Calibrating the Keynesian Model

Introduction

Imagine that consumption is approximately equal to the following:

When GDP increases by \$1000, consumption increases by approx \$600. Thus, investment increases then

Government spending, say, is fixed approximately.

How much do you spend and do you get, in total.

If the MPC is given by c_1 then:

$$C = c_0 + c_1 Y$$

Therefore, we have the following (say consumption is actually a little bit higher than that: if consumption is 70 % of GDP, then c_0 is approximately 10% of GDP right?)

Therefore, if investment is equal to…

For example, imagine that the marginal propensity to consume is actually given by:

$$C = c_0 + c_1 Y.$$

Therefore