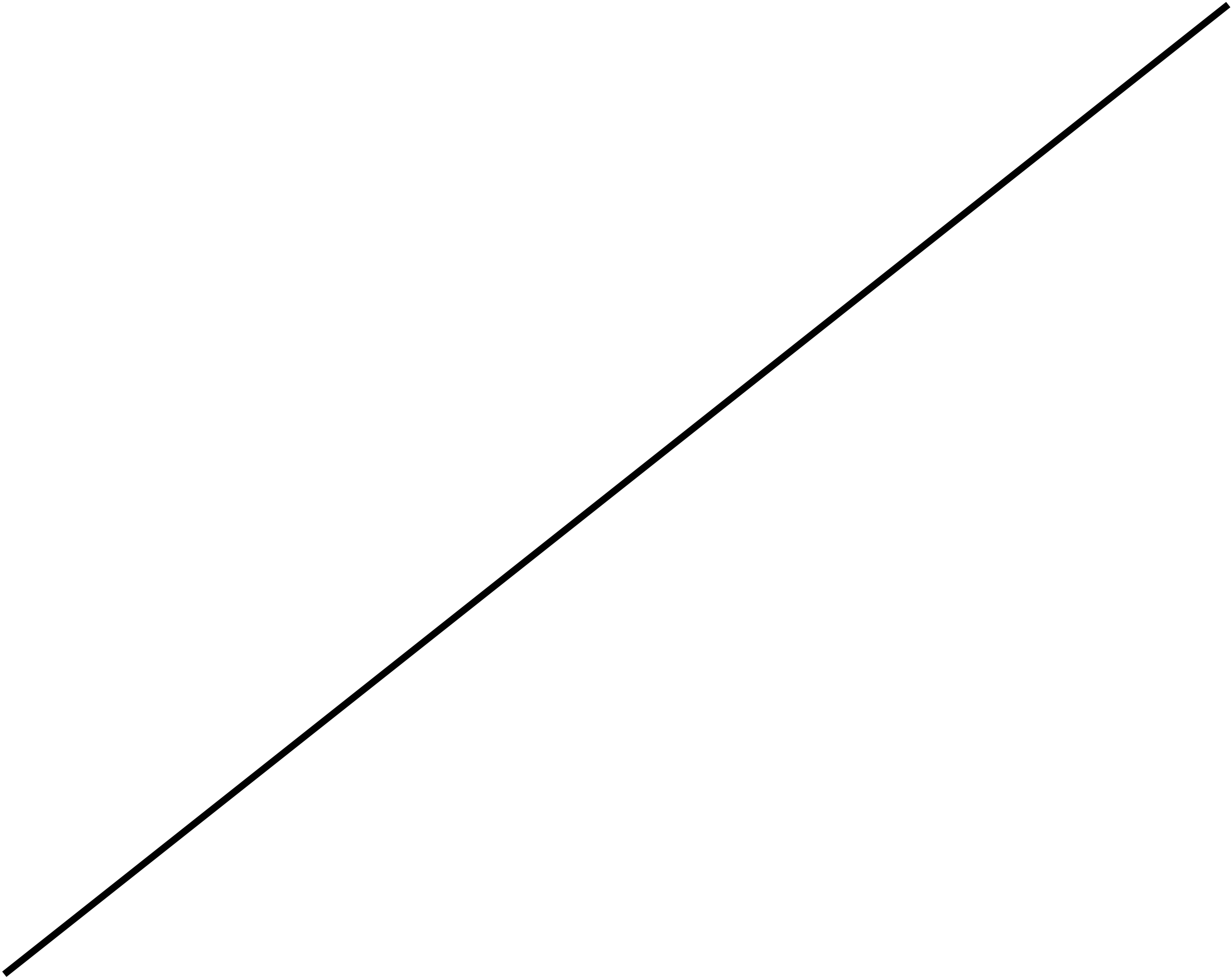


12,000

16,000

AE0

10,000

Real GDP

18,000

20,000

14,000

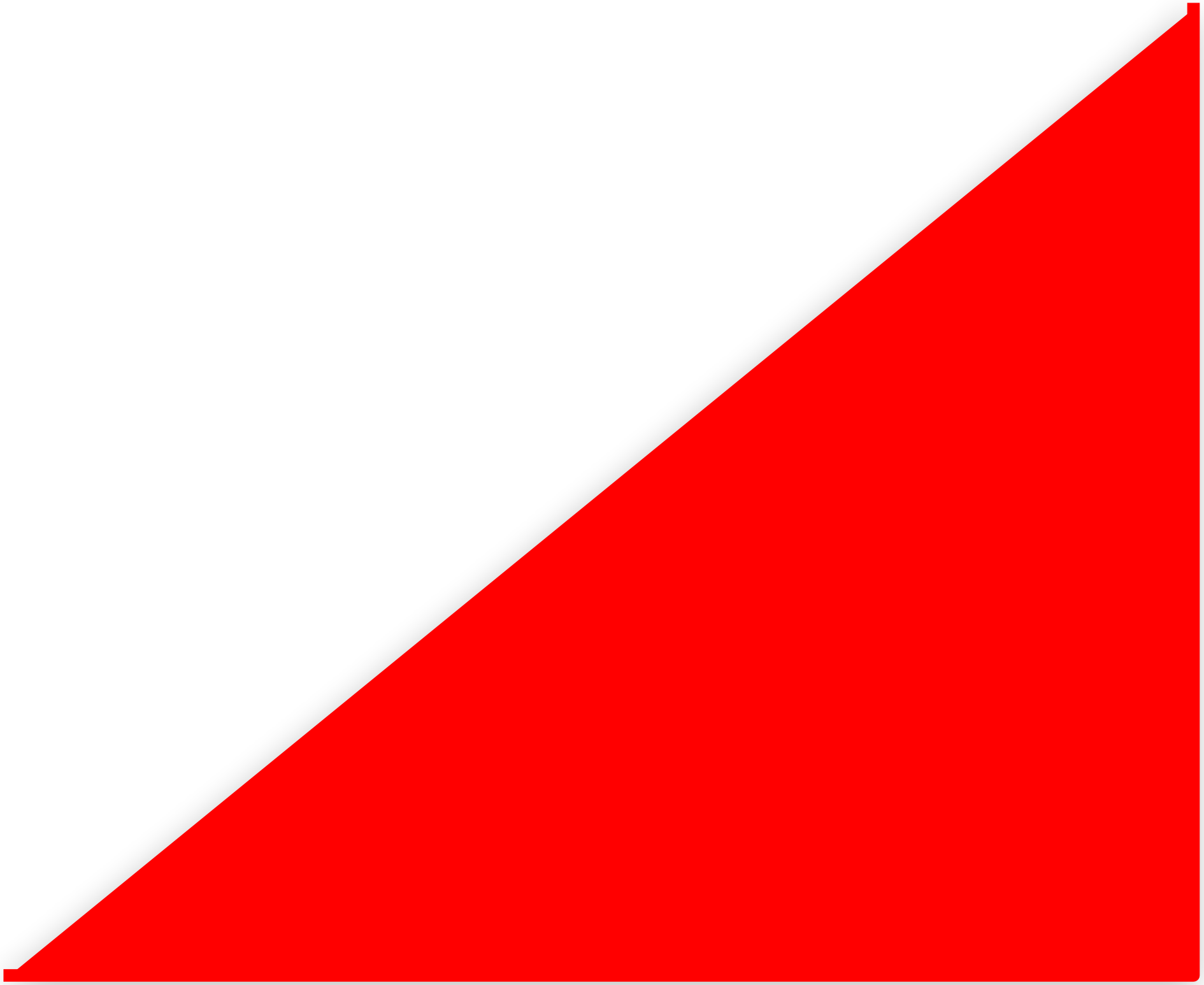
19,000

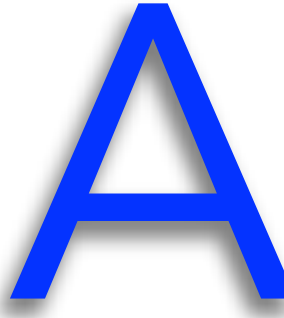
17,500

14,500

11,500

