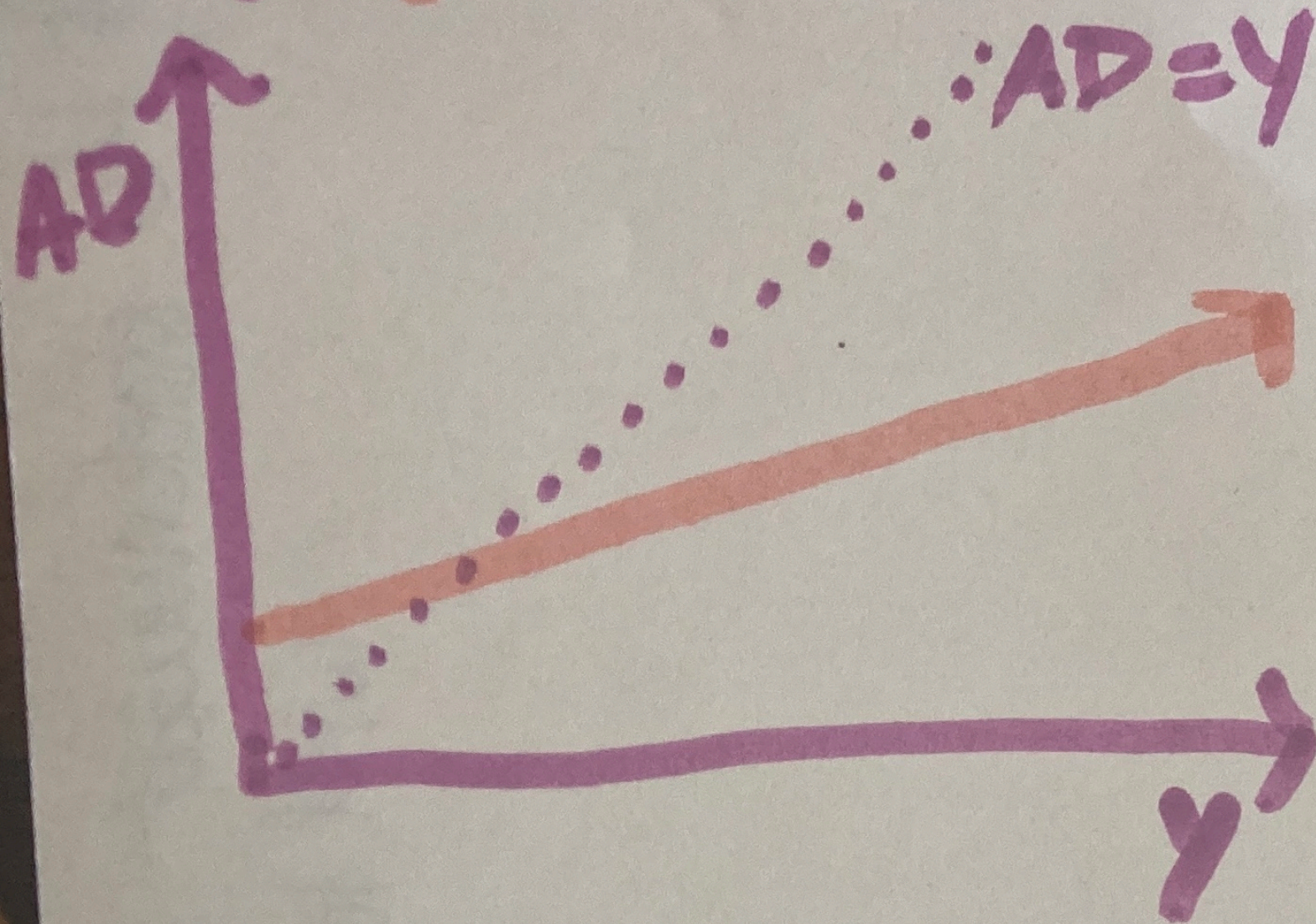


AGGREGATE DEMAND

week 14

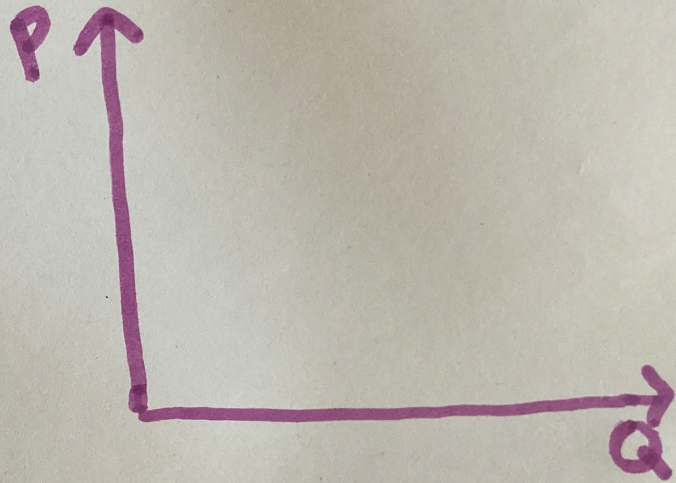
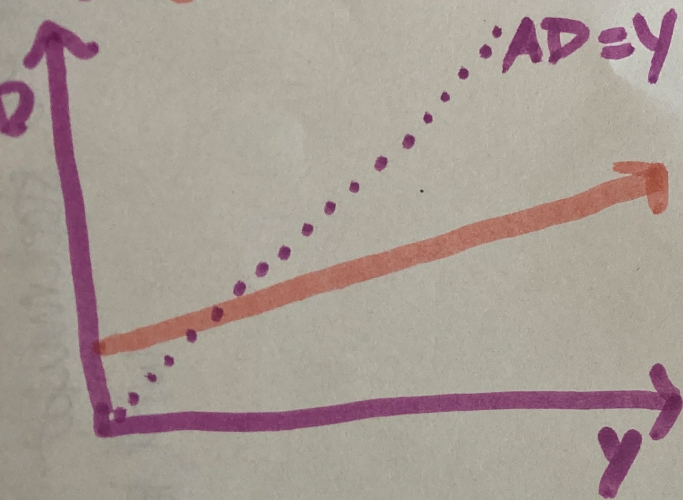
KEYNESIAN CROSS



AGGREGATE DEMAND $AD = C + I + G + NX$

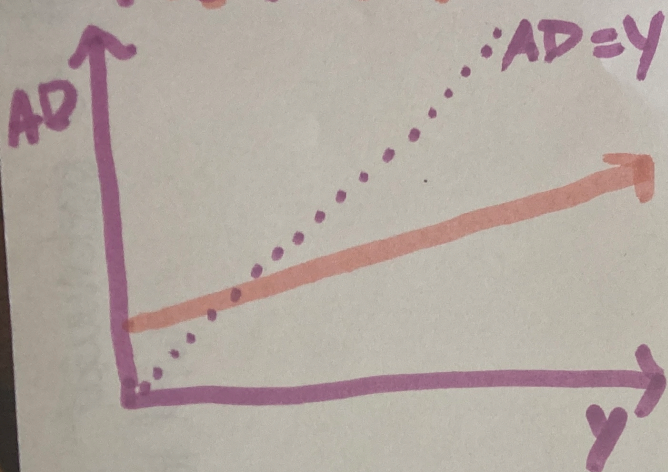
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AGGREGATE ECONOMY

