and a lower level of equilibrium output. There is also a decrease in demand for money.

- The aggregate demand curve graphs the negative relationship between output and price level. Each point on the AD curve is a point at which both the goods market and the money market are in equilibrium.

- An increase in the quantity of money supplied, an increase in government purchases, or a decrease in net taxes at a given price level shifts the curve to the right. Decrease shifts to the left.

Expansionary monetary policy
Ms increase → AD curve shifts to the right
Expansionary fiscal policy
G increase → AD curve shifts to the right
T decrease → AD curve shifts to the right
Contractionary monetary policy
Ms decrease → AD curve shifts to the left
Contractionary fiscal policy
G decrease →AD curve shifts to the left
T increase → AD curve shifts to the left

R (up) → I (down) → AE (down) → Y (down)

R (down) → I (up) → AE (up) → Y (up)

Y (up) → Md (up) → r (up) → demand curve shifts to the right

Y (down) → Md (down) → r (down)

Terms and definitions:

- Crowding-out effect
    - The tendency for increases in government spending to cause reductions in private investment spending
- Real wealth or real balance effect
    - The change in consumption brought about by a change in real wealth that results from a change in the price level

__Chapter 28__

- Many economists believe that at very low levels of the AS curve of aggregate output, the AS curve is fairly flat and that at high levels of aggregate output, the AS curve is vertical or nearly vertical. Curve slopes upward and becomes vertical when the economy reaches it capacity.

    - Caused by an increase in the costs
- Stagflation
    - Output is falling at the same time that prices are rising

Chapter 29

- In general, employment tends to fall when aggregate output falls and rise when aggregate output rises.
- If firms are operating with incomplete or imperfect information, they may not know what the market-clearing wage is. As a result, they may set their wages incorrectly and bring about unemployment. Because the economy is so complex, it may take considerable time for firms to correct these mistakes.
- Minimum wage laws, which set a floor for wage rates, are one factor contributing to unemployment of teenagers and very low-skilled workers. If the market-clearing wage for some groups of workers is below the minimum wage, some members of this groups will be unemployed
- There is a negative relationship between the unemployment rate (U) and aggregate output (Y). When Y rises, U falls. When Y falls, U rises.
- The relationship between the unemployment rate and the price level is negative: As the unemployment rate declines and the economy moves closer to capacity, the price level rises more and more.
- The Philips Curve represents the relationship between the inflation rate and the unemployment rate. Those who believe that the AS curve is vertical in the long run also believe that the Philips Curve is vertical in the long run at the natural rate of unemployment. The natural rate is generally the sum of the frictional and structural rates. If the Philips Curve is vertical in the long run, then there is a limit to how low government policy can push the unemployment rate without setting off inflation.
- The NAIRU theory says that the price level will accelerate when the unemployment rate is below the NAIRU and decelerate when unemployment rate is above NAIRU.

Terms and definitions:

- Unemployment rate