





nn

**p**







S





M







a



9





W







U



S













m













**R**

e



a







**V**



**P**







e



**S**

a





**E**









2



9

e

**R**

a







S



# The Components of Aggregate Expenditures

Consumer spending depends on National  
Income(Y): MPC

Wealth

Expectations

**Prices**

Taxes

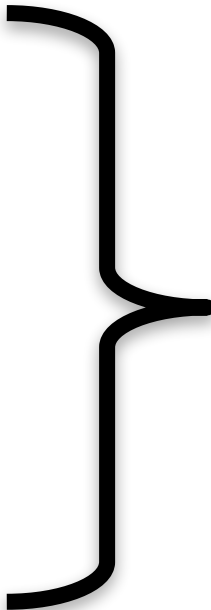


Transfers

$$C = a + \text{MPC}(T_r - T_x) + \text{MPC}Y$$

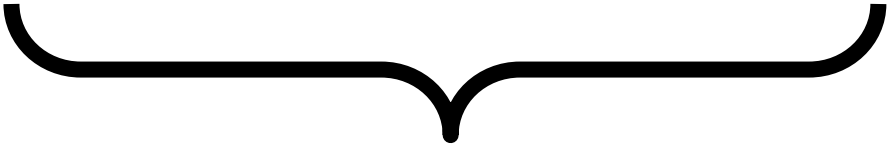
**Government (G)** spending does  
**NOT** depend on **Income**. It is set  
and changes with policy

**Investment (I)** spending does **NOT** depend on **Income**. It is set by firms and changes with interest rates, technical change, business expectations, political and legal framework, tax incentives



Intercept

**Exports (X)** do **NOT** depend on U.S. **Income**. It changes with GDP abroad, Relative Prices, Exchange rates.



Intercept



For now we will  
assume that Imports  
do not change with **Y**



**Imports (M)** change with U.S.  
**Income (Y)**, Relative Prices and  
Exchange Rates.

# The Components of Aggregate Expenditures

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

Wealth

Expectations

Prices

Taxes

Transfers

} Intercept

$$C = \underbrace{a + MPC(T_r - T_x)}_{\text{Intercept}} + MPCY$$

**Exports (X)** do **NOT** depend on U.S. **Income**. It changes with GDP abroad, Relative Prices, Exchange rates.

**Imports (M)** change with U.S. **Income (Y)**, Relative Prices and Exchange Rates.

For now we will assume that Imports do not change with **Y**

**Government (G)** spending does depend on **Income**. It is set with policy

**Investment (I)** spending does **NOT** depend on **Income**. It is set by firms and changes with interest rates, technical change, business expectations, political and legal framework, tax incentives

# The Components of Aggregate Expenditures