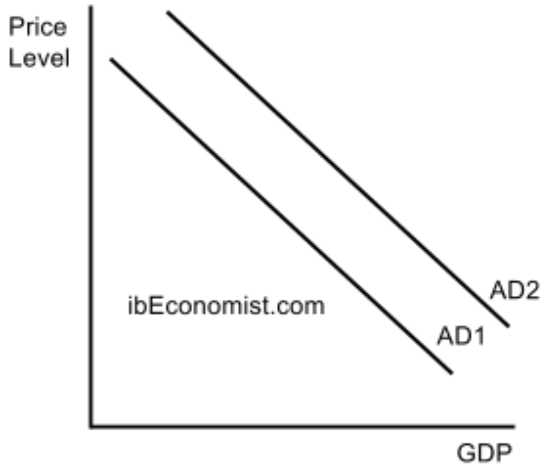
Aggregate demand

Aggregate demand consists of Consumption (C), Investment (I), Government spending (G), Exports (X) and Imports (M)
AD = C + I + G + (X – M)

Definition: Aggregate demand is the total demand for goods and services in an economy at different price levels.

Aggregate Demand (AD)



Explanation of why AD is downward sloping:

- As prices rise, demand for economy's goods and services decreases. Goods become less competitive internationally and people's real income falls.
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AD will shift if any of its components (C, I, G, X, M) change.

Consumption is affected by:

- Consumer Confidence
- Interest rates
- Personal Income taxes
- Household indebtedness
- Wealth

Investment is affected by:

- Interest rates
- Business confidence
- Technology
- Business taxes
- Level of corporate indebtedness

Government spending is affected by political and economic priorities.

Exports and **Imports** are affected by:

- Income of trading partners
- Exchange rates
- Changes in the level of protectionism
- Relative inflation rates