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# Demand Side Tutorial

Prepared for students in ECO201

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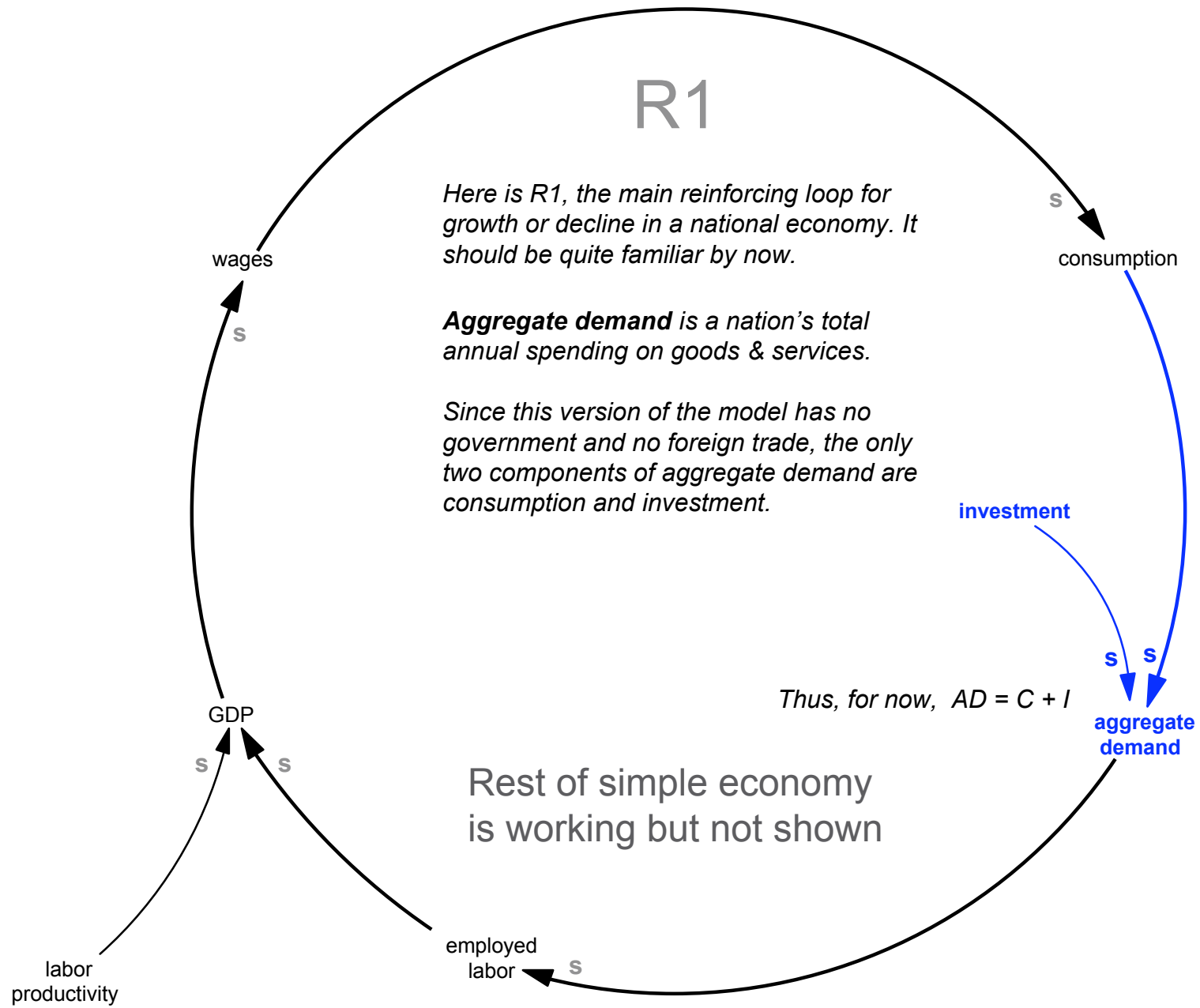
# Overview

In previous tutorials, you learned about the main reinforcing loop (R1) in an economy, three supply-side counteracting loops (C1-C3) that keep the main loop from spiraling out of control, and another reinforcing loop (R2) that connects prices and wages.

