

Unit III: The Real Economy

Topic I: AD (Module 17 & some of Module 16)

Topic II: AS (Module 18)

Topic III: AS/AD Equilibrium (Module 19)

“This section introduces the aggregate supply and aggregate demand model to explain the determination of equilibrium national output and the general price level, as well as to analyze and evaluate the effects of public policy. It is important to discuss the aggregate demand and aggregate supply concepts individually to provide students with a firm understanding of the mechanics of the aggregate demand and aggregate supply model.

The aggregate demand and aggregate supply analysis often begins with a general discussion of the nature and shape of the aggregate demand and aggregate supply curves and the factors that affect them. A detailed study of aggregate demand may begin by defining the four components of aggregate demand: consumption, investment, government spending, and net exports. It also examines why the aggregate demand curve slopes downward and how changes in the determinants affect the aggregate demand curve. The spending-multiplier concept and its impact on aggregate demand, and how crowding out lessens this impact, should be demonstrated as well. The course can then present the definition and determinants of aggregate supply, the different views about the shape of the aggregate supply curve in the short run and in the long run, and highlight the importance of the shape in determining the effect of changes in aggregate demand on the economy. It is also important to understand the notion of sticky-price and sticky-wage models and their implication for the aggregate supply curve in comparison to flexible prices and wages.

Students should be able to use the aggregate demand and aggregate supply model to determine equilibrium income and price level and to analyze the impact of economic fluctuations on the economy’s output and price level, both in the short run and in the long run.”

(http://apcentral.collegeboard.com/apc/public/repository/ap08_economics_coursedescript.pdf)

Topics Covered:

- III. National Income and Price Determination (10-15%)
 - A. Aggregate Demand (AD)
 - 1. Determinants of AD
 - 2. Multiplier and crowding-out effects
 - B. Aggregate Supply (AS)
 - 1. Short-run and long-run analysis
 - 2. Sticky versus flexible wages and prices
 - 3. Determinants of AS
 - C. Macroeconomic equilibrium
 - 1. Real output and price level
 - 2. Short-run and Long-run
 - 3. Actual versus full-employment output
 - 4. Economic fluctuations