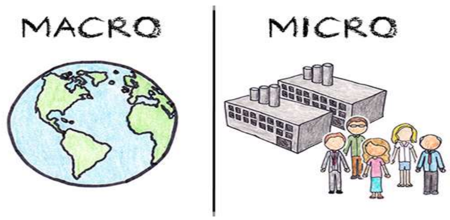
UNIT 4



MACROECONOMICS
AGGREGATE SUPPLY AND DEMAND

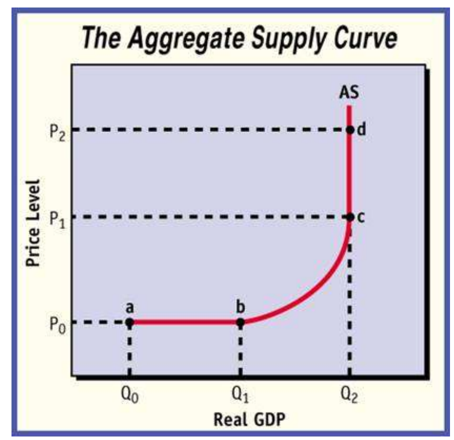
STANDARD SSEMA1

Illustrate the means by which economic activity is measured.

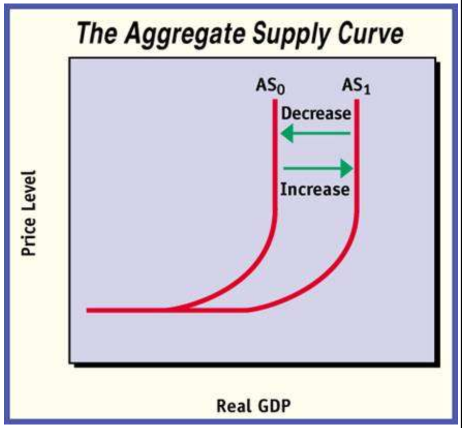
c. Define unemployment rate, Consumer Price Index (CPI), inflation, real GDP, aggregate supply and aggregate demand and explain how each is used to evaluate the macroeconomic goals from SSEMA1a

When we studied markets in unit 2 we used the tools of supply and demand to show how the equilibrium price and quantity of output were determined. When we study the economy as a whole, we can use the concepts of supply and demand in much the same way.

Aggregate Supply: the total value of goods and services that all firms would produce in a specific period of time at various price levels.



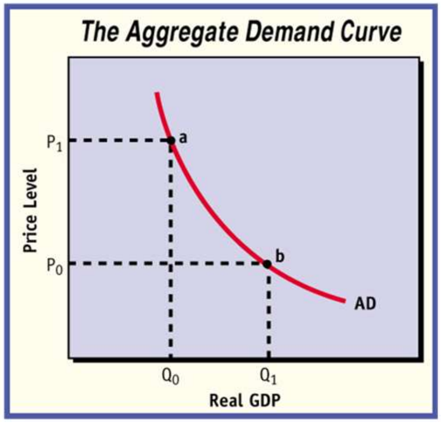
The AS curve is up-sloping and can also increase or decrease. When costs go down producers are willing to increase output so AS shifts right. When costs rise the AS curve shifts left.



The factors that shift the AS curve include the following:

- **G**overnment Actions (Regs, Taxes, Subsidies)
- **R**esource Costs (cost of inputs)
- **E**ducation/Productivity
- **T**echnology
- Number of **S**ellers

Aggregate Demand: the total quantity of goods and services demanded at different price levels.

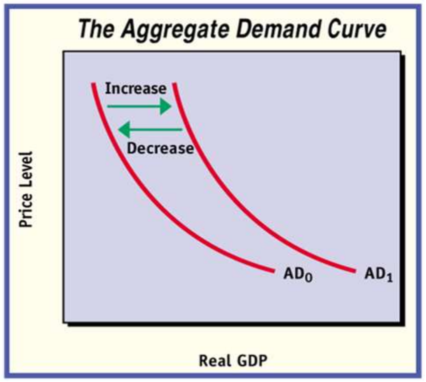


The AD curve is downsloping and can also increase or decrease. It consists of the following components; consumption, investment, government, and foreign spending.

AD = C + I + G + (X-M)

Factors that shift the AD curve include the following.

- Taxes
- Incomes
- Interest Rates
- Consumer wealth
- Expectations
- Exchange Rates



Macroeconomic Equilibrium: this represents the level of real GDP consistent with a given price level, as determined by the intersection of the AS and AD curves.