Basic Questions to Lecture 14

1. Aggregate Demand is not really a demand curve. Explain.
2. What two markets are assumed to be in equilibrium when drawing AD?
3. How do we know that changes in interest rates do not shift the AD curve?
4. Take two points on the AD curve. Which point has the higher interest rate associated with it?
5. Explain three possible reasons why that AD is downward sloping.
6. What factors can shift the AD curve?
7. When will the AD be perfectly vertical? When will it be a rectangular hyperbola?
8. Why will a fall in velocity V cause the AD to shift left?
9. What is the difference between a rise in the price level, P, and inflation?
10. If everyone tries to hold more money, what will happen to AD?