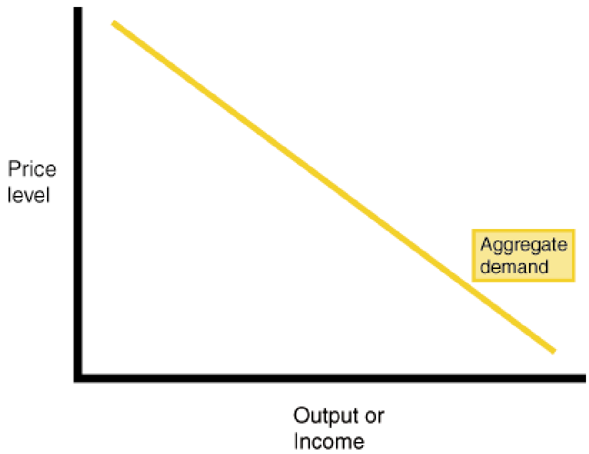
Aggregate Demand

Aggregate demand (AD) = total spending on goods and services

AD = C + I + G + (X–M)

IF the curve slopes downwards:

Lower prices→ Wealth effect
Lower prices→Cheaper exports
Lower prices→Expensive imports



The AD curve will shift right or left if there is a change to any of these factors:

Consumption: includes:
Durables: ex. motor vehicles
Non-durables: food and drinks (must be re-purchased).

Capital investment:
-Spending in capital goods such as equipment.
-Working capital such as stocks and semi-finished goods.

Preview from Notesale.co.uk
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FACT: Capital investment spending in the UK accounts for between 16-20% of GDP (75% from the private sector, 25% from the public sector)

Government spending:This is spending on state-provided goods and services including public goods.

X: Exports of goods and services - Exports sold overseas are an inflow of demand (an injection) into our circular flow of income and spending adding to aggregate demand.

M: Imports of goods and services. Imports are a withdrawal of demand (a leakage) from the circular flow of income and spending.