Chapter 30 McConnell, Brue and Flynn 20th

Aggregate Demand and Aggregate Supply

During the recession of 2007–2009, the economic terms *aggregate demand* and *aggregate supply* moved from the obscurity of economic journals and textbooks to the spotlight of national newspapers, Web sites, radio, and television.
The media and public asked: Why had aggregate demand declined, producing the deepest recession and highest rate of unemployment since 1982? Why hadn't the reductions in interest rates by the Federal Reserve boosted aggregate demand? Would the federal government's $787 billion stimulus package increase aggregate demand and reduce unemployment, as intended? Would a resurgence of oil prices and other energy prices reduce aggregate supply, choking off an economic expansion?

Aggregate demand and aggregate supply are the featured elements of the **aggregate demand–aggregate supply model (AD-AS model),** the focus of this chapter. This model is the foundation for the study of Aggregate Demand and Aggregate Supply, in a "variable price–variable output" model that allows both the price level and level of real GDP to change. It can also show longer time horizons, distinguishing between the immediate short run, the short run, and the long run.