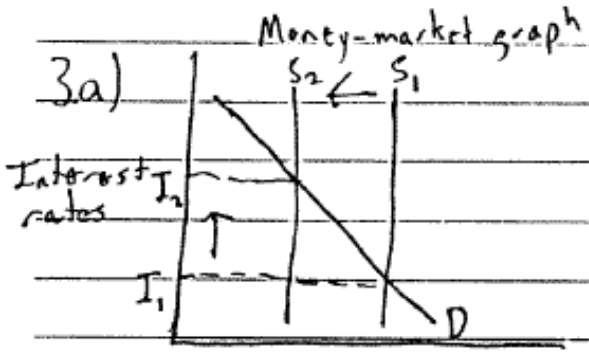


Write in the box the number of the question you are answering on this page as it is designated in the examination.

3



It will increase interest rates

Quantity of money ~~supply~~

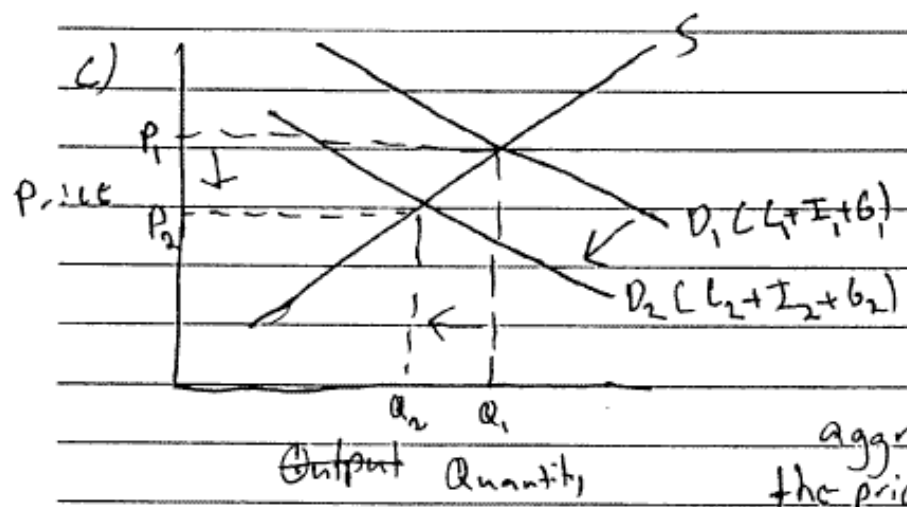
Consumer Spending

b) Components of aggregate demand are Consumption, Investment and Government Spending.

It will decrease consumption because consumers will be able to borrow less money for purchasing goods.

It will decrease investment because less projects will appear profitable because the expected rate of return will be less than the interest rate for more investors.

Interest rates do not affect government spending.



Aggregate demand decreases because of the decreases in consumption and investment.

The decrease in aggregate demand decreases the price level and decreases the output.