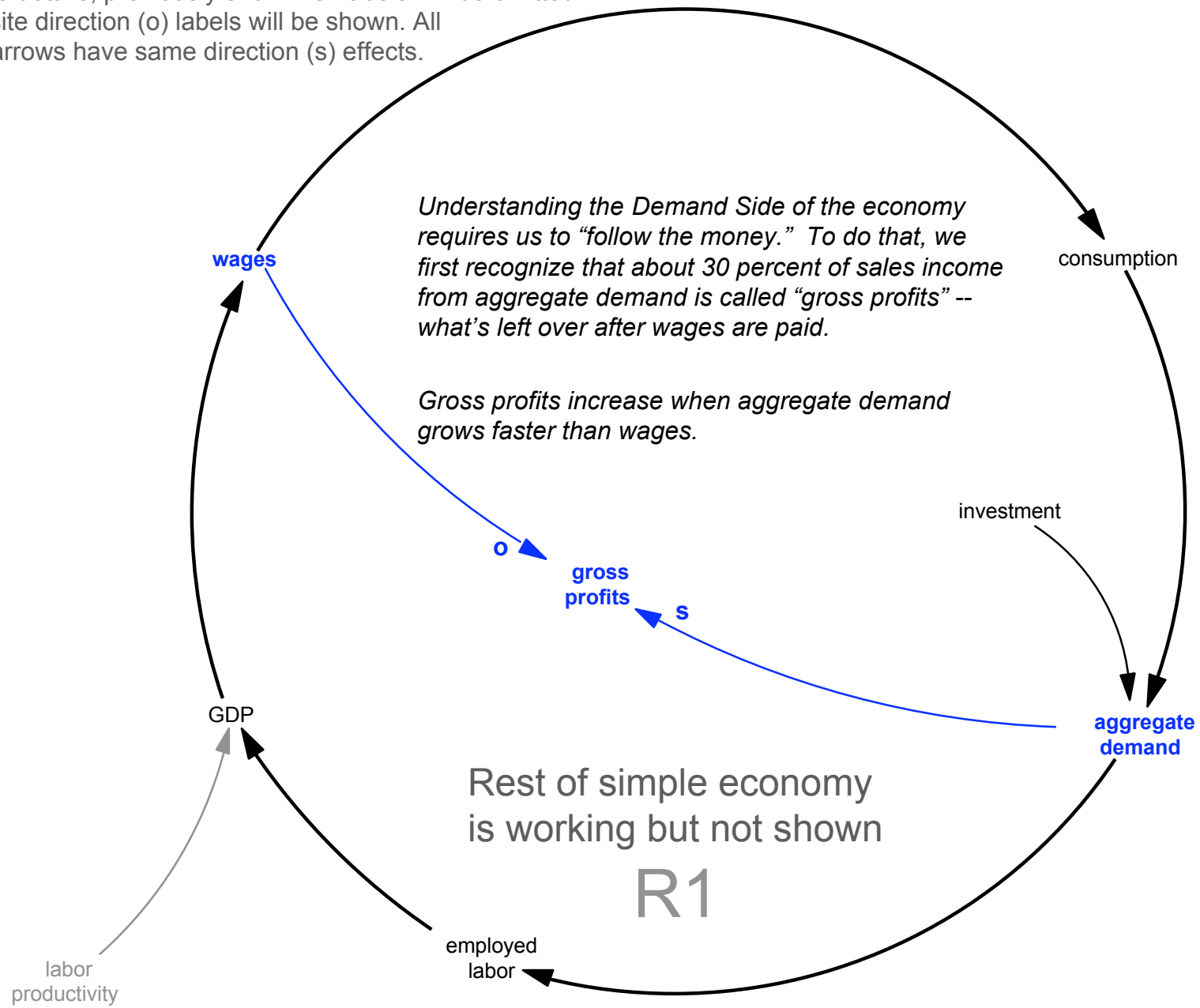
The **Demand Side** of the economy is where spending decisions are made. In this story, you will study three new examples of feedback loops that influence demand-side decision making.

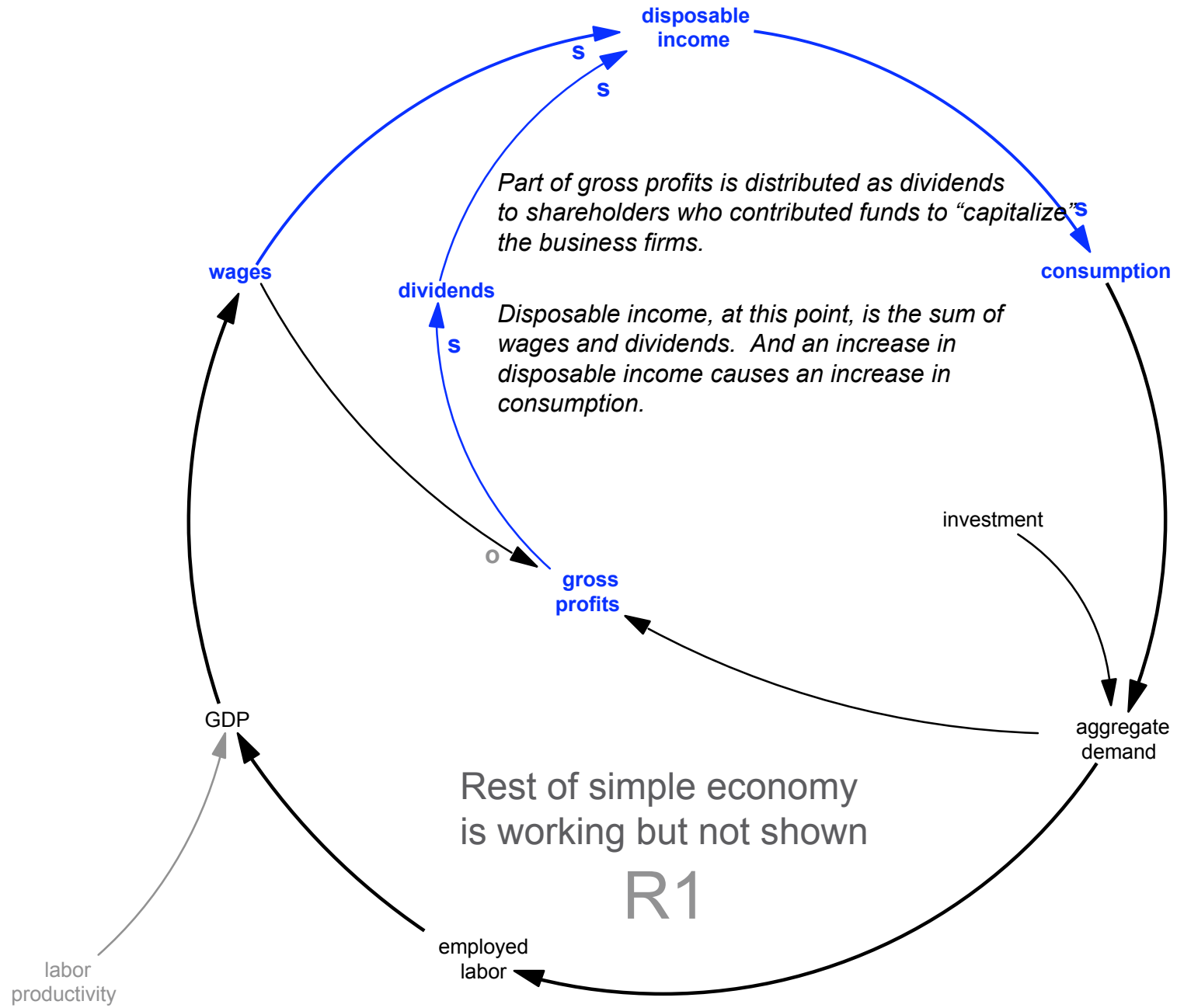
We are still working with a simplified version of the U.S. economy -- one with a fixed money supply, no government taxation or spending, and no foreign trade.

