

We will use the following values for this example:

CC \equiv 1000 + 0.9Y

G = 500 billion

1 = 1,000,000 billion

N = 600 billion

~~X~~ = 900 billion

NXX = **900** - **600** = **300**

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

$$AE = 100 + 0.9Y + 1,000 + 500 + 300$$

$$AE = 1,900 + 0.9Y$$

We know at equilibrium $AE = Y$. To find the equilibrium value of Y , we set $AE = Y$ and solve for Y :

$$Y = 1,900 + 0.9Y$$

Rearrange terms:

$$Y - 0.9Y = 1,900$$

Factor.Y:

$$Y(1 - 0.9) = 1,900$$

Solve for **y**:

$$Y = 1,900 / (1 - 0.9)$$

$$Y = 1,900 / 0.1$$

$$Y = 19,000$$



This is the
equilibrium value of
Y



$$Y^* = 19,000$$

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$$I = 1,000 \text{ billion}$$

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Inflationary and Recessionary Gaps