13,000

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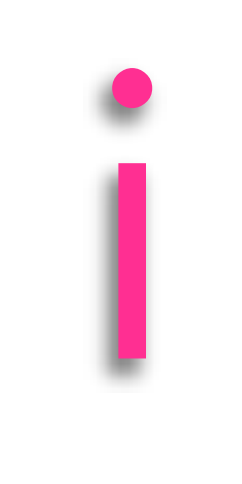
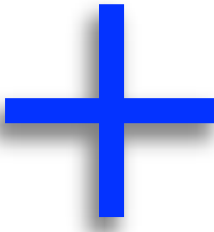
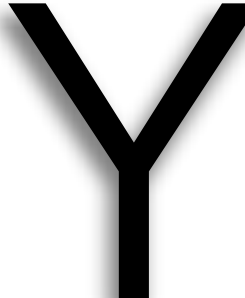
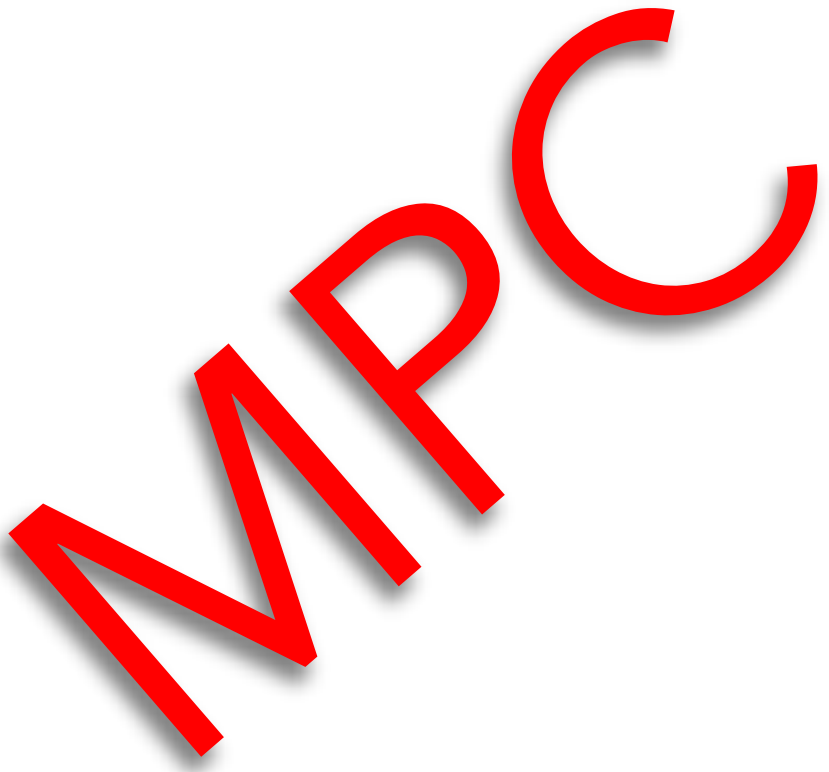
