To simplify, we will *assume* that **imports** do NOT depend on **Income**

The Components of Aggregate Expenditures

Consumer spending depends on National Income(**Y**): MPC

Wealth

Expectations

Prices

$$\mathbf{C} = \text{Intercept} + \text{MPC} \times \mathbf{Y}$$

Government spending does NOT depend on **Income**. It changes with Government policy

G= Value which changes with policy

Investment spending does NOT depend on **Income**. It changes with business' plans for plant expansion and consumers' plans for buying new homes

Intercept

No

“**Y**" in this expression for Government Spending

I= Value which changes with Investment plans

No
"**Y**" in this
expression for
Investment
Spending

X and **M**= Values which change with factors different from Income

Exports(X) do NOT depend on U.S. **Income**

No “**Y**" in this expressions for Imports and Exports

The Components of Aggregate Expenditures

Consumer spending depends on National Income(**Y**): MPC

$\left.\begin{array}{l}\text{Wealth}\\ \text{Expectations}\\ \text{Prices}\end{array}\right\}$ Intercept

C = Intercept + MPC x **Y**

Government spending does NOT depend on **Income**. It changes with Government policy

G= Value which changes with policy

Investment spen es NOT depend on **Income**. It changes with business' plan ansion and consumers' plans for buying new homes

Value which changes with Investment plans

To simplify, we at **imports** do NOT depend on **Income**

Exports(X) do pend on U.S. **Income**

No "**Y**" in this expressions for Imports and Exports

X and **M**= Values which change with factors different from Income

The Components of Aggregate Expenditures

C = intercept + MPC x Y

G = Fixed value

I = Fixed value

M = Fixed value

X = Fixed value