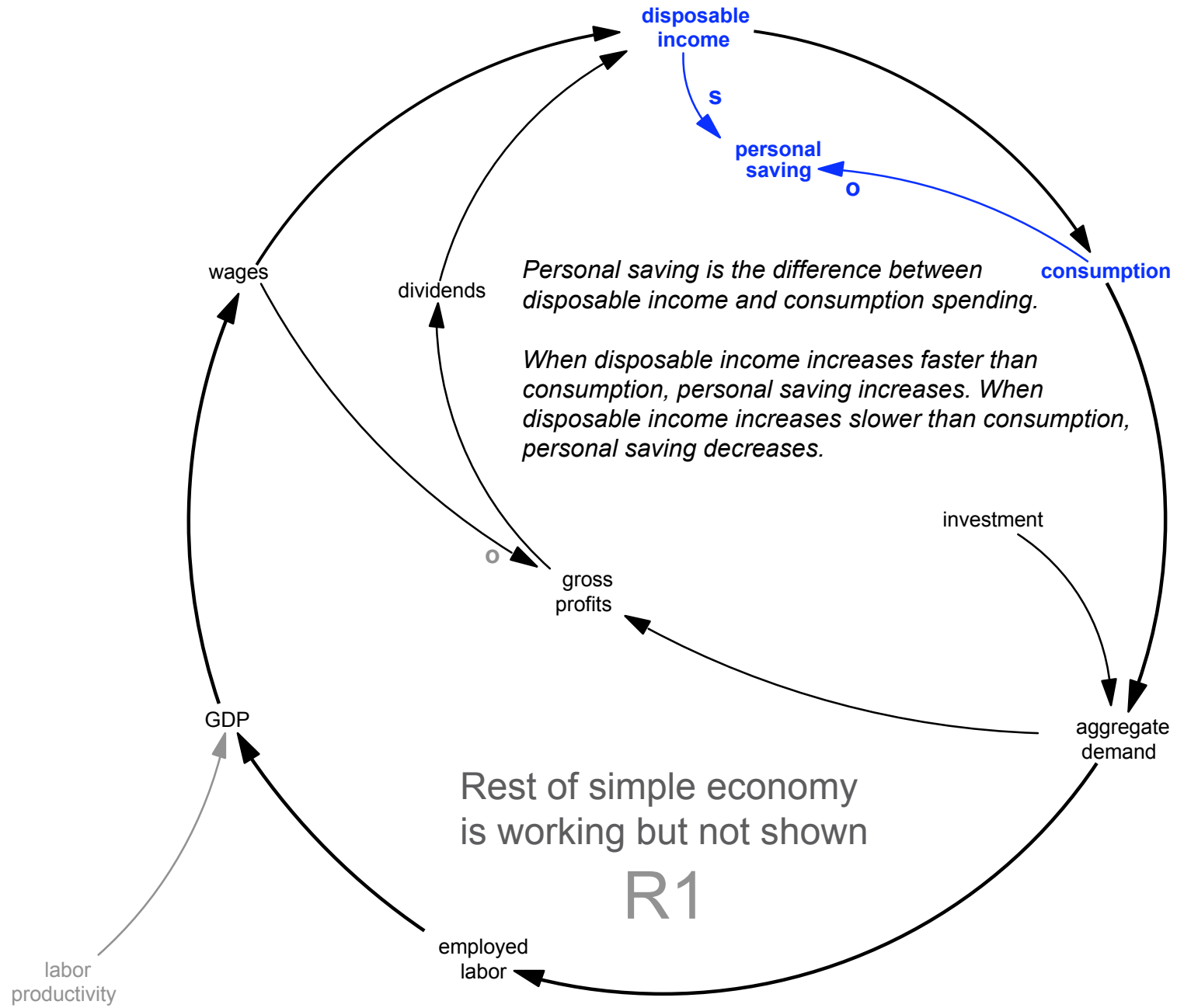
This tutorial continues to emphasize that the *characteristic behavior of an economy depends on its feedback structure -- the interaction of reinforcing and counteracting feedback loops.*

