m

p

r

t

S

M

)

C

h

a

n

g

e

W

i

t

h

U

S

n

C

O

m

e

(

Y

)

/

R

e

I

a

t

i

V

e

P

r

i

C

e

S

a

n

d

E

X

C

h

a

n

g

e

R

a

t

e

S

The Components of Aggregate Expenditures

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

Wealth

Expectations

Prices

Taxes

Transfers

$$C = a + MPC(Tr - Tx) + MPCY$$

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

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

Exports (X) do **NOT** depend 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**

ent (G) spending does nd on **Income**. It is set es with policy

nt (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