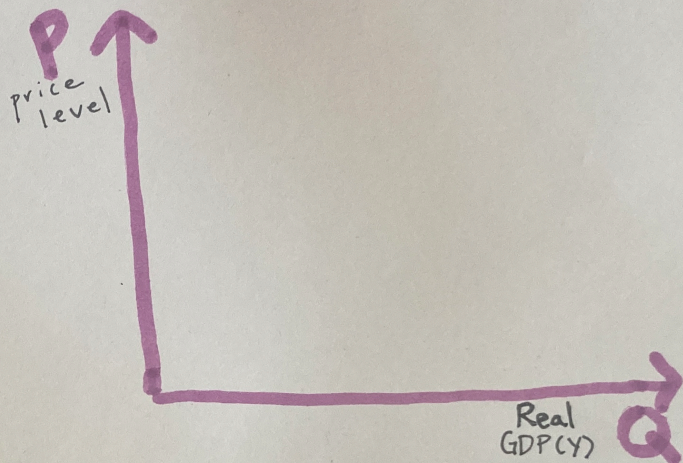


AGGREGATE DEMAND $AD = C + I + G + NX$

KEYNESIAN CROSS

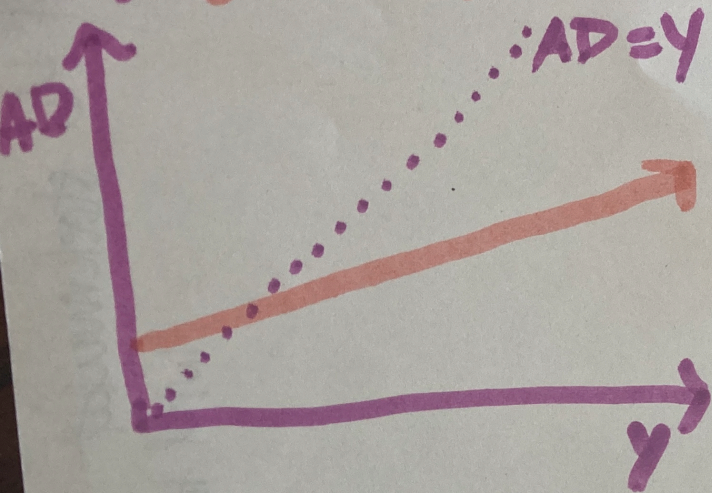


AGGREGATE ECONOMY

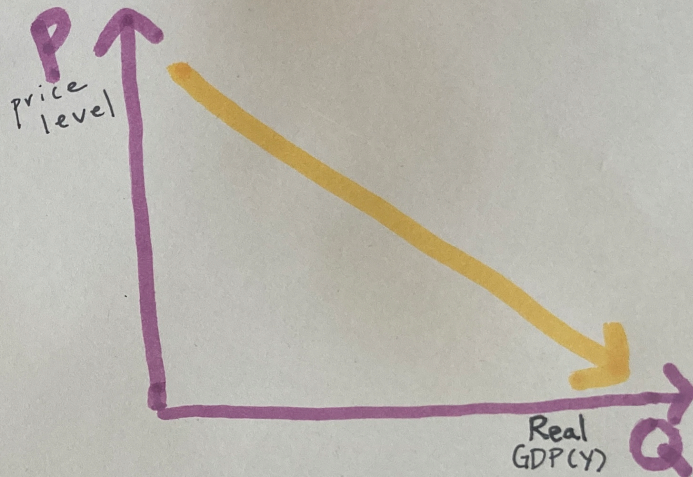


AGGREGATE DEMAND $AD=C+I+G+NX$

KEYNESIAN CROSS

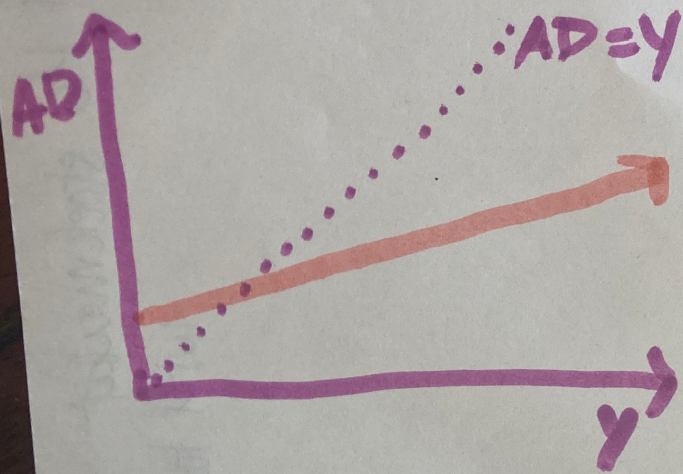


AGGREGATE ECONOMY



AGGREGATE DEMAND $AD = C + I + G + NX$

KEYNESIAN CROSS



AGGREGATE ECONOMY



WHY IS AD DOWNWARD SLOPING IN THIS GRAPH?

MAND AD-CLM NX AGGREGATE ECONOMY

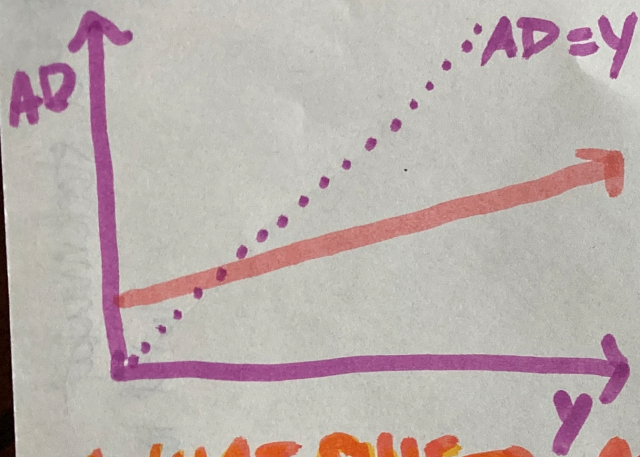


WHY IS AD DOWNWARD SLOPING IN THIS GRAPH?

