

# GAP FILL -AGGREGATE DEMAND

(1)\_\_\_\_\_ is the total of all planned expenditures in the economy, and (2)\_\_\_\_\_ is the total of all planned production in the economy. The aggregate demand curve shows the various quantities of

total planned spending on final goods and services at various (3)\_\_\_\_\_; it is (4)\_\_\_\_\_ sloping. There are three reasons why the aggregate demand curve is downward sloping. They are the open-economy effect, the real-balance effect, and the interest rate effect. The (5)\_\_\_\_\_ effect occurs because price level changes alter the real value of cash balances, thereby causing people to desire to (6)\_\_\_\_\_ more or less, depending on whether the price level decreases or increases. The interest rate effect is caused by (7)\_\_\_\_\_ changes that mimic price level changes. At higher interest rates, people seek to buy (8)\_\_\_\_\_ houses and cars, and at lower interest rates, they seek to buy more. The open economy effect occurs because of a shift away from expenditures on (9)\_\_\_\_\_ goods and a shift toward expenditures on (10)\_\_\_\_\_ goods when the domestic price level increases.

AGGREGATE DEMAND AGGREGATE SUPPLY DOMESTIC DOWNWARD FEWER  
FOREIGN INTEREST RATE PRICE LEVELS REAL BALANCE SPEND

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# KEY

## AGGREGATE DEMAND

Aggregate demand is the total of all planned expenditures in the economy, and aggregate supply is the total of all planned production in the economy. The aggregate demand curve shows the various quantities of total planned spending on final goods and services at various price levels; it is downward sloping. There are three reasons why the aggregate demand curve is downward sloping. They are the open-economy effect, the real-balance effect, and the interest rate effect. The real balance effect occurs because price level changes alter the real value of cash balances, thereby causing people to desire to spend more or less, depending on whether the price level decreases or increases. The interest rate effect is caused by interest rate changes that mimic price level changes. At higher interest rates, people seek to buy fewer houses and cars, and at lower interest rates, they seek to buy more. The open economy effect occurs because of a shift away from expenditures on domestic goods and a shift toward expenditures on foreign goods when the domestic price level increases.