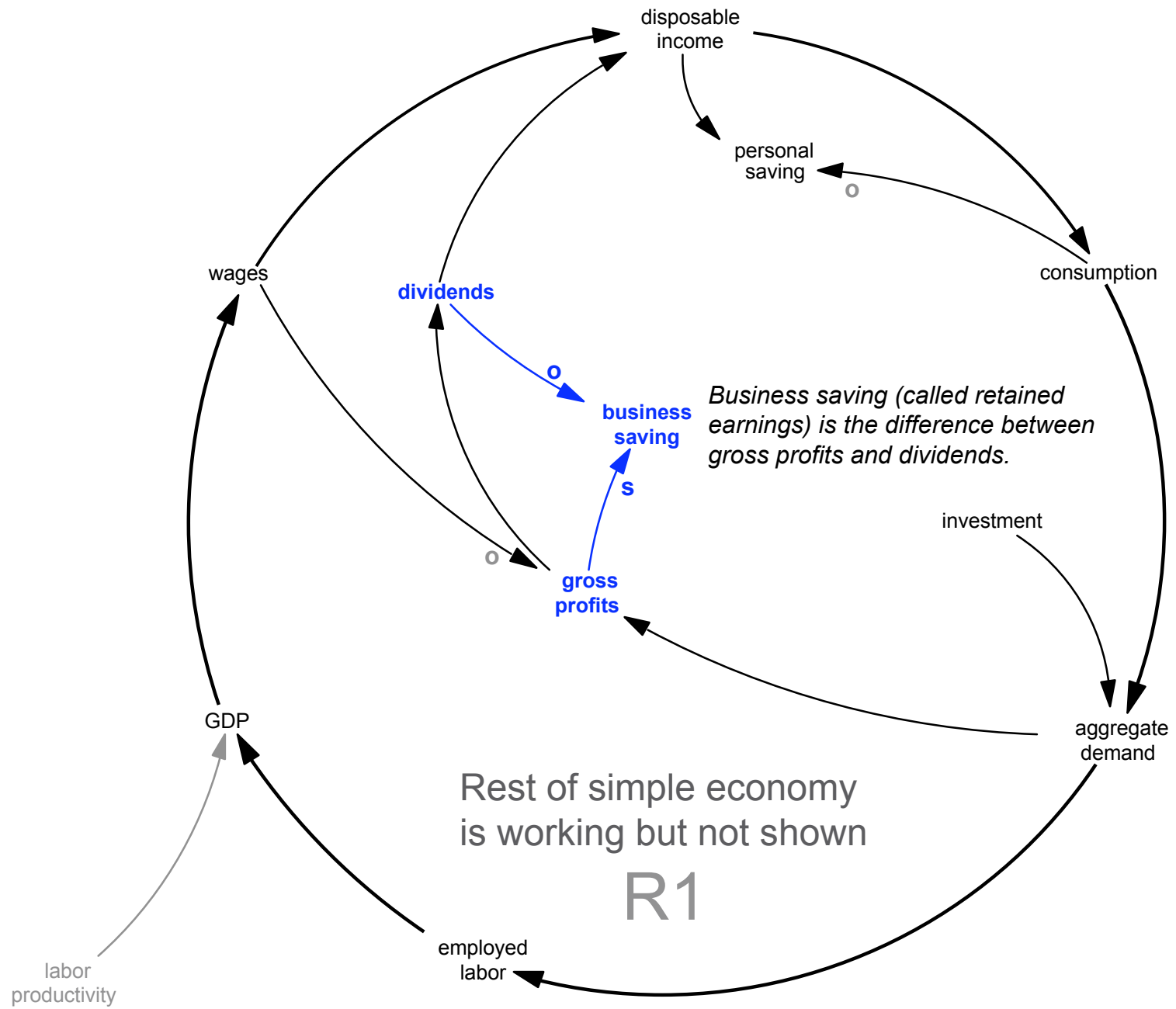


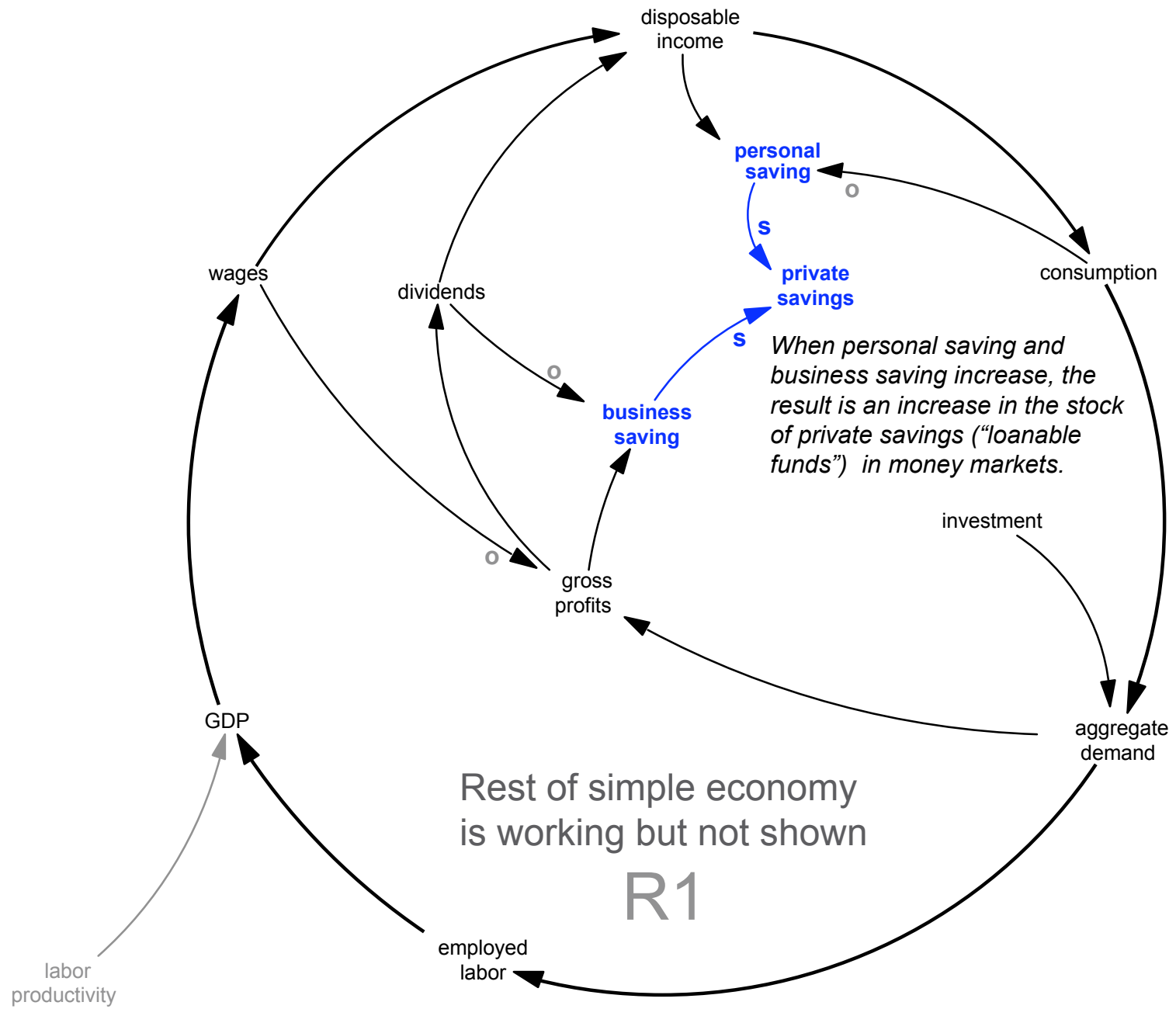
To minimize details, previously shown "s" labels will be omitted.  
Only opposite direction (o) labels will be shown. All  
unlabeled arrows have same direction (s) effects.

