

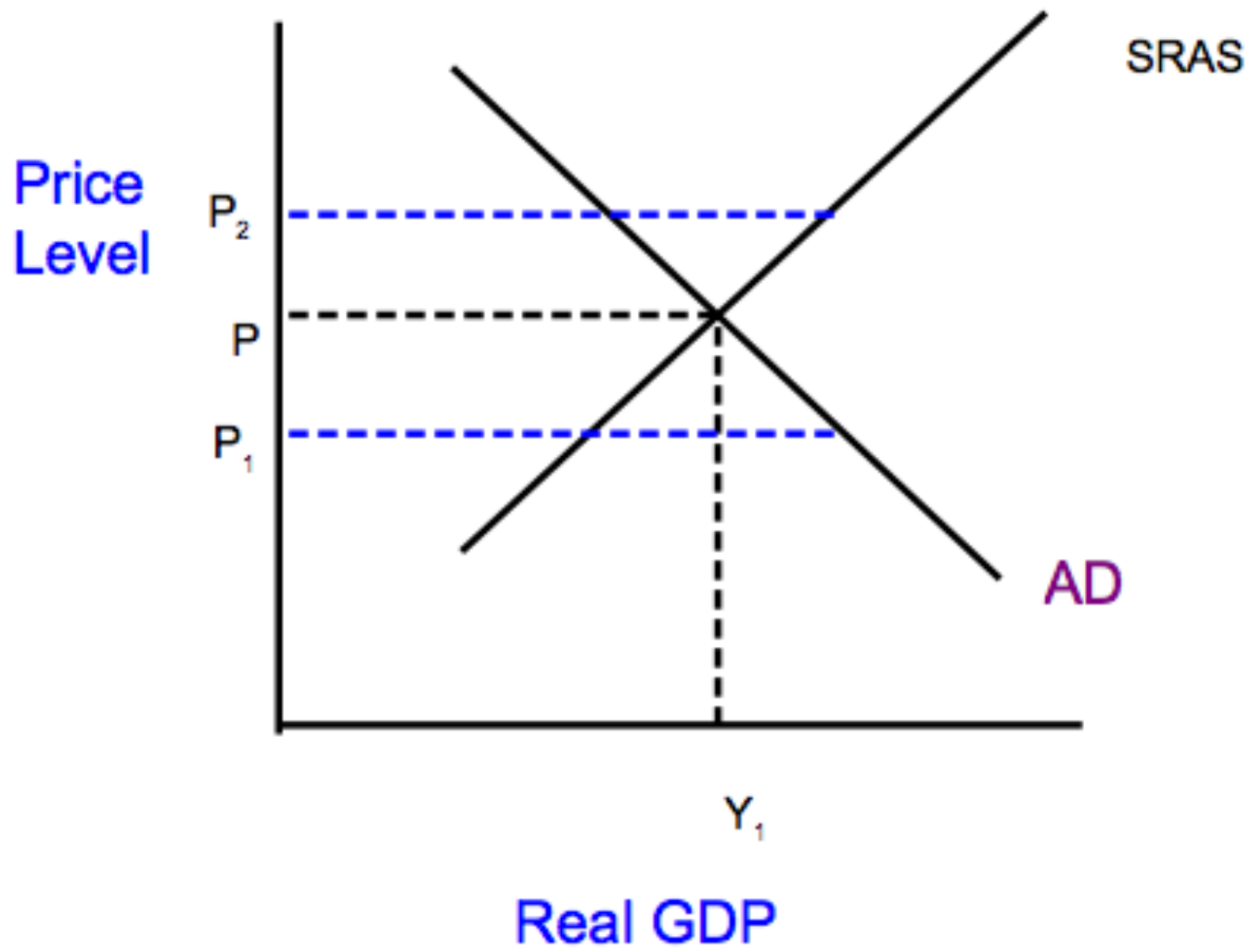
Aggregate Demand

The total spending in the economy at alternative Price Levels

Aggregate Supply

The total output of the economy at alternative Price Levels

Create Macroeconomic Equilibrium



Aggregate Demand

The total spending in the economy at alternative Price Levels

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

When the level of spending from one of these components changes AD shifts

