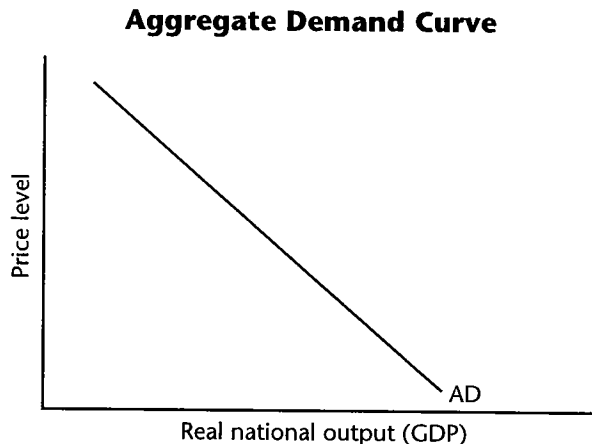


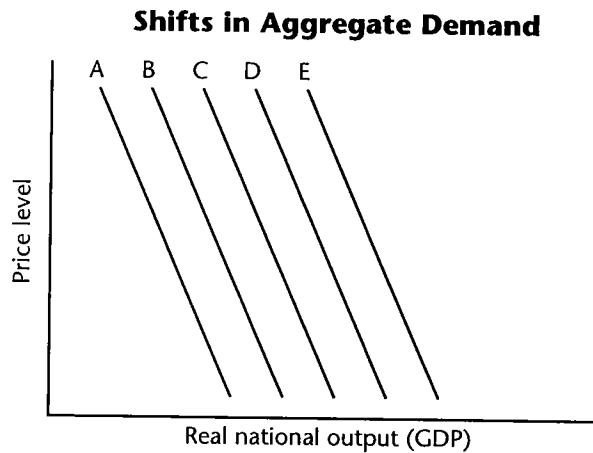
ACTIVITY 16

# An Introduction to Aggregate Demand

## Part A. Why Is the Aggregate Demand Curve Downsloping?



1. According to the AD curve, what is the relationship between the price level and real national output?
  
2. In what ways do the reasons that explain the downward slope of the AD curve differ from the reasons that explain the downward slope of the demand curve for a single product?
  
3. Explain how each of the following effects helps explain why the AD curve is downward sloping.
  - a. Interest rate effect
  
  - b. Real balances effect
  
  - c. Foreign purchases effect

**ACTIVITY 16 continued****Part B. Shifts in Aggregate Demand**

For each situation described below, determine if the event will increase or decrease AD. Start with AD curve C. If you think the first situation would increase AD, write "increase" and move to curve D. If you think the first situation would decrease AD, write "decrease" and move to curve B. Move only one curve at a time. Do not skip a curve even if you think the situation would cause a huge increase or decrease in AD. If you think an event would not cause AD to shift, write "no change." Do not go beyond the five curves. If you need to go beyond the five curves, you need to rethink your answers!

1. Congress cuts taxes.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
2. Survey shows business investment spending decreased last month.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
3. Government spending to increase next fiscal year; President promises no increase in taxes.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
4. Survey shows consumers are confident about future economy.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
5. Business leaders feel economy is headed for recession.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
6. Stock market collapses—investors lose billions.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
7. Productivity rises for fourth straight year.  
AD \_\_\_\_\_      Curve \_\_\_\_\_
8. President cuts defense spending by 20 percent; no increase in domestic spending.  
AD \_\_\_\_\_      Curve \_\_\_\_\_