



Aggregate demand and Aggregate supply

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Macroeconomic policy objectives

We can identify four macroeconomic policy objectives that governments typically pursue:

- 1 High and stable economic growth.
- 2 Low unemployment.
- 3 Low inflation.
- 4 The avoidance of balance of payments deficits and excessive exchange rate fluctuations

One way in which the four objectives are linked is through their relationship with **aggregate demand (AD)**. This is the total spending on goods and services made within the country ('domestically produced goods and services').

Aggregate demand

The total demand in the economy for goods and services is called the aggregate demand and it is made up of several components of the circular flow.

Aggregate demand (AD) consists of four components:

1 Consumption (C):

This is also known as consumer expenditure. It consists of spending by households on goods and services.

2 Investment (I):

This is spending by private sector firms on capital goods.


3 Government spending (G):

This covers government spending on goods and services.

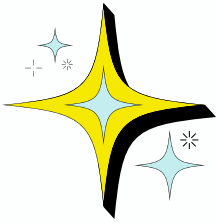
4 Net exports (X-M):

This is the difference between the value of exports of goods and services and the value of imports of goods and services.

Thus

 $AD = C + I + G + X - M$

**END OF
PREVIEW**

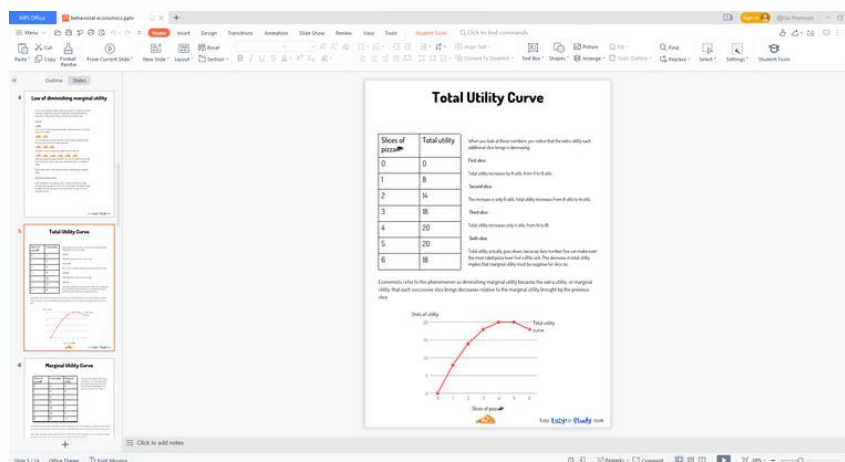


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Question

Spain has had one of the highest unemployment rates in Europe. Moreover, 3.5 million of those unemployed had been out of work for at least a year by 2015. The Spanish Government has introduced a range of policy measures, including increased government spending, to reduce unemployment and poverty. It has also tried to help firms make the supply of their products more elastic.

Analyse why price elasticity of supply can differ between products. [6]

Category: Price elasticity of supply

Answer

When a questions starts with 'Analyse', the student is required to set out the main points and show how they link and connect.

Step 1 : Define 'price elasticity of supply' in the introduction.

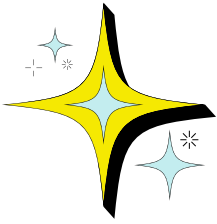
Price elasticity of supply (PES) measures of the responsiveness of quantity supplied to a change in price.

The formula for PES is as follows :

$$\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$$

% change in price.

Supply is price elastic (i.e. PES > 1) if producers can quite easily increase supply without a time delay when there is an increase in the price of the product. Supply is price inelastic (i.e. PES < 1) if firms find it difficult to change production in a given time period when the market price changes.



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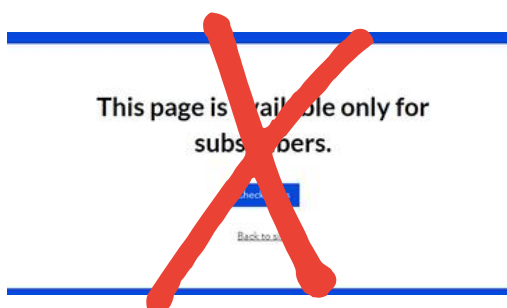
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Economics notes

Category: Economic growth

Actual economic growth

Actual economic growth is the annual percentage increase in national output, which typically fluctuates in accordance with the trade cycle.

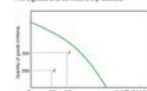
Actual growth in the long run is determined by two factors:

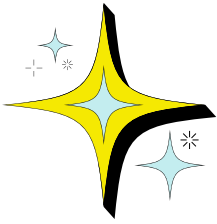
1 The growth in potential output (in other words the aggregate supply)

2 The growth in aggregate demand (AD)

A production possibility curve (PPC) diagram can be used to show economic growth resulting from greater use of existing resources.

The economy is initially producing at point X. Then the production point increases to point Y and more goods and services are produced.





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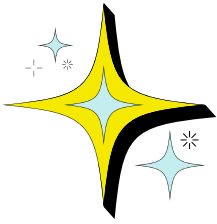
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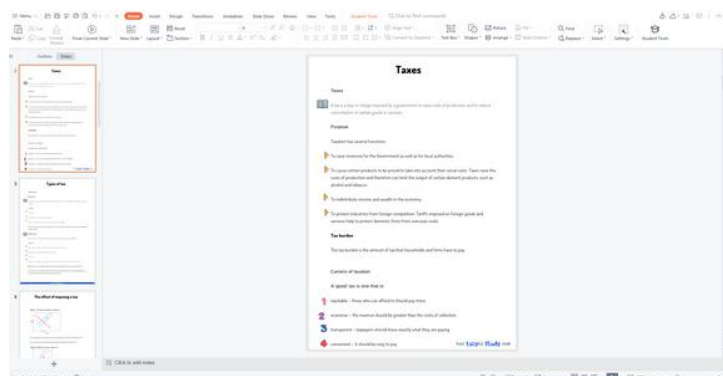


FREQUENTLY ASKED QUESTIONS

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 - At the end of each section, you can even create your own mindmaps!



2. We know writing economics essays can be a struggle, especially during an exam, during which time is limited.

- That's why we've structured every essay in an optimal way and broke every essay down into headings and paragraphs. We've even included tips and marking scheme comments!

Tip: Generally, AQA exam questions are accompanied by an extract (although we have not included it here for simplicity). To score higher marks, refer back to the data (facts and figures) given in the extract, when writing your essay! Note that in this question you are asked to 'explain TWO factors'. In this case, it's a good idea to break your essay into two parts: Factor 1 and factor 2. (Step 1: Define 'demand' in the introduction)

Demand refers to both the willingness and the ability of customers to pay a given price to buy a good or service. There are several factors which could lead to an increase in the demand for bus travel in the future.

(Step 2: Explain TWO factors which could increase the demand for bus travel)

Factor 1: A change in tastes or social norms will increase the demand for bus travel.

Today, travelling by bus has the image of being unpleasant, unreliable and for the 'lower class'. However, more awareness is being raised about air pollution, climate change and CO₂ emissions. People in the future may perceive bus travel as being more ecologically and economically efficient. Furthermore, with the introduction of smart lanes and electric buses, the experience of travelling by bus will improve with time. These factors will encourage people to take the bus.

If more people become aware that travelling by bus is environmentally friendly, more people will opt for bus travel to reduce their carbon footprint. The demand for bus travel will increase. The effect of an increase in demand for bus travel can be shown using a diagram. The diagram below shows the demand and supply curves of bus travel.

