What is Aggregate Demand?

Worksheet

Aggregate Demand is the sum of all spending (consumption C + investment I + government G + net exports X−M) desired at each price level. It slopes downward: lower prices mean higher real purchasing power.

Questions

1. If C=10T, I=2T, G=2.5T, X−M=0.5T, what is AD?

A) $12T
B) $14T
C) $15T
D) $16T

2. When price level rises, AD…

A) Increases
B) Decreases
C) Stays constant
D) Becomes zero

3. Which shifts the AD curve?

A) Price level change
B) Consumer confidence rises
C) Input costs fall
D) Exchange rate stays fixed

4. Net exports = X − M. If exports fall, AD…

A) Rises
B) Falls
C) Stays constant
D) Becomes positive

5. In an economy, consumption is 8T, investment is2T, government spending is 3T, and net exports are0.5T. Calculate aggregate demand.

6. The price level rises from 100 to 110. Real purchasing power falls by 10%. How does AD change?

7. Government increases spending by $1T. If the multiplier is 2.5, what is the total increase in AD?

8. Define: Define Aggregate Demand.

9. Define: What are the components of AD?

10. Define: Why does AD slope downward?

Answer Key

1. C) $15T — AD = 10 + 2 + 2.5 + 0.5 = $15T

2. B) Decreases — Higher prices reduce real purchasing power → less is demanded (movement up the curve).

3. B) Consumer confidence rises — Consumer confidence change (tastes/expectations) shifts the curve; price changes move along it.

4. B) Falls — Lower X reduces total AD, shifting the curve left.

5. AD = C + I + G + (X − M) AD = 8T +2T + 3T +0.5T AD = $13.5 trillion

6. As prices rise, real purchasing power falls People can buy less with the same nominal money Quantity of AD demanded falls The economy moves up and left on the AD curve

7. Direct increase = 1T Multiplier effect =1T × 2.5 = 2.5T Total increase in AD =2.5T

8. The total amount of spending on all final goods and services in an economy at each price level.

9. C (consumption) + I (investment) + G (government) + (X − M) (net exports).

10. As price level falls, real purchasing power rises, so people demand more goods and services.