


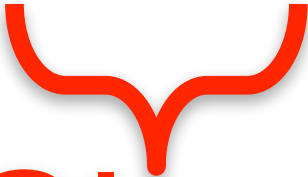
$$AE = a - MPC^T_x + MPC^T_r + I + G + NX + MPC^Y$$

$$AE = a - MPC T_x + MPC T_r + MPC Y + I + G + NX$$


C



Intercept



Slope

AE shifts with changes in:

Interest Rates
Technical Change
Business Expectations
Political Stability
Tax Incentives

Investment →

Exports



GDP Abroad
Exchange Rate
Relative Prices
(U.S. / Abroad

Imports



U.S. GDP

Exchange Rate

Relative Prices

(U.S. / Abroad

Wealth (stock prices,
existing home prices)



Wealthier
consumers
buy more

Consumer expectations
(optimistic/pessimistic)



Optimistic
consumers
buy more

Prices (CPI) → Higher prices
reduce **real**
wealth

Taxes and Transfers



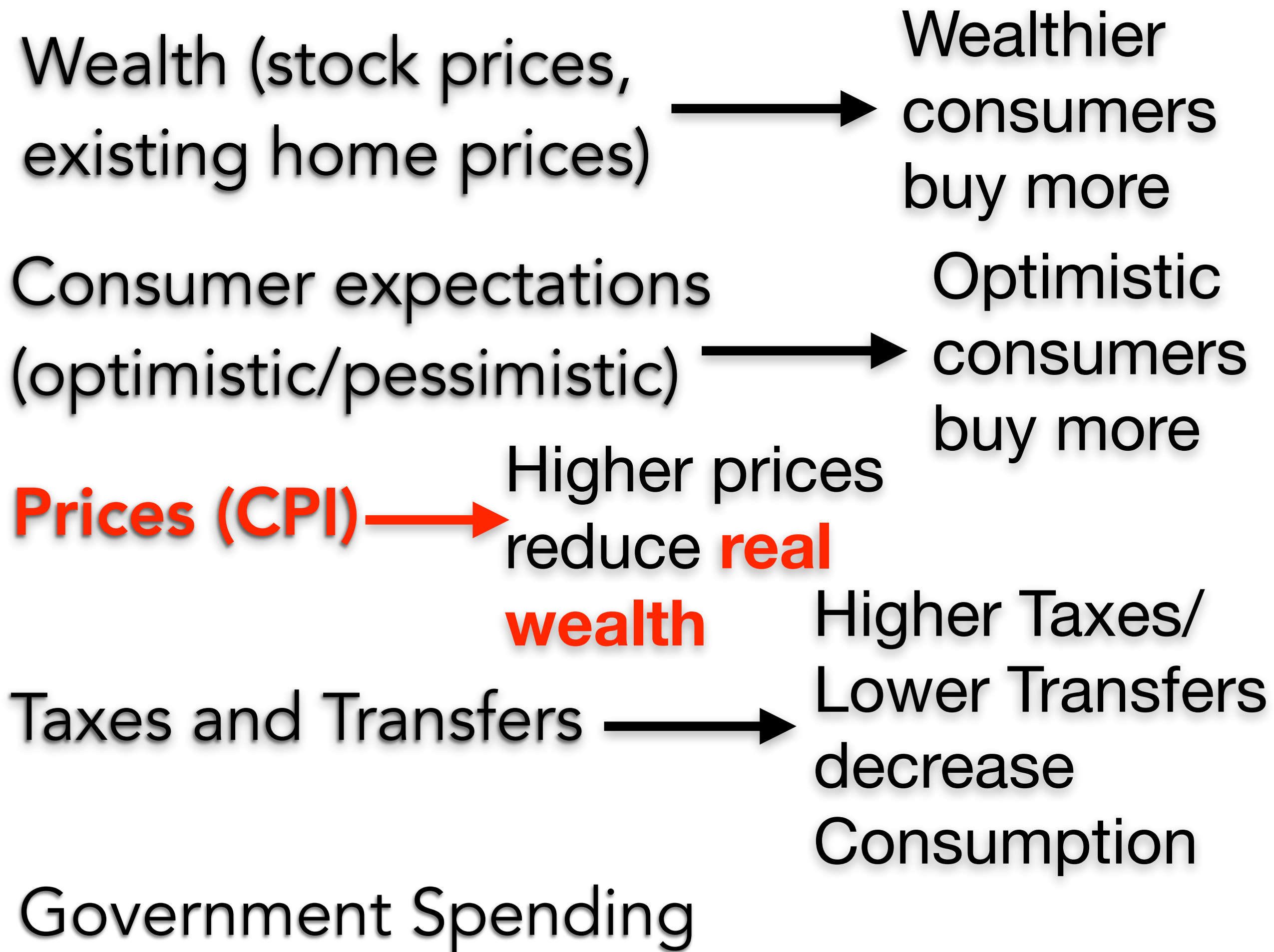
Higher Taxes/
Lower Transfers
decrease
Consumption

Government Spending

$$AE = a - MPC T_x + MPC T_r + I + G + NX + MPC Y$$

Intercept

AE **shifts** with changes in:



Investment → Interest Rates
Technical Change
Business Expectations
Political Stability
Tax Incentives

Exports → GDP Abroad
Exchange Rate
Relative Prices (U.S. / Abroad)

Imports → U.S. GDP
Exchange Rate
Relative Prices (U.S. / Abroad)

Aggregate Expenditures

AE

$$AE = C + I + G + NX$$
