

OCR Economics A-level

Macroeconomics

Topic 1 – Aggregate Demand and Aggregate Supply

Definitions and Concepts

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1.1 – Circular flow of income

Circular flow of income - A model of the economy which shows the flow of goods and services, the factors of production and money around the economy.

Injections - Spending power entering the circular flow of income resulting from investment, government spending and exports.

Leakages - Spending power leaving the circular flow of income resulting from savings, taxation and imports.

Macroeconomic equilibrium - Where the rate of withdrawals equals the rate of injections.

Monetary flows - The flow of money, for example from taxes or for consumption.

Physical flows - The flow of a good or service.

1.2 – Aggregate demand

Aggregate demand (AD) - The total level of demand in an economy at any given price level at a moment in time.

Consumption - Consumer spending on goods and services.

Exports - Goods and services sold to foreign countries that provide an inflow of money.

Imports - Goods and services bought from foreign countries that lead to an outflow of money.

Investment - Spending by businesses on capital goods, which leads to the creation of real goods.

Government expenditure - Spending by the government for the provision of goods and services.

Net exports - Exports minus imports.

1.3 – Aggregate supply

Aggregate supply (AS) - The total amount of output in the economy at any given price level at a moment in time.

Long run - When all factors of production are variable.

Long run aggregate supply - The total output an economy can produce when operating at full output.



Short run - When at least one factor of production is fixed.

Short run aggregate supply (SRAS) - Aggregate supply when at least one factor of production is fixed.

