Aggregate Demand Formula

Aggregate demand is referred to as the total demand for all the final goods and services produced in an economy, at a given time period.

Aggregate demand is a macroeconomic term which describes all the products and services that are purchased at a certain price level, during a time period.

Aggregate demand can be considered to be the same as gross domestic product as the products that are produced in the country are consumed within the country.

Components of Aggregate Demand

The five components of aggregate demand are as follows:

1. Consumer Spending: It is the amount of money that consumers spend on finished goods.
2. Investment: It includes the private investments and spending by businesses on equipments and factories (non-capital goods)
3. Government spending: This includes the government spending on social services such as improving infrastructure, medicare etc.
4. Exports: This refers to the demand for goods from foreign countries.
5. Imports: This refers to the demand for goods that are produced in foreign countries.

The mathematical representation of aggregate demand formula is

AD = C + I + G + (X – M)

The same can also be expressed as

Aggregate Demand = Consumer Spending + Investment + Government Spending + (Exports-Imports)