- REAL WEALTH EFFECT
when prices go up, each bill purchases less
- REAL MONEY SUPPLY
upward pressure on interest rates in
market for loanable funds
↳ more debt → less spending
- INFLATION HURTS NX
- WHEN prices INCREASE, FED TENDS TO ($\Delta^+ r$)
INCREASE interest rates

AGGREGATE DEMAND $AD = C + I + G + NX$

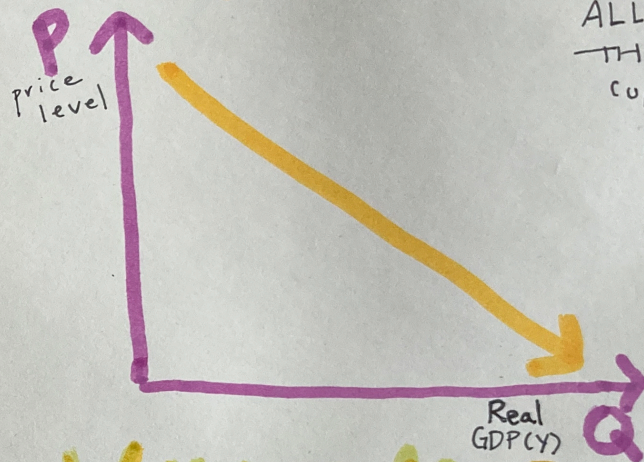
KEYNESIAN CROSS



WHAT SHIFTS AD?

- C
- I
- G
- NX

AGGREGATE ECONOMY



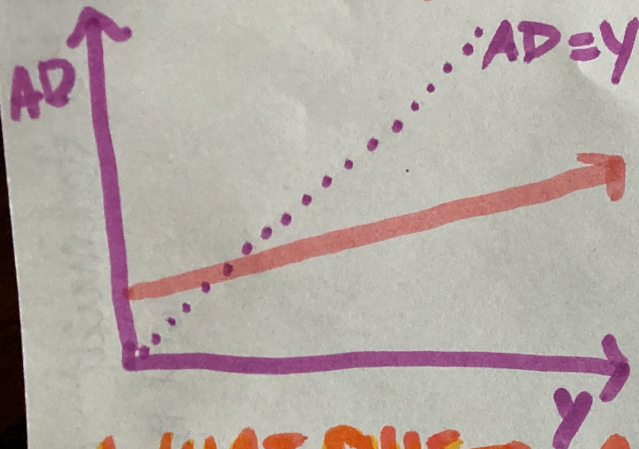
ALL THE POINTS ON THIS AD CURVE CORRESPOND TO POINTS WHERE KEYNESIAN CROSS IS IN EQUILIBRIUM.

WHY IS AD DOWNWARD SLOPING IN THIS GRAPH?

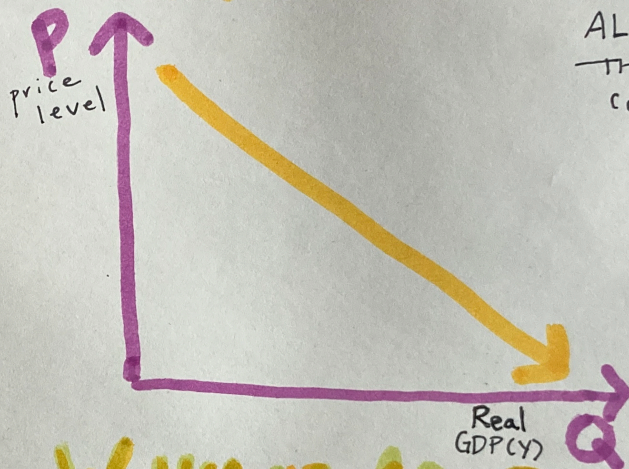
- REAL WEALTH EFFECT
when prices go up, each bill purchases less
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upward pressure on interest rates in market for loanable funds
↳ more debt → less spending
- INFLATION HURTS NX
- WHEN PRICES INCREASE, FED TENDS TO $(\Delta^+ r$
INCREASE INTEREST RATES

AGGREGATE DEMAND $AD = C + I + G + NX$

KEYNESIAN CROSS



AGGREGATE ECONOMY



ALL THE POINTS ON THIS AD CURVE CORRESPOND TO POINTS WHERE KEYNESIAN CROSS IS IN EQUILIBRIUM

WHAT SHIFTS AD?

