Sub-topic	SL/HL core	HL
The business cycle		
Short-term fluctuations and long-term trend	• Explain, using a business cycle diagram, that economies typically tend to go through a cyclical pattern characterized by the phases of the business cycle. • Explain the long-term growth trend in the business cycle diagram as the potential output of the economy. • Distinguish between a decrease in GDP and a decrease in GDP growth.	

Theory of knowledge: potential connections
What is the empirical evidence for the existence of the business cycle? How do we decide whether this evidence is sufficient?

2.2 Aggregate demand and aggregate supply

Sub-topic	SL/HL core	HL
Aggregate demand (AD)		
The AD curve	• Distinguish between the microeconomic concept of demand for a product and the macroeconomic concept of aggregate demand. • Construct an aggregate demand curve. • Explain why the AD curve has a negative slope.	
The components of AD	• Describe consumption, investment, government spending and net exports as the components of aggregate demand.	

Sub-topic	SL/HL core	HL
The determinants of AD or causes of shifts in the AD curve	• Explain how the AD curve can be shifted by changes in consumption due to factors including changes in consumer confidence, interest rates, wealth, personal income taxes (and hence disposable income) and level of household indebtedness. • Explain how the AD curve can be shifted by changes in investment due to factors including interest rates, business confidence, technology, business taxes and the level of corporate indebtedness. • Explain how the AD curve can be shifted by changes in government spending due to factors including political and economic priorities. • Explain how the AD curve can be shifted by changes in net exports due to factors including the income of trading partners, exchange rates and changes in the level of protectionism.	
Aggregate supply (AS)		
The meaning of aggregate supply	• Describe the term aggregate supply. • Explain, using a diagram, why the short-run aggregate supply curve (SRAS curve) is upward sloping. • Explain, using a diagram, how the AS curve in the short run (SRAS) can shift due to factors including changes in resource prices, changes in business taxes and subsidies and supply shocks.	

Sub-topic	SL/HL core	HL
Alternative views of aggregate supply	• Explain, using a diagram, that the monetarist/new classical model of the long-run aggregate supply curve (LRAS) is vertical at the level of potential output (full employment output) because aggregate supply in the long run is independent of the price level. • Explain, using a diagram, that the Keynesian model of the aggregate supply curve has three sections because of "wage/price" downward inflexibility and different levels of spare capacity in the economy.	
Shifting the aggregate supply curve over the long term	• Explain, using the two models above, how factors leading to changes in the quantity and/or quality of factors of production (including improvements in efficiency, new technology, reductions in unemployment, and institutional changes) can shift the aggregate supply curve over the long term.	
Equilibrium		
Short-run equilibrium	• Explain, using a diagram, the determination of short-run equilibrium, using the SRAS curve. • Examine, using diagrams, the impacts of changes in short-run equilibrium.	

Sub-topic	SL/HL core	HL
Equilibrium in the monetarist/new classical model	• Explain, using a diagram, the determination of long-run equilibrium, indicating that long-run equilibrium occurs at the full employment level of output. • Explain why, in the monetarist/new classical approach, while there may be short-term fluctuations in output, the economy will always return to the full employment level of output in the long run. • Examine, using diagrams, the impacts of changes in the long-run equilibrium.	
Equilibrium in the Keynesian model	• Explain, using the Keynesian AD/AS diagram, that the economy may be in equilibrium at any level of real output where AD intersects AS. • Explain, using a diagram, that if the economy is in equilibrium at a level of real output below the full employment level of output, then there is a deflationary (recessionary) gap. • Discuss why, in contrast to the monetarist/new classical model, the economy can remain stuck in a deflationary (recessionary) gap in the Keynesian model. • Explain, using a diagram, that if AD increases in the vertical section of the AS curve, then there is an inflationary gap. • Discuss why, in contrast to the monetarist/new classical model, increases in aggregate demand in the Keynesian AD/AS model need not be inflationary, unless the economy is operating close to, or at, the level of full employment.	

Sub-topic	SL/HL core	HL
The Keynesian multiplier		
The nature of the Keynesian multiplier		• Explain, with reference to the concepts of leakages (withdrawals) and injections, the nature and importance of the Keynesian multiplier. • Calculate the multiplier using either of the following formulae. $\frac{1}{(1 - MPC)}$ $\frac{1}{(MPS + MPT + MPM)}$ • Use the multiplier to calculate the effect on GDP of a change in an injection in investment, government spending or exports. • Draw a Keynesian AD/AS diagram to show the impact of the multiplier.

Theory of knowledge: potential connections

Business confidence is a contributing factor to the level of AD. What knowledge issues arise in attempting to measure business confidence?

The Keynesian and Monetarist positions differ on the shape of the AS curve. What is needed to settle this question: empirical evidence (if so, what should be measured?), strength of theoretical argument, or factors external to economics such as political conviction?