What is Aggregate Demand and Supply?

Worksheet

Aggregate demand is the total spending at each price level, while aggregate supply is the total production available. Their intersection determines equilibrium price and output in the economy.

Questions

1. If AD > AS, what happens in the economy?

A) Output falls
B) Prices rise
C) Unemployment rises
D) Exchange rate falls

2. Which of these shifts AD to the right?

A) Decrease in consumer confidence
B) Increase in government spending
C) Rising input costs
D) Technological decline

3. A favorable technology shock shifts…

A) AD left
B) AS right
C) AD right
D) AS left

4. At equilibrium, what is true?

A) AD > AS always
B) AS > AD always
C) AD = AS
D) Prices must be rising

5. At a price level of 100, AD = 2000B, AS =1800B. Is there excess demand or supply?

6. At equilibrium, the price level is 110 and output is 3000B. If AD increases to demand3200B at this price, what happens?

7. A supply shock reduces AS from 2500B to2300B at price level 105. If AD = $2500B, what is the new equilibrium?

8. Define: What is aggregate demand?

9. Define: What is aggregate supply?

10. Define: What determines AD-AS equilibrium?

Answer Key

1. B) Prices rise — Excess demand pushes prices upward.
2. B) Increase in government spending — Higher government spending increases aggregate demand.
3. B) AS right — Better technology increases production capacity (AS).
4. C) AD = AS — Equilibrium occurs where aggregate demand equals aggregate supply.
5. AD (2000B) > AS (1800B) Excess demand of $200B Pressure for prices to rise
6. New AD > Current AS Excess demand exists Price level rises to restore equilibrium
7. Shortage of $200B Price level will rise New equilibrium occurs at higher price, lower output
8. Total spending by all sectors (consumers, businesses, government) at each price level.
9. Total production of goods and services available in the economy at each price level.
10. The intersection of AD and AS curves — where intended spending equals available supply.