ernments that impact the economy

ess
ggregate supply model
demand and supply of GDP
s in an economy
an economy

t people believe that this spending is what drives the economy
source in the economy

ich constitute real GDP

decreases in the quantity of aggregate demand

The Slope of the Aggregate Demand Curve

- All else being equal: increases in the economy's price level leads to de
- Substitutions from one market to another have no effect on the total
- Three reasons for this inverse relationship
  - **The Wealth Effect**
    - Wealth: the value of one's accumulated assets
    - Wealth is the total value of everything you own, including th
    - Wealth effect: is the change in the quantity of aggregate der
    - A rise in prices all over the economy reduces real wealth in t
    - If prices fall, real wealth increases, and then the quantity of a
  - **The Interest Rate Effect**
    - If the price level rises and real wealth falls, people save less
    - When you cut back on groceries that shows the effect of the
    - When you cut back on your savings that shows the effect of
    - Interest Rate Effect: occurs when a change in the price level demand
    - When savings declines, the quantity of investment must also
      - It's a reduction in the supply of savings that makes the i (horizontal axis)
  - **The International Trade Effect**
    - The price level and real GDP represent the domestic market
    - We must also consider the prices of the US relative to the pr
    - When the US price level rises, all else equal, US goods are re
    - International Trade Effect: a change in the price level leads t
- All three reasons work together to influence the quantity of aggregate
  - Begins with a change in the price level
  - Consumption (C) decreases from the wealth effect
  - Investment (I) declines from the interest rate effect

to	Negative Change in Factor Leads to
	Decrease
	Increase
	Increase

stand the economy?

s equal to aggregate supply

ium point
te demand
prices

s toward P*
ply