Assignment

For a fixed aggregate supply curve, decreases in aggregate demand increase real GDP.

True

False

Solution

False

We can explain it using AD–AS model. The intersection of demand curve and supply curve indicates the price level at which the aggregate quantity of final goods and services supplied in the economy is equal to the aggregate quantity demanded, and indicates as well the level of real GDP. So, for a fixed aggregate supply curve the decrease of aggregate demand leads to decrease in level of real GDP.