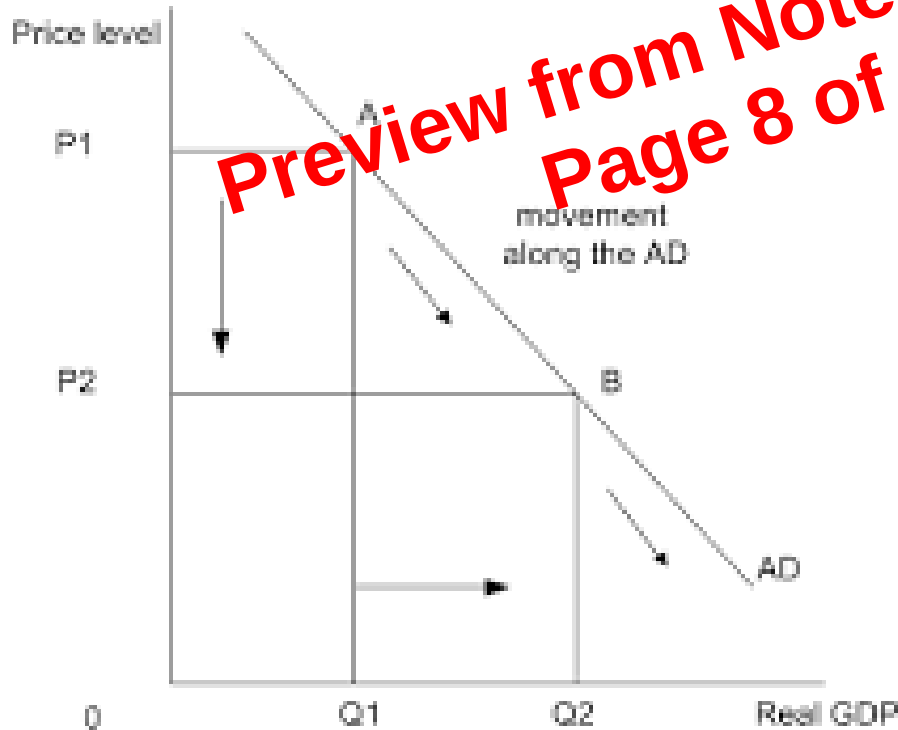


Aggregate Demand Curve



Preview from Notesale.co.uk
Page 8 of 10

The AD curve slopes downwards – the lower the price level, the more output is (expected) to be demanded. A change in either of the axis will affect the other. For example, P1 (HIGH PRICE LEVEL) would be expected to result in Q2 (LOWER REAL GDP, SHOWING A FALL IN OUTPUT)

A rise in the price level will cause output to fall because DOMESTIC CONSUMPTION WILL BE REDUCED as people can only purchase fewer goods and services.

Also, the demand for exports will be reduced because they are less internationally competitive

Finally, the demand for imports will increase as imports will be cheaper in comparison

Summary Questions!

Why does the Aggregate Demand curve slope downwards?

What causes a movement along the Aggregate Demand Curve?