Term +Explanation **Diagram + Example**

ECONOMICS DICTIONARY

Terms: 15

Syllabus 2.2: aggregate demand and supply

Submariner Dictionary: Unit 4 (2.1, 2.2, 4.1+4.2)

Term **Term**	**Definition** **note the use of key terms to explain the term** **Definition:**	**Diagram.** **Probably better to add by hand!** **Diagram to use:**	**Example.** **Add examples as appropriate.** **Example:**
aggregate demand	aggregate demand is the sum of all expenditures in an economy over a given time period - usually 1 year. The formula for aggregate demand is C+I+G+(X-M)		
aggregate supply	aggregate supply is the sum total of all output of final goods and services over a given period.		
deflationary gap	deflationary gap is a Keynesian key concept explaining common problems associated with macroeconomies where the economy is operating at below its capacity. The diagram should demonstrate carefully that the economy is operating in the short run at below its long run equilibrium		see section 2.2 on the website and find webnote 222 Draw the shourt run as/ad showing an equilibrium below the LRAS. Use the neo classical version of the LRAS.
equilibrium national income	as=ad. The macro economy is in equilibrium in the short run when AS = AD		see section 2.2 on the website and find webnote 222
ful employment national income	full employment national income occurs when the short run equilibrium (as=ad) occurs at the capacity of the economy indicated by the vertical part of the LRAS		see section 2.2 on the website and find webnote 222. Note here that the short run equilibrium occurs at the long run capacity of the economy
inflationary gap	inflationary gap refers to a Keynesian concept where the economy is operating beyond its Yfe		Draw the shourt run as/ad showing an equilibrium beyond the LRAS. Use the neo classical version of the LRAS.

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keynesian economics	key points to note here are that Kennesian economics promoted demand side management of the economy and relied heavily on government intervention when the other components of AD (C +I +(x-m)) do not function effectively. It is important to understand this school of economics in the context of the Great Depression (1929) when the 'laissez faire' market economy and capitalism was in severe crisis and totalitarian systems including the corporate capitalist system in Germany were proving significantly more successful.		Use the long run keynesian model to show how the intervention of AD management can be used to bring increases in real gdp with little risk to inflationary pressure
keynesian (LRAS) loing run aggregate supply	keynesian long run aggregate supply has 3 distinct sections. The first is a 'slack' or flat part where the application of AD policies will not cause inflationary pressure. The sedond shows a steady increse in inflation and the third shows a capacity or vertical part where the ad policies will not increase gdp but only result in inflation.		
neo classical (LRAS) long run aggregate supply	now classical supply is vertical and is designed to show the failure of demand side management of the macroeconomy		Use the vertical LRAS showing Yfe (full employment national income)
Milton Friedmanand Friedrich Hayek	Both are notable economics and proponents of market based macromanagement. This is the school of economics which questions the use of government lead macroeconomic management. Note here that this school is oftern referred to as 'laissez faire', supply side economics and sometimes referred to as the monetarist school.		

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Monetarism	Monetarism is an economic theory that focuses on the macroeconomic effects of the supply of money and central banking e.g. the role of the ECB in controlling the money supply in the Eurozone.. Formulated by Milton Friedman, it argues that excessive expansion of the money supply is inherently inflationary, and that monetary authorities should focus solely on maintaining price stability. This school then ranks inflation control as the key priority for government in managing its goals for the economy.		
Monetarist LRAS	This version of LRAS is veretical as explained above in relation to the neo classical LRAS.		
SRAS	SRAS is a short run version of AS that shows the actual perfromance of the macroeconomy and is positively sloped		
supply shock	A supply shock is an event that suddenly increases or decreases the supply of a commodity or service, or of commodities and services in general. This sudden change affects the equilibrium price of the good or service or the economy's general price level. It can therefore be shown as an upward shift of AS.		a sudden rise in oil prices as occurred in 1973 could have a significant supply side shock on the economy increasing the production (energy) costs of all firms in the economy. This would then be described as cost pust inflation.
recession	a narrow definition of recession is a fall in real gdp over 2 successive quarters.		Business cyle is a good diagram to show the performance of a macroeconomy over time.
depression	depression is a severe economic downturn where spending drastically falls for a sustained period of time resulting in a significant fall in output + employmen. It is usually associated with a fall in the price level as prices are lowered in order to sell unsold stocks		Business cyle is a good diagram to show the performance of a macroeconomy over time.

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