



nn

p







S



M







a



9



W







U



S











m











R





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

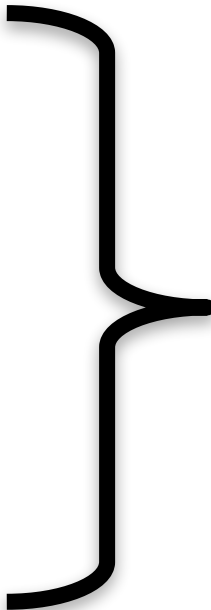
Taxes

Transfers

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

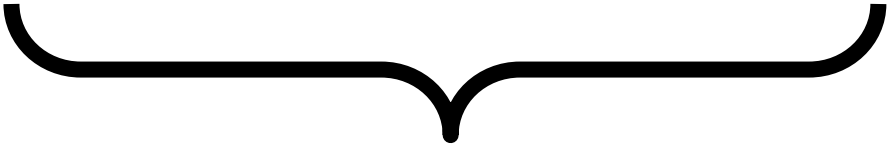
Government (G) spending does
NOT depend on **Income**. It is set
and changes with policy

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