

At equilibrium,

Leakages = Injections

$S + T + M = I + G + X$

Rearrange:

$$S = I + (G - T) + (X - M)$$

Savings finance



Government's
Deficit

Trade Deficit:



Investment

At equilibrium,

Leakages = Injections

$$S + T + M = I + G + X$$

Rearrange:

$$\text{Savings finance } S = \text{Investment } I + \underbrace{(G - T)}_{\text{Government's Deficit}} + \underbrace{(X - M)}_{\text{Trade Deficit:}}$$

Inflationary and Recessionary Gaps