Section 4
Modules 16-20

The Long Run Aggregate Supply Curve Shifts If...
I have no idea what I'm doing

Economic Recession?
Decrease aggregate supply & demand!

Tries to reduce aggregate supply
Creates stagflation

You shifted aggregate demand with an increase in consumption?
Not bad

One does not simply...
...boost aggregate demand
Module 16 Income and Expenditure

From Boom to Bust

In this Module, you will learn to:

- 
- 
- 
- 
- 

The Spending Multiplier: An Informal Introduction

Consumer Spending

CURRENT DISPOSABLE INCOME AND CONSUMER SPENDING

SHIFTS IN THE AGGREGATE CONSUMPTION FUNCTION

| Changes in Expected Future Disposable Income | Changes in Aggregate Wealth |
## The Interest Rate and Investment Spending

### Expected Future Real GDP, Production Capacity and Investment Spending

### Inventories and Unplanned Investment

### Checking Your Understanding

<table>
<thead>
<tr>
<th>1.</th>
<th>2.</th>
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<table>
<thead>
<tr>
<th>3.</th>
<th>4a.</th>
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<tr>
<th></th>
<th>b.</th>
<th>c.</th>
<th>d.</th>
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### Tackle the Test: Multiple-Choice Questions

1. 2. 3. 4. 5.

### Tackling the Test: Free-Response Question

<table>
<thead>
<tr>
<th>1.a.</th>
<th>b.</th>
<th>c.</th>
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<th>d.</th>
<th>e.  ON GRAPH</th>
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Module 17 ◆ Aggregate Demand: Introduction and Determinants

In this Module, you will learn to:

- ...
- ...
- ...

Aggregate Demand

WHY IS THE AGGREGATE DEMAND CURVE DOWNWARD SLOPING?

The Wealth Effect

The Interest Rate Effect

Figure 17.1 The Aggregate Demand Curve
### Shifts in the Aggregate Demand Curve (MUY IMPORTANTE!!!)

<table>
<thead>
<tr>
<th>CHANGES IN EXPECTATIONS</th>
<th>CHANGES IN WEALTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIZE OF THE EXISTING STOCK OF PHYSICAL CAPITAL</td>
<td>GOVERNMENT POLICIES &amp; AGGREGATE DEMAND</td>
</tr>
<tr>
<td>FISCAL POLICY</td>
<td>MONETARY POLICY</td>
</tr>
</tbody>
</table>

### Checking Your Understanding

1. a. ____________________________________________________________________________________

   b. ____________________________________________________________________________________

   c. ____________________________________________________________________________________

   d. ____________________________________________________________________________________

   e. ____________________________________________________________________________________

   f. ____________________________________________________________________________________

### Tackle the test: Multiple-Choice Questions  1.  2.  3.  4.  5.

### Tackling the Test: Free-Response Question

2. Effect #1: ______________________________________________________________________________

   ________________________________________________________________________________

Effect #2: ______________________________________________________________________________

   ________________________________________________________________________________
Module 18 Aggregate Supply: Introduction and Determinants

In this Module, you will learn to:

- __________________________________________________________________________
- __________________________________________________________________________
- __________________________________________________________________________

**Aggregate Supply**

![Figure 18.1 The Short-Run Aggregate Supply Curve]

**THE SHORT-RUN AGGREGATE SUPPLY CURVE**

**SHIFTS OF THE AGGREGATE SUPPLY CURVE**

<table>
<thead>
<tr>
<th>Changes in Commodity (Resource) Prices</th>
<th>Changes in Nominal Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in Productivity</td>
<td>Changes in Expectations about Inflation</td>
</tr>
</tbody>
</table>
THE LONG-RUN AGGREGATE SUPPLY CURVE

FROM THE SHORT RUN TO THE LONG RUN

Checking Your Understanding

1a. __________________________________________________________________________________________________________________________

b. __________________________________________________________________________________________________________________________

c. __________________________________________________________________________________________________________________________

2.

Tackle the test: Multiple-Choice Questions 1. 2. 3. 4. 5.

Tackling the Test: Free-Response Question

1. Graph

2. Graph

Three possible causes:

Three types of changes:
Module 19: Equilibrium in the Aggregate Demand-Aggregate Supply Model

In this Module, you will learn to:

1. ..........................................................................................................................
2. ..........................................................................................................................
3. ..........................................................................................................................

The AD-AS Model

THE SHORT-RUN MACROECONOMIC EQUILIBRIUM

SHIFTS OF AGGREGATE DEMAND: SHORT-RUN EFFECTS

<table>
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<tr>
<th>Figure 19.2 Demand Shocks</th>
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<table>
<thead>
<tr>
<th>Figure 19.2 Supply Shocks</th>
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</table>

SHIFTS OF THE SRAS CURVE
Long-Run Macroeconomic Equilibrium

Tackle the test: Multiple-Choice Questions  1.  2.  3.  4.  5.

Tackling the Test: Free-Response Question

1a

2. Graph

b.

c.

d.

e.
Module 19: Economic Policy and the Aggregate Demand-Agg. Supply Model

In this Module, you will learn to:

- Policy in the face of demand shocks
- Responding to supply shocks

**Macroeconomic Policy**

**Fiscal Policy: The Basics**

- Taxes, government purchases of goods and services, transfers, and borrowing
- The government budget and total spending
- Expansionary and contract. Fiscal policy
Check Your Understanding:
1.a  
1b.  
1c.

Tackle the test: Multiple-Choice Questions
1.  2.  3.  4.  5.

Tackling the Test: Free-Response Question
1a  
2a. Graph
b.

c/d.

Figure 20.4 Expansionary Fiscal Policy Can Close a Recessionary Gap

Figure 20.5 Contractionary Fiscal Policy Can Close a Recessionary Gap