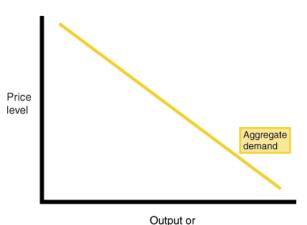
Aggregate Demand

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).

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Capital investment:

-Spending in capital good sa na equipment.

-Working capital actives stocks and semi-fin shed goods

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.