



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

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



**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

**I**  $\equiv$  Fixed value

A large, black-outlined 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

**M**  $\equiv$  Fixed value



A large, black-outlined speech bubble with a tail pointing towards the bottom right corner. 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 investment 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 +  $MPC \times Y$

**G** = Fixed value

**I** = Fixed value

**M** = Fixed value