Consumption - Expenditure by households

1. Income
2. Wealth - amount and value of assets.
(real estate, stocks, investments)

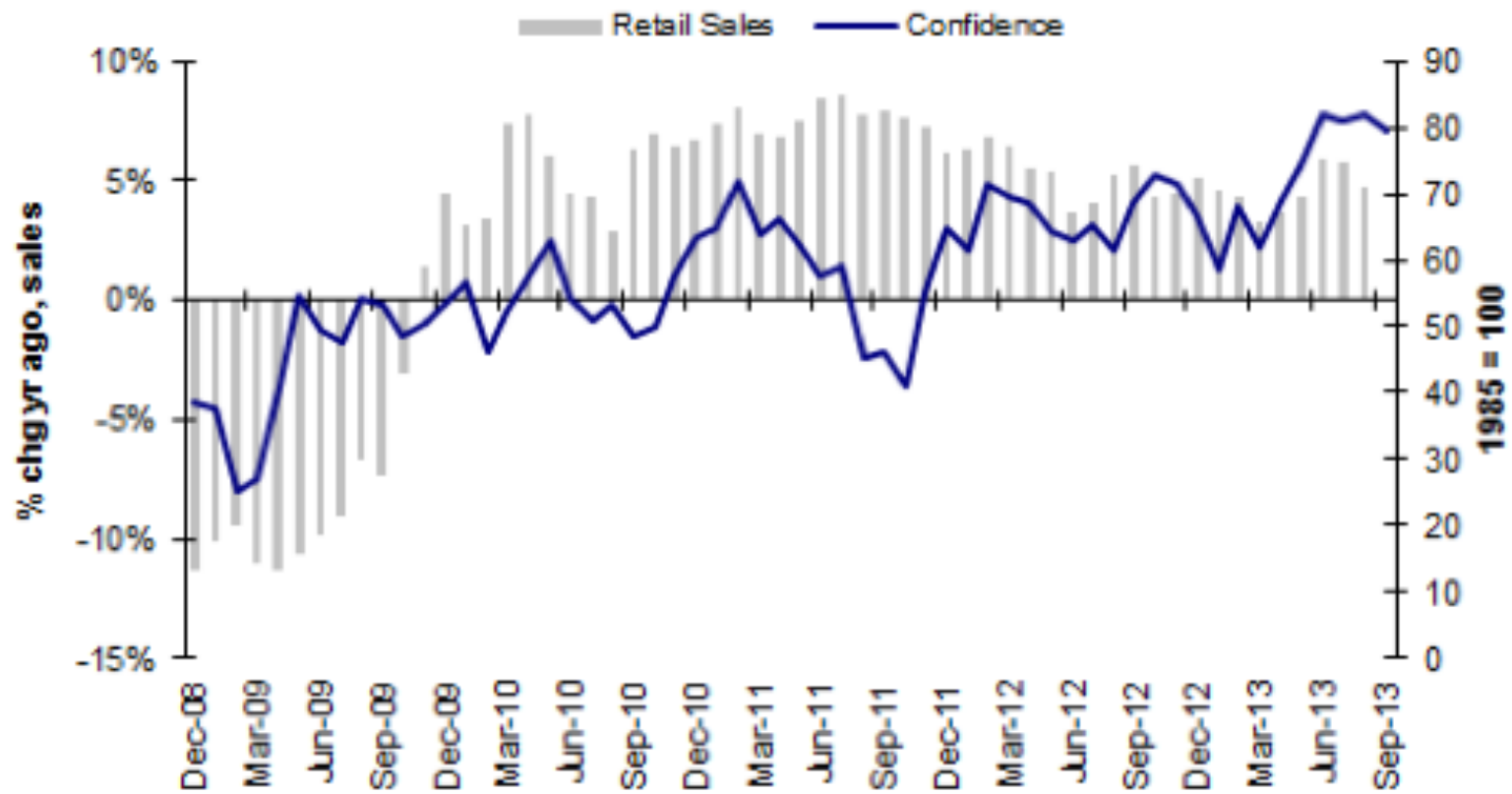


Consumption - Expenditure by households

3. Personal Income Taxes
Income - Income taxes = Disposable Income

4. Consumer confidence (optimism, expectations)
 - Measured by the consumer confidence index
 - reflects willingness to make purchases

