

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

$$C \equiv \text{Intercept} + \text{MPC}_x Y$$

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

G == Fixed value

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

|

=

Fixed

value

A black and white speech bubble with a tail pointing towards the bottom right. Inside the bubble, the text "No 'Y' in this expression for Investment Spending" is written in a black, sans-serif font, centered and arranged in five lines.

No
"Y" in this
expression for
Investment
Spending

N == Fixed value

A black-outlined speech bubble with a tail pointing towards the bottom right. Inside the bubble, the text "No 'Y' in this expression for Imports" is written in a black, sans-serif font, centered and arranged in four lines.

No
"Y" in this
expression for
Imports

The Components of Aggregate Expenditures

Consumer spending depends on National Income(Y): MPC

Wealth
Expectations
Prices

} Intercept

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

Government spending does NOT depend on Income. It changes with Government policy $G = \text{Fixed value}$

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

No "Y" in this expression for Imports

$$I = \text{Fixed value}$$

To simplify, we will assume **Imports** do NOT depend on Income.

$$M = \text{Fixed value}$$

The Components of Aggregate Expenditures

C = intercept + $MPC_x Y$

G = Fixed value

I = Fixed value

M = Fixed value