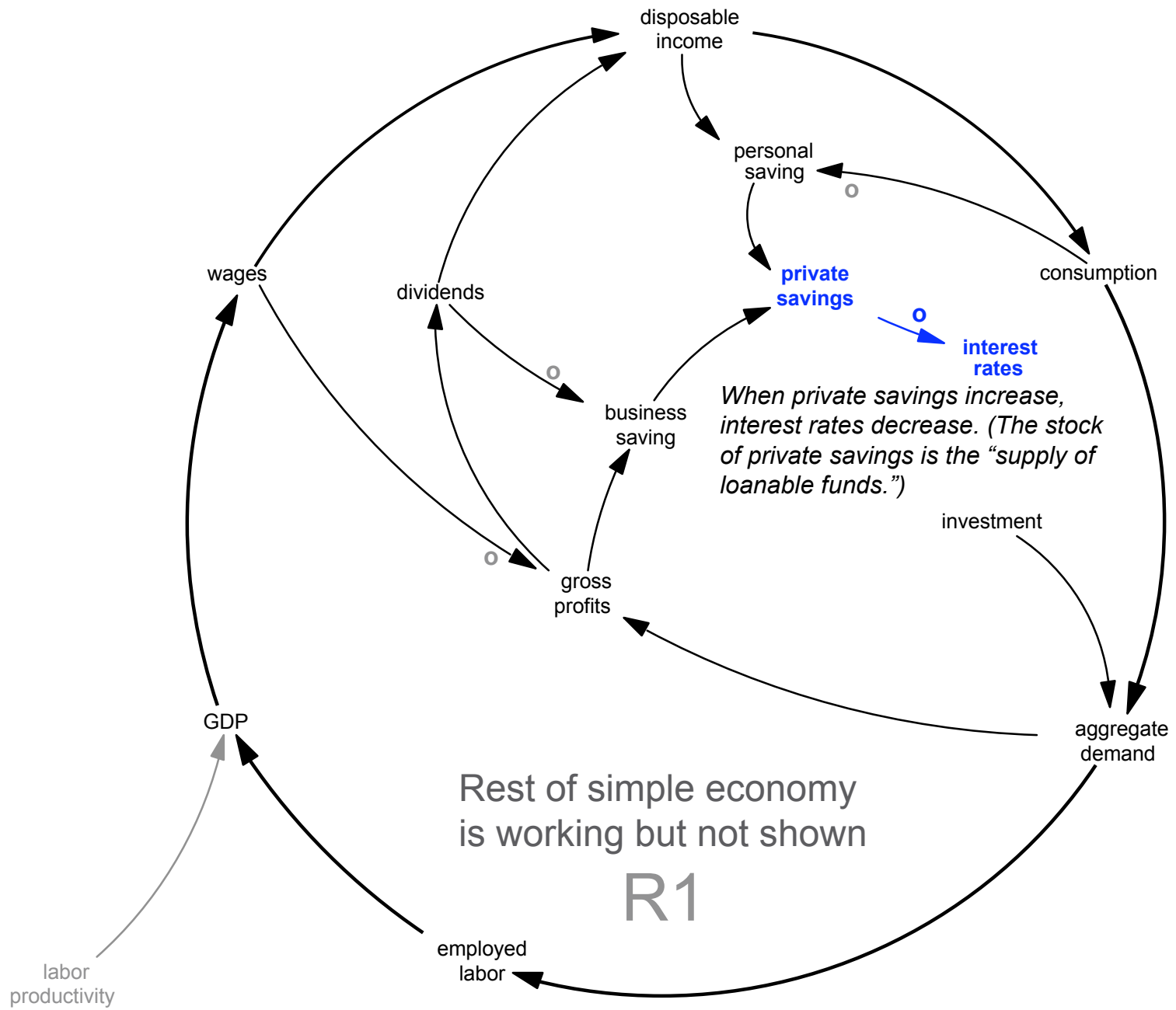


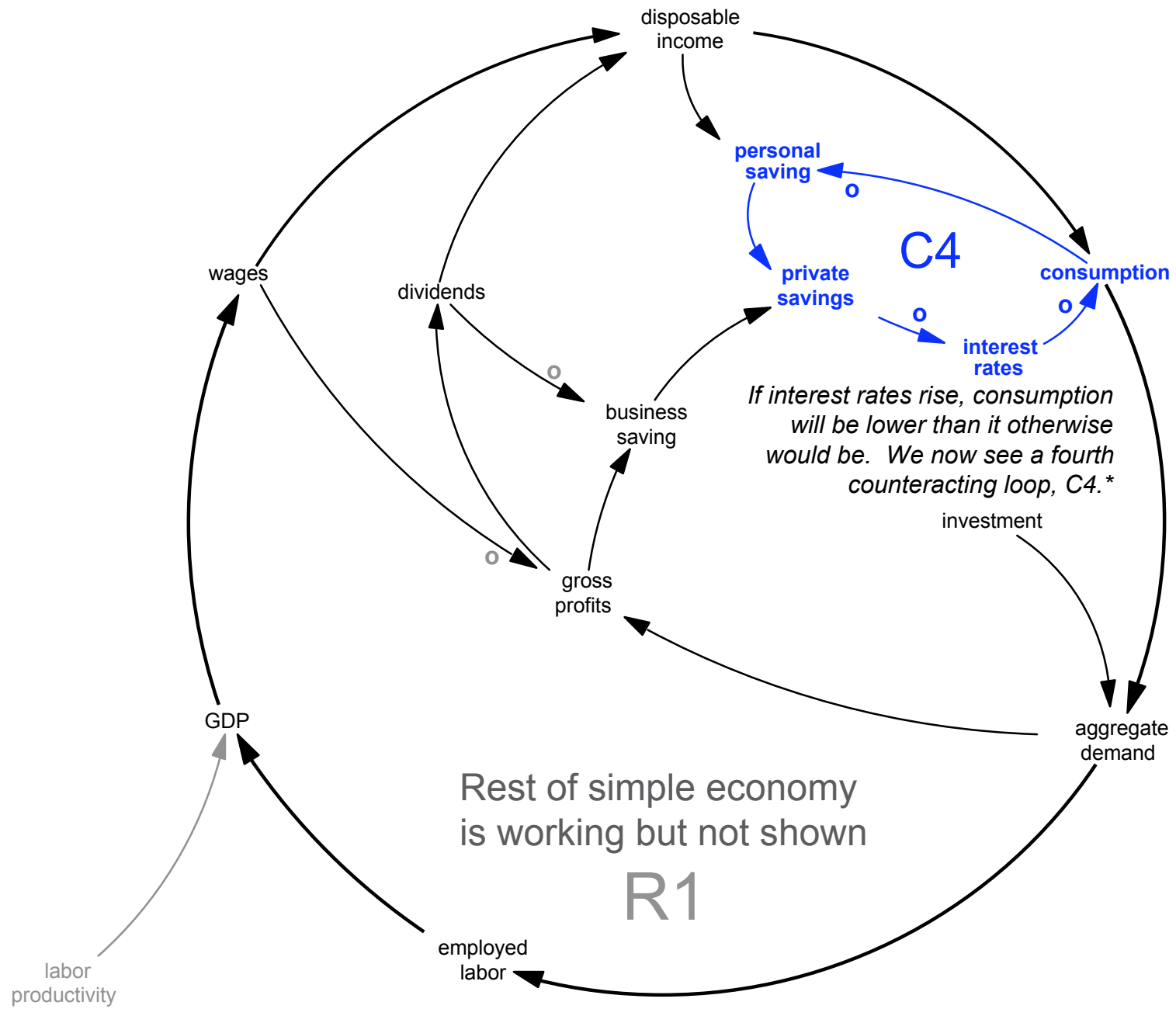