Consumer Confidence



updated 9/24/13

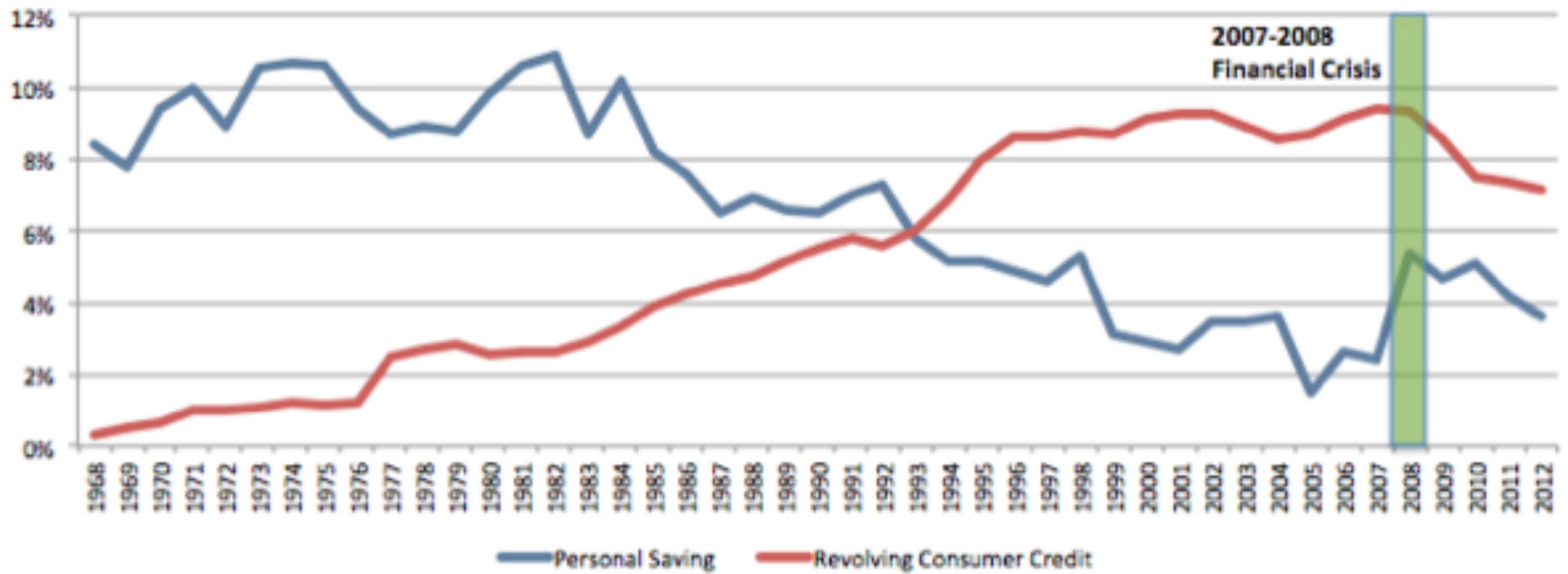
ECONODAY™

Consumption - Expenditure by households

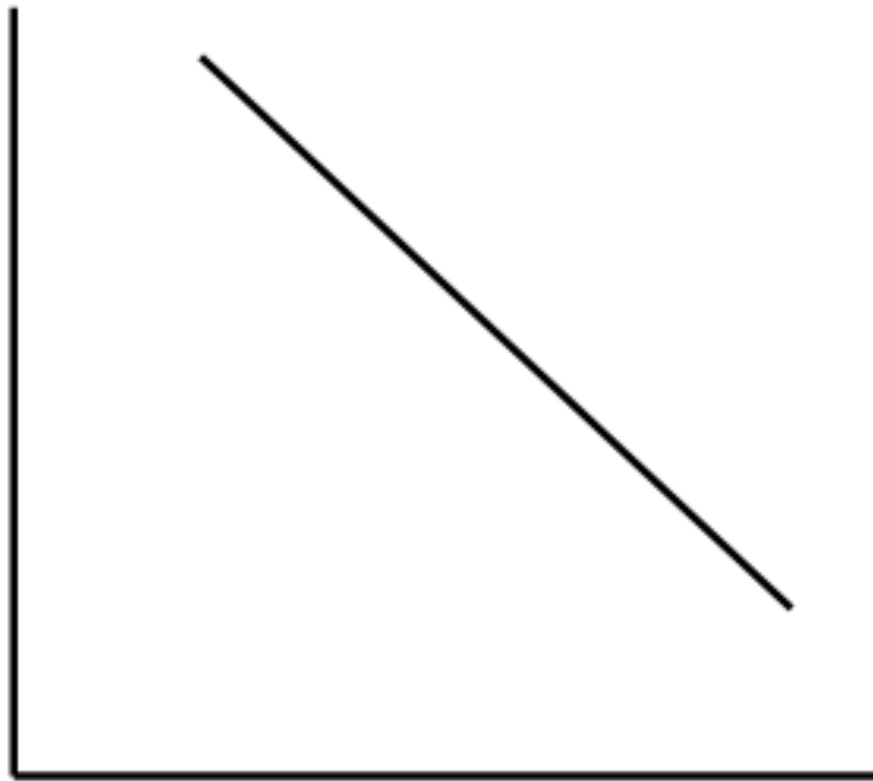
5. Interest Rates - changes the amount of purchases made by credit cards and changes amount of savings