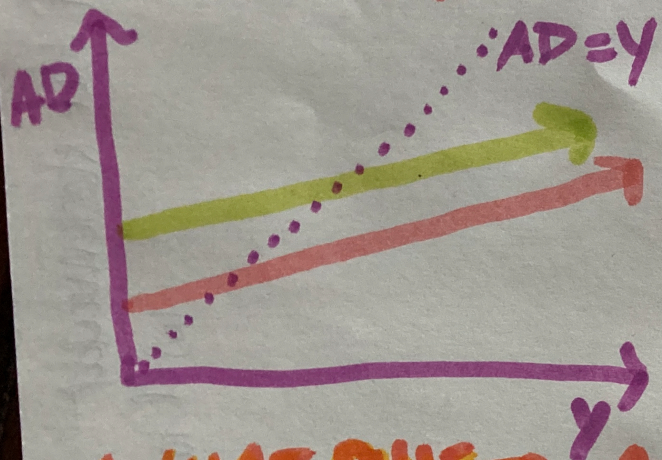
- C**
 - thrift
 - transfers
 - taxes
- I**
 - business incentives
 - animal spirits
- G** fiscal policy purchases
- NX** changes in X or M e.g. tastes

WHY IS AD DOWNWARD SLOPING IN THIS GRAPH?

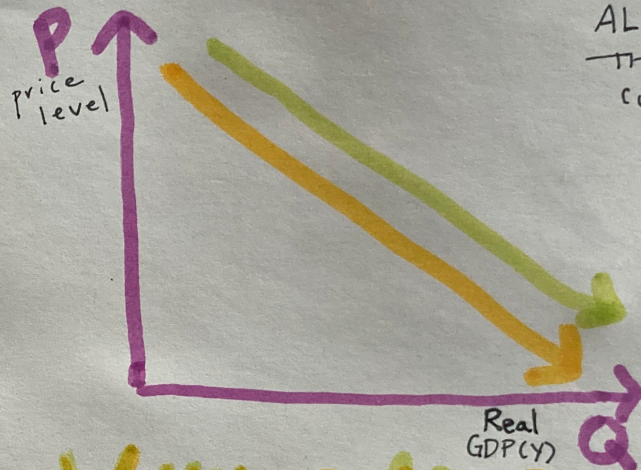
- REAL WEALTH EFFECT
when prices go up, each bill purchases less
- REAL MONEY SUPPLY
upward pressure on interest rates in market for loanable funds
↳ more debt → less spending
- INFLATION HURTS NX
- WHEN prices increase, FED TENDS TO ($\Delta + r$) INCREASE interest rates

AGGREGATE DEMAND $AD = C + I + G + NX$

KEYNESIAN CROSS



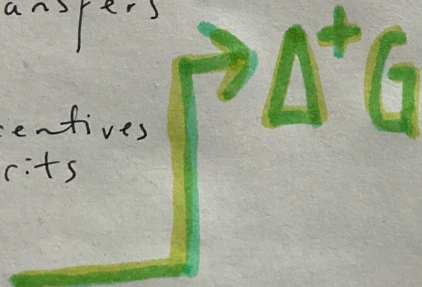
AGGREGATE ECONOMY



ALL THE POINTS ON THIS AD CURVE CORRESPOND TO POINTS WHERE KEYNESIAN CROSS IS IN EQUILIBRIUM

WHAT SHIFTS AD?

- C
 - thrift
 - transfers
 - taxes
- I
 - business incentives
 - animal spirits
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 - fiscal policy
 - purchases
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 - changes in X or M
 - e.g. tastes



WHY IS AD DOWNWARD SLOPING IN THIS GRAPH?

- REAL WEALTH EFFECT
 - when prices go up, each bill purchases less
- REAL MONEY SUPPLY
 - upward pressure on interest rates in market for loanable funds
 - ↳ more debt → less spending
- INFLATION HURTS NX
- WHEN PRICES INCREASE, FED TENDS TO ($\Delta^+ r$) INCREASE INTEREST RATES