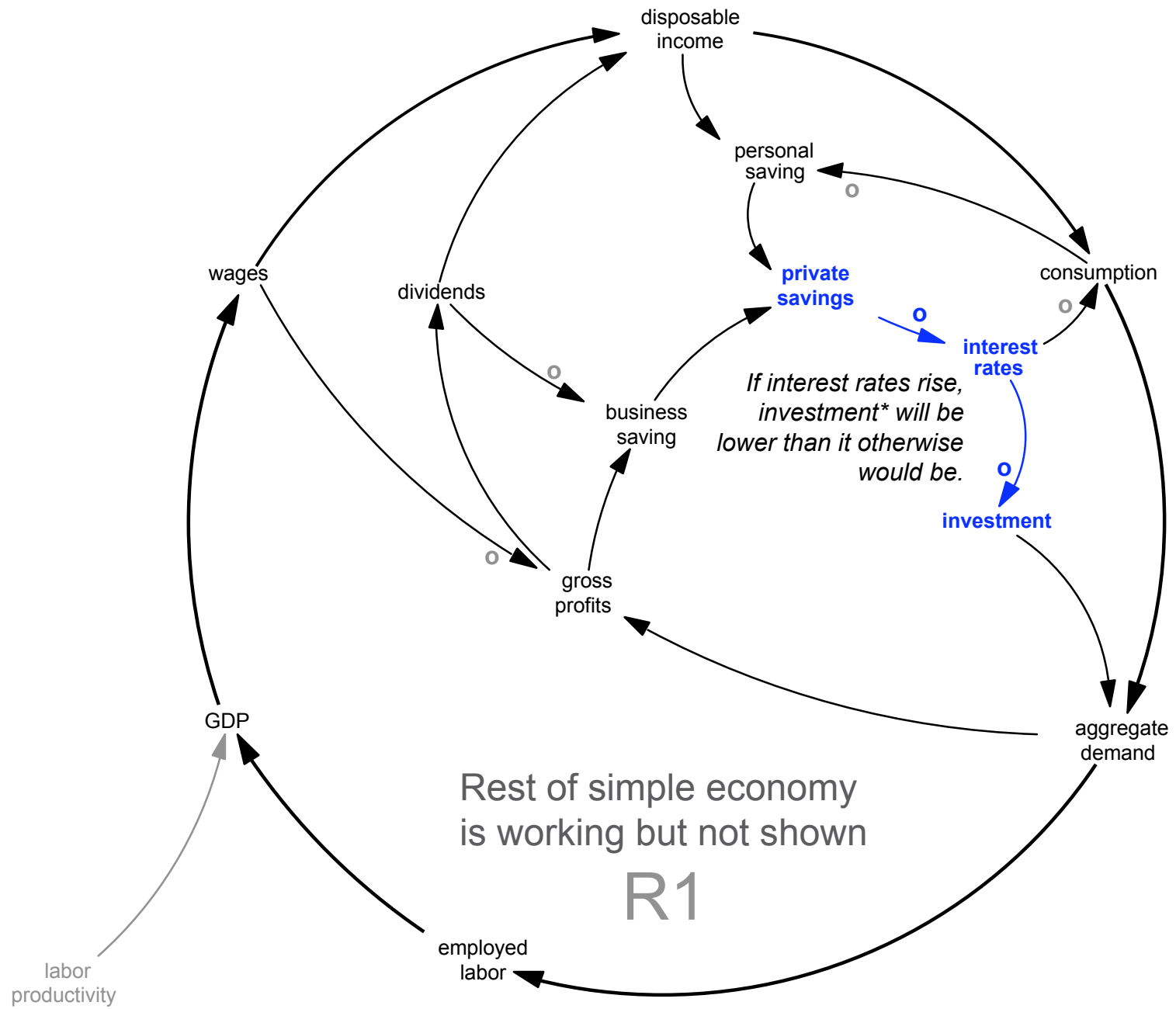




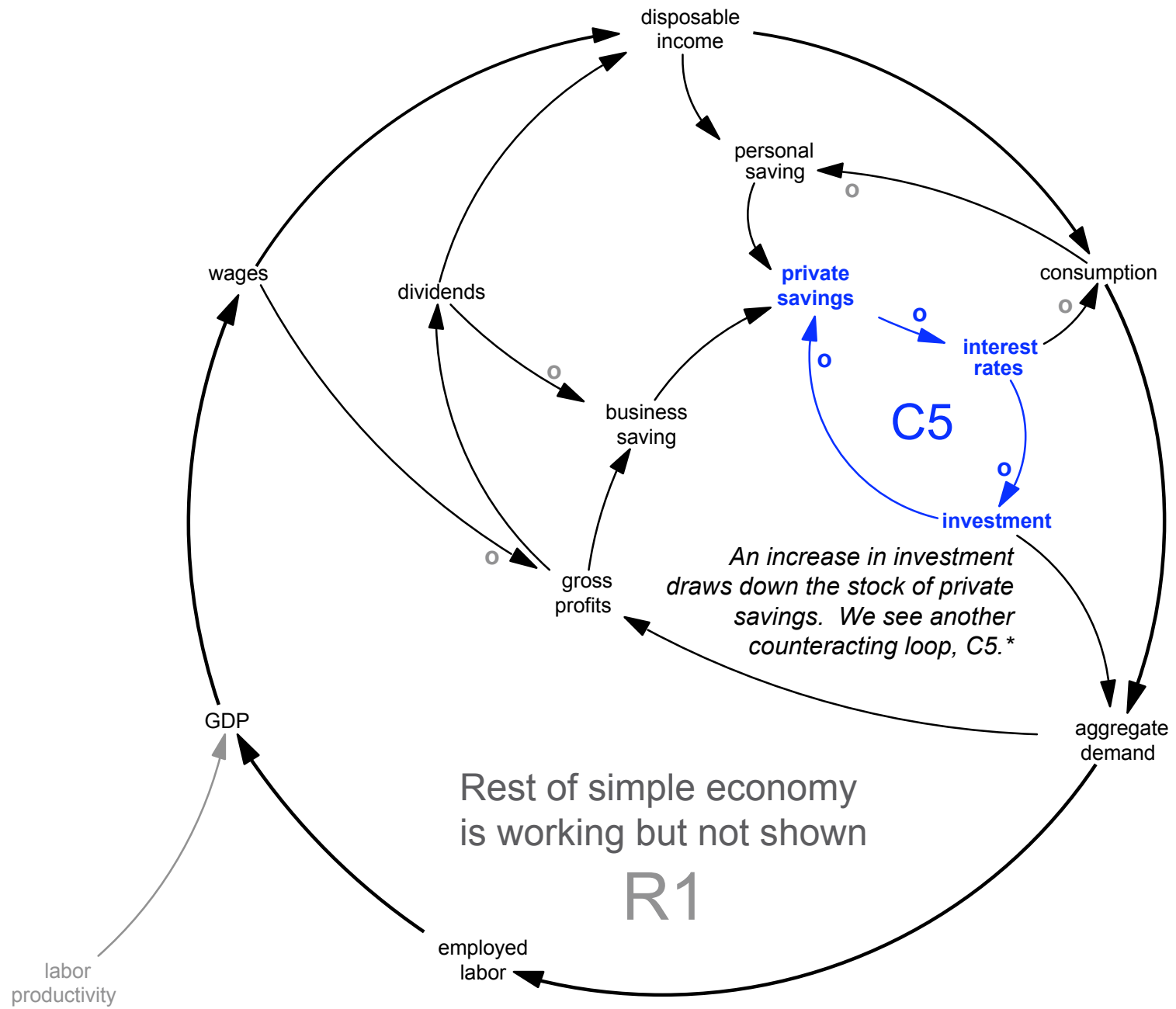