6. Level of household indebtedness
 - Changes over time

Personal Saving vs. Credit Card Debt (% of Disposable Income)



Price
Level



Real GDP

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

Investment - Expenditure by Business

1. Interest Rates

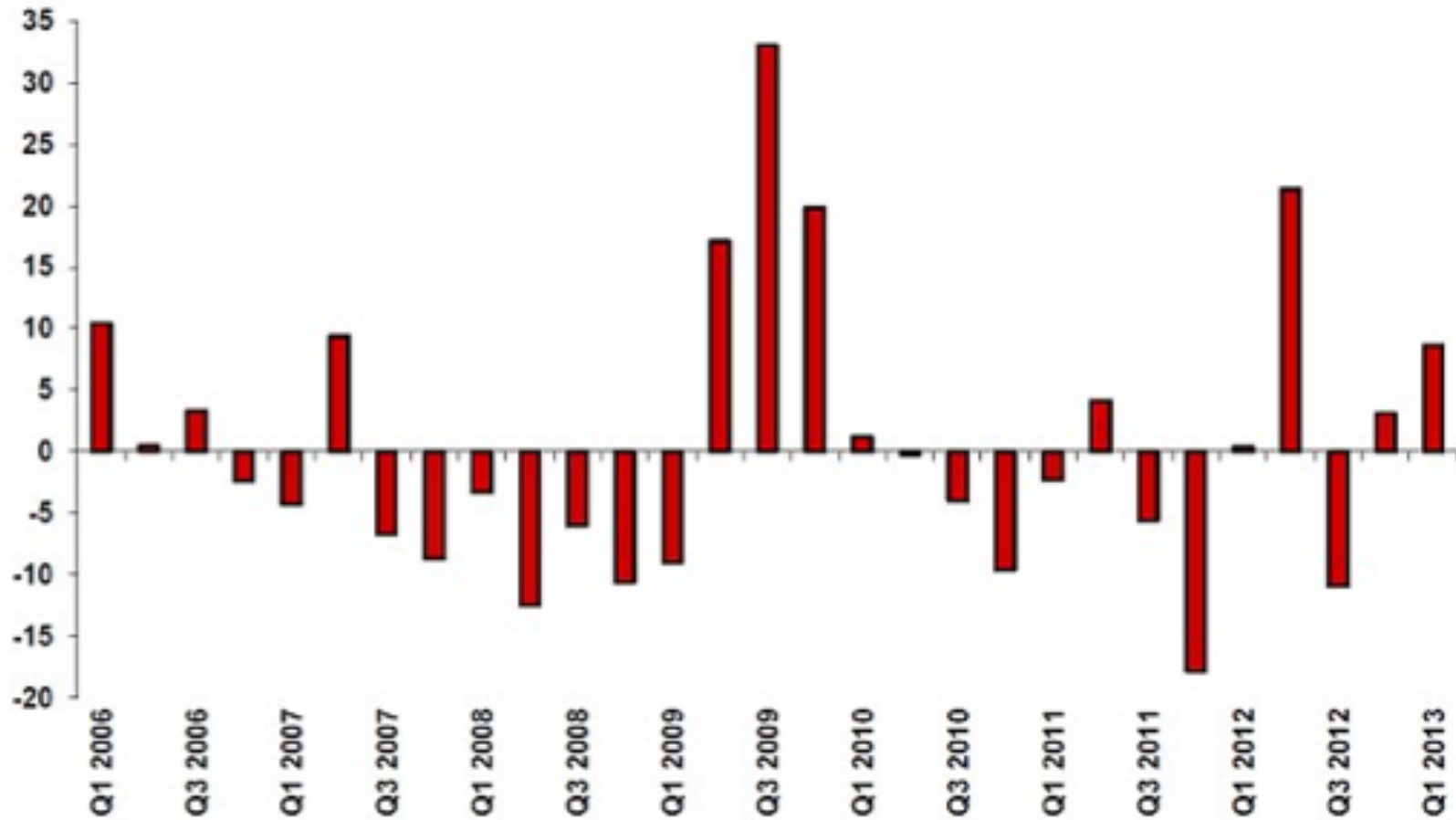
*Changes the cost of borrowing money

2. Business Confidence

- Based on expectations, perception of risk, place in the business cycle.
- Business Confidence Index

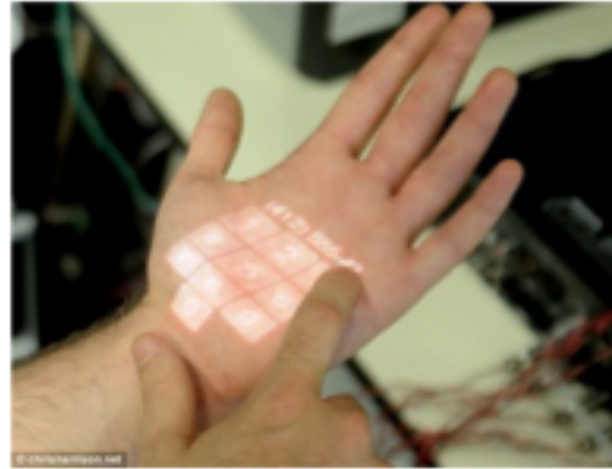
Business Confidence Index in the United Kingdom

