

# Aggregate demand and supply models

[Literature](#), [Russian Literature](#)



Aggregate Demand and Supply Models ID Number & Total Number of Words:

500 Consumer income, sometimes referred to as “ household income” is pertaining to the actual amount of money each consumer have after taxes and fixed monthly expenses have been deducted from their monthly income (Business Dictionary, 2012). In the United States, Fletcher (2012) reported that the “ household income is down sharply since the recession ended three years ago”. As compared to US\$126, 400 average household income back in 2007, the average household income as of 2010 has reached its lowest point at US\$77, 300 (Fletcher, 2012).

In the study of macroeconomics, Jain (2007, p. 65) explained that the aggregate demand is pertaining to the value or amount of money in which the business entrepreneurs are expected to receive out of selling their products and services whereas the aggregate supply is pertaining to the value or amount of money that the business entrepreneurs should receive from selling their products and services. It means that the aggregate demand and supply represents the aggregate expenditure and aggregate production cost respectively.

Under the Keynesian model perspective, the aggregate demand is pertaining to the “ aggregate demand expenditures” whereas the aggregate supply is pertaining to the “ total value of the output” (Jain, 2007, p. 66). Specifically the recently reported decrease in the U. S. consumer income has a significant impact in the movements of the aggregate supply and demand. Since there is a significant decrease in the U. S. consumer income, the business entrepreneurs are more hesitant to put in more investment. For this reason, there is a strong tendency wherein the aggregate supply curve

would decrease. This partly explains why the aggregate demand curve would also decrease. As a result, the unemployment rate in U. S. is currently high. In response to the on-going U. S. economic crisis, the U. S. government has recently implemented some fiscal policies that control the continuously declining aggregate supply and demand. Under the Obama administration, part of the fiscal policies include the extending a portion of the government collected taxes to unemployment insurance and Medicaid. The problem with implementing such fiscal policies is that these type of economic stabilizers could only result to the increase of the federal spending while the government collected taxes continuous to decline (Lucking & Wilson, 2012). (See Figure I – Impact of Fiscal Policies on Federal, State, and Local Government Spending below)

Figure I – Impact of Fiscal Policies on Federal, State, and Local Government Spending

Source: Lucking & Wilson, 2012

Under the Classical economic perspective, the market should be allowed to regulate on its own without the presence of government intervention. On the contrary, the Keynesian economic perspective strongly support the use of fiscal policies in creating new demand for the economy to grow. Considering the case of the U. S., it is clear the the current government officials under the administration of Obama is using ineffective fiscal policies. For this reason, it could have been best to follow the Classical model perspectives. By leaving the market to freely adjust the aggregate supply and demand on its own, the adverse economic consequences that the United States is currently facing should not have been as worst as what this country is

currently undergoing today.

#### References

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