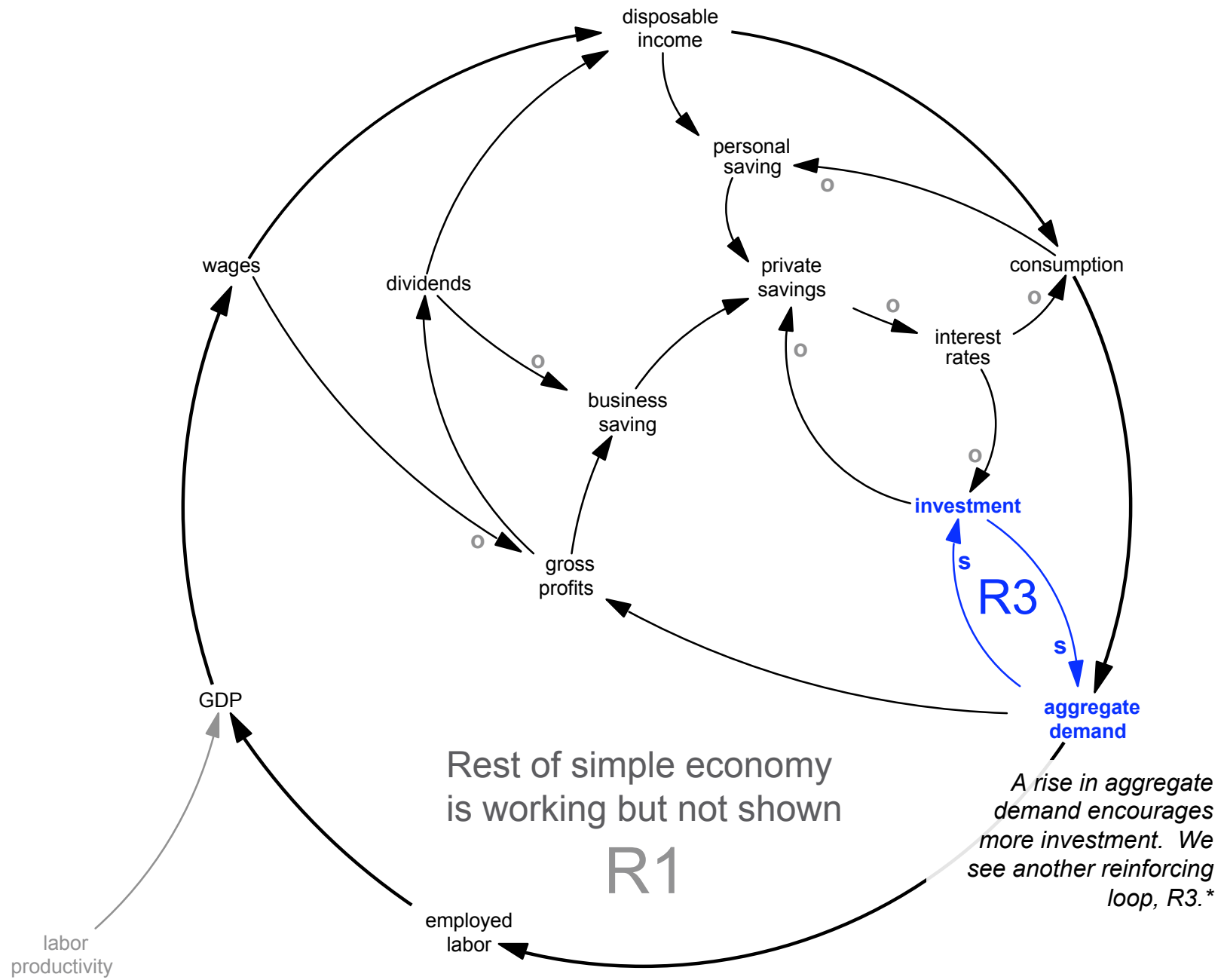
\*Be sure you can confirm that C4 is a counteracting loop.