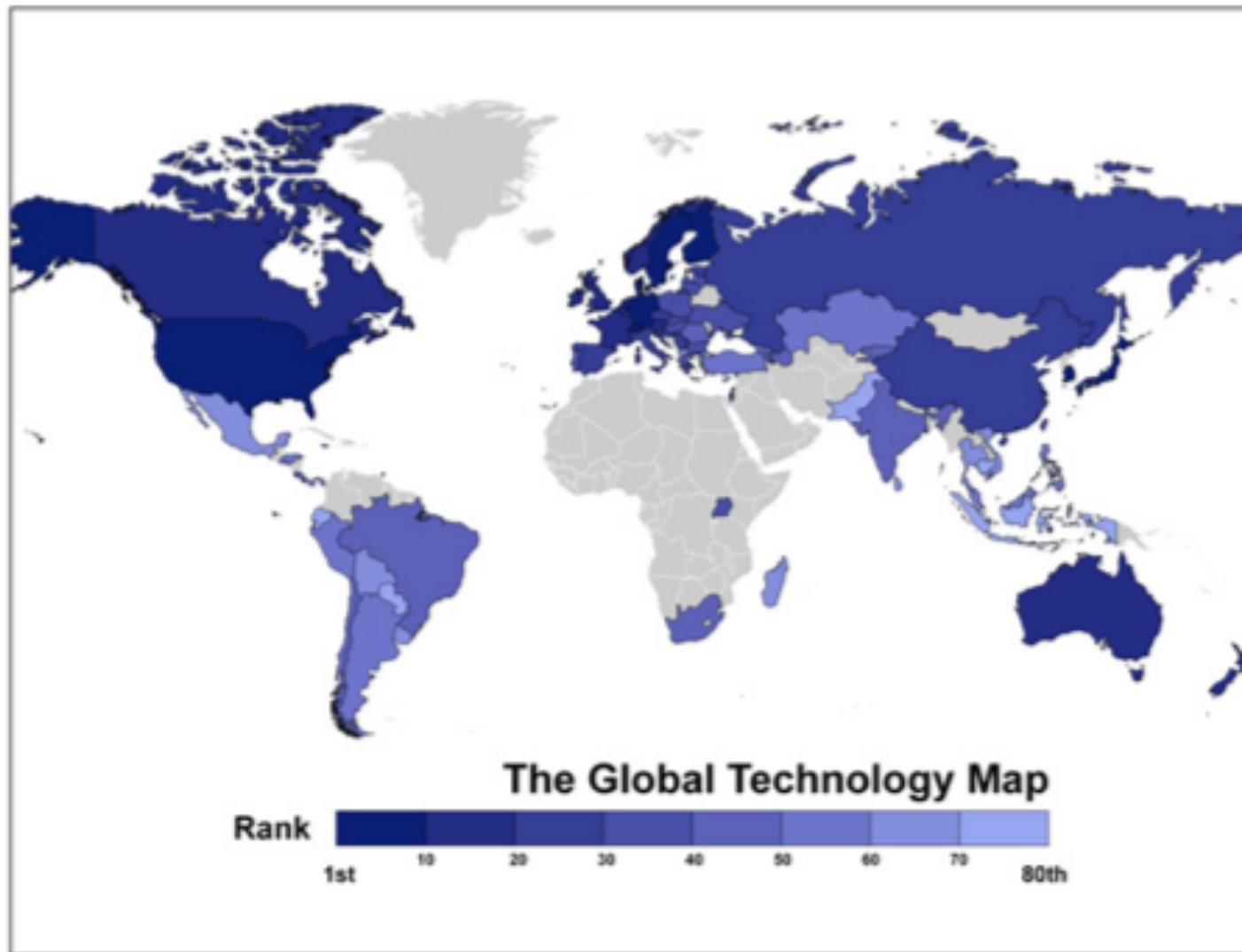
Quarterly change to Confidence Index



Technology

3. New technology can require more investment to keep up with innovations and to stay competitive.



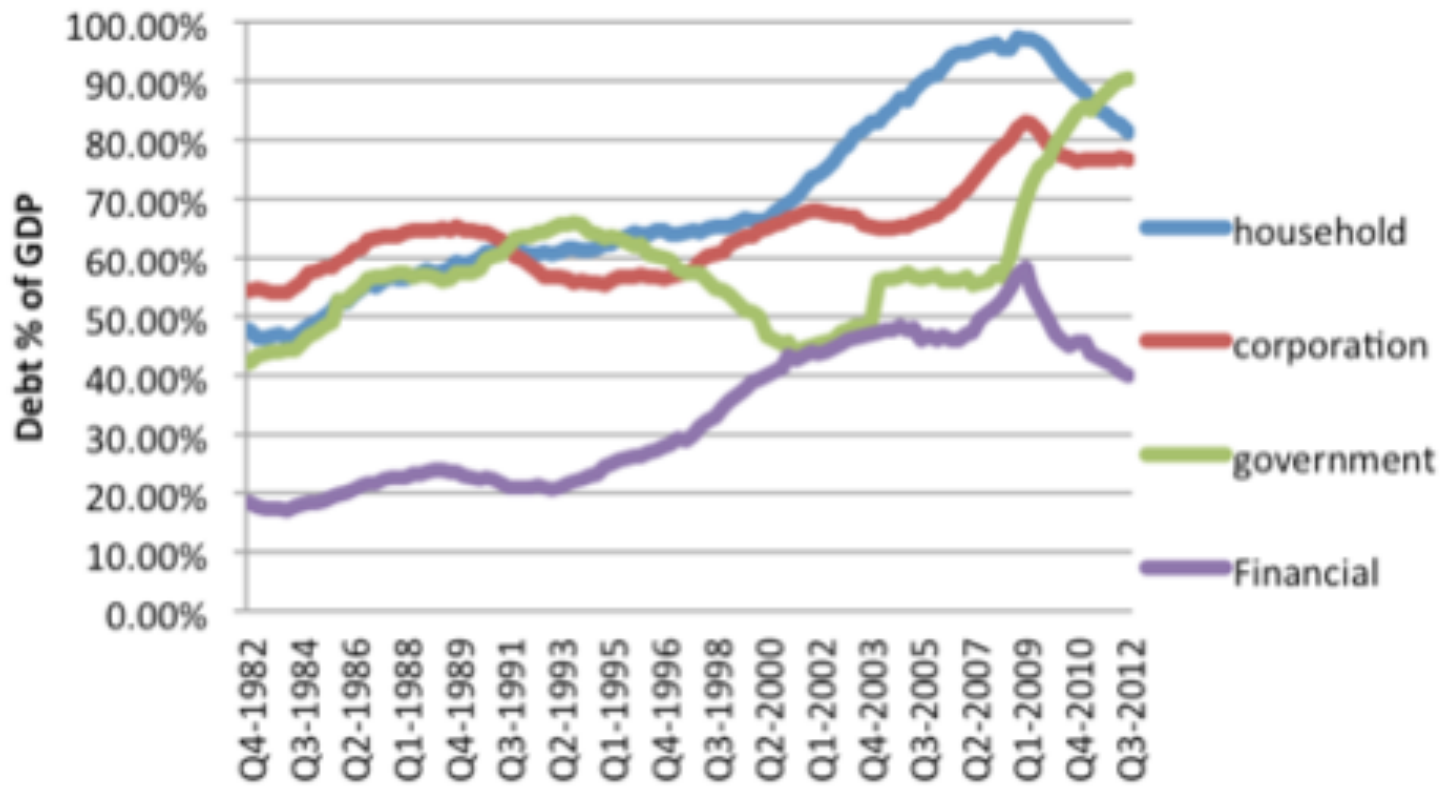


An assessment of the leading countries technological and innovative capabilities

4. Corporate Business Taxes - Direct taxes paid on profit.
Impacts amount left for I

