**Aggregate Supply and Aggregate Demand Poem!**

Now that everyone is familiar

With how the GDP is calculated,

Aggregate supply and demand will be learned,

And just how they’re related

Demand, now, as you know,
Is how much is wanted by each man

The aggregate demand then measures

All of demand throughout the land

As prices through the nation rise,

And inflation is the problem faced,

Real GDP demanded falls,

Change in aggregate demand takes place.

Aggregate demand is downward sloping

For three reasons to address—

The first of which is the wealth effect--
With rising prices, wealth buys less.

The second of these three causes

Is the effect of rising interest rates--

As prices rise throughout the economy,

Lenders ensure that their real return is great.

Finally, the third effect

Considers that of foreign trade;

As U.S. prices rise and rise,

Americans buy more products, foreign made.

Remember, though as prices increase
People begin to exercise more thrift,
So demand will change, along the curve,

But the curve itself won’t shift.

However, the aggregate demand curve may shift

From the left to right and left again,

If certain shifters do occur,

Such as the way consumers spend

If people fear a recession is coming,

They may tend to want to save their cash!
Whereas when their taxes become decreased,
It is to the stores, they dash!

Changes in investment spending
Can have major impacts as well!

Such as when interest rates go down and down,

More cars and houses tend to sell!

Another shifter is aggregate demand

Occurs when the government spends less or more,
Such as an increase spending in defense,

When our country goes to war!

A change in net exports as well,
Such as a change in exchange rates
Can be a shifter in aggregate demand,
As our dollar depreciates!

Aggregate demand represents

All goods and services that people wish to buy,

And all total goods that are produced

Is the aggregate supply!

In dealing with aggregate supply,

You may see two lines, not one!

One represents short-term supply,
While the other represents long-run.

The short-run supply is quite simple—

As prices rise, then, firms make more!

With higher profits, come greater incentive,

So more products hit the store!

The short-run supply is seen on a chart,

By an upward sloping curve!
For higher prices mean higher profits--

Just what firms feel they deserve!

However, as prices soon increase,
Workers will demand money for each hour!

And as wages and resources cost firms more,
Why, their profits are devoured!

Thus, in the long run, prices rise,
But so do wages that are claimed,
So in the long run, aggregate supply and output

Simply stays the same!

To represent the long-term supply,
One sees a straight, vertical line,
Because as profits increase, so do wages,
And only prices climb.

Aggregate supply has shifters too!

Such as inflationary expectations!

Or if people expect much lower prices,

Firm produce with greater hesitation!

Change in resource prices as well,

Such as greater costs of oil
Can lead to less aggregate supply,

For profits are then spoiled.

A non-spending change in government,

Such as greater regulations

Can slow down a firm’s production

And aggregate supply throughout the nation

Finally changes in productivity occur,

Such as when better technology is created

Or technology may slow down production,

When it is old, and too outdated

Long-term aggregate supply is shown,
When production is at its most efficient!

When the demand met falls to the left of this line,

Production is then not sufficient

When production does not meet what it should,

And demand becomes too low,

Firms began to produce even less,

While unemployment grows

When output is low and unemployment high,
A recession will rule the day,

An increase in production is needed,
To make it go away!

However when the demand shifts to the right,

And output becomes extremely high

Workers will demand higher wages…
Inflation then may rise!

This is a business cycle--
Recession and then inflation,

Fiscal and monetary policies are then issued
To stabilize the nation!