\*Recall that "investment" is business spending on plant & equipment.

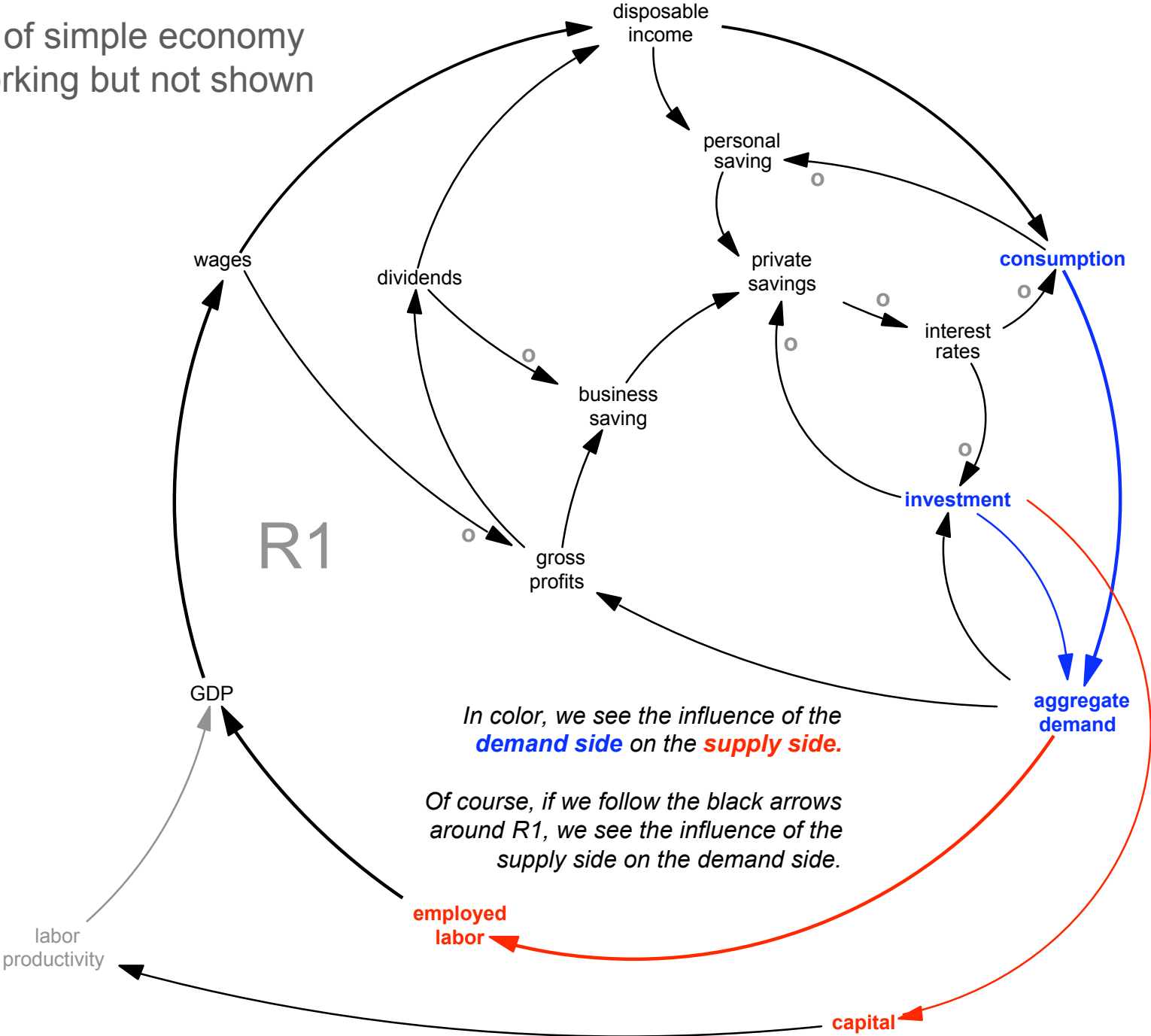


\*Be sure you can confirm that C5 is a counteracting loop.



\*Be sure you can confirm that R3 is a reinforcing loop.

Rest of simple economy  
is working but not shown



# Summary

In this Demand Side tutorial, you encountered three new loops that interact with the main reinforcing loop of the economy:

- C4: counteracting loop (interest rates, consumption, personal saving, private savings)
- C5: counteracting loop (interest rates, investment, private savings)
- R3: reinforcing loop (investment, aggregate demand)

There are other feedback loops affecting spending decisions on the Demand Side of the economy, but these are particularly important.

At this point, the Demand Side only includes private decision making by households and business firms. It does not include public or political decisions about taxation and public spending. The next tutorial will add the Government Sector.