- Aggregate demand (AD) and aggregate supply (AS) curves look and operate much like the market supply and demand curves used in microeconomics. However, *aggregate* demand and *aggregate* supply curves depict somewhat different concepts, and they change for different reasons. AD and AS curves are used to illustrate changes in real output and the price level of an economy.
- The downward slope of the AD curve is explained by the *interest rate effect*, the *wealth effect*, and the *net export effect*. The wealth effect is also called the real-balance effect.
- The upward slope of the short-run aggregate supply curve (SRAS) is explained by fixed input costs (e.g., sticky wages). The long-run aggregate supply (LRAS) curve is vertical at the full-employment level of output.
- The *marginal propensity to consume* (MPC) is the additional consumption spending from an additional dollar of income. The *marginal propensity to save* (MPS) is the additional savings from an additional dollar of income:

$$\text{MPC} + \text{MPS} = 1.$$

- The spending *multiplier* shows the relationship between changes in spending and the maximum resulting changes in real gross domestic product (GDP). The simple spending multiplier is given as:

$$\text{Spending multiplier} = \frac{1}{1 - \text{MPC}} = \frac{1}{\text{MPS}}.$$

- Shifts in AD can change the level of output, the price level or both. The determinants of AD include consumer spending, investment spending, government spending, net export spending, and government policies.
- Shifts in SRAS can also change the level of output and the price level. The determinants of SRAS include changes in input prices, productivity, the legal institutional environment, and the quantity of available resources.
- There are two types of inflation: *demand-pull inflation* and *cost-push inflation*. When high unemployment occurs along with high inflation, it is known as stagflation.
- The LRAS curve is vertical at the full-employment level of output.
- In the short run, equilibrium levels of GDP can occur at less than, greater than, or at the full-employment level of GDP. Long-run equilibrium can occur only at full employment.