5. Levels of Corporate Indebtedness

US Debt Composition % of GDP



www.economicshelp.org | McKinsey Global Institute

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Capacity Utilization - the level of use of the firm's productive capacity (use of capital goods)

Large amounts of unused capacity

Low amounts of unused capacity



— Capacity Utilization: Total Industry



Source: Board of Governors of the Federal Reserve System

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

Net Exports (X-M)

1. Income

Domestic Income

Foreign Income

2. Price Levels between Countries



3. Exchange Rates

\$ = \$

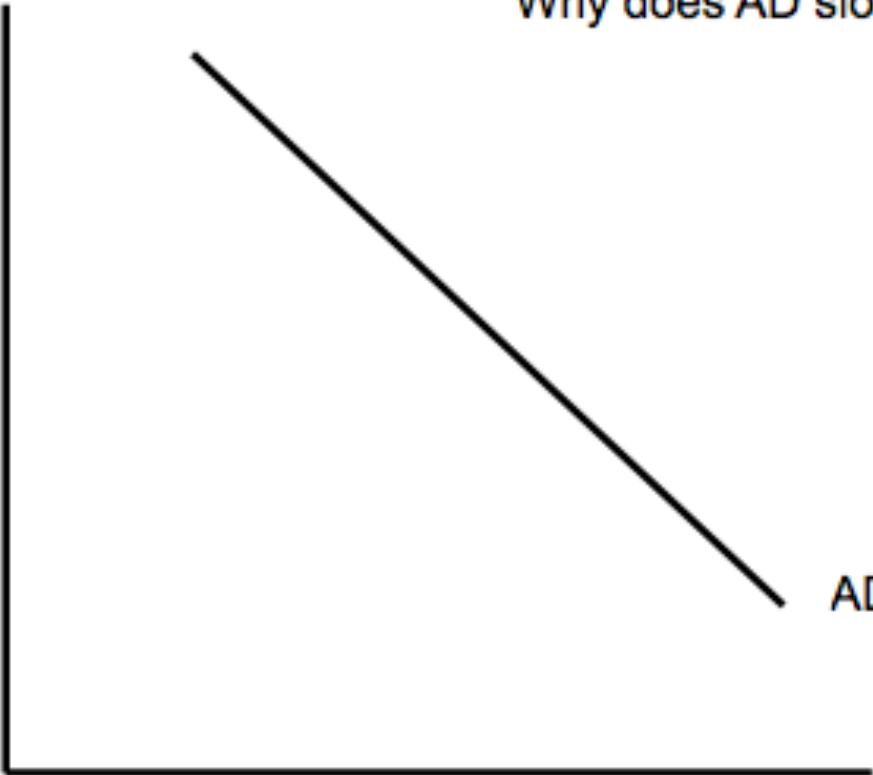
Domestic currency value decreases

Domestic currency value increases

4. Government Policies

Why does AD slope down?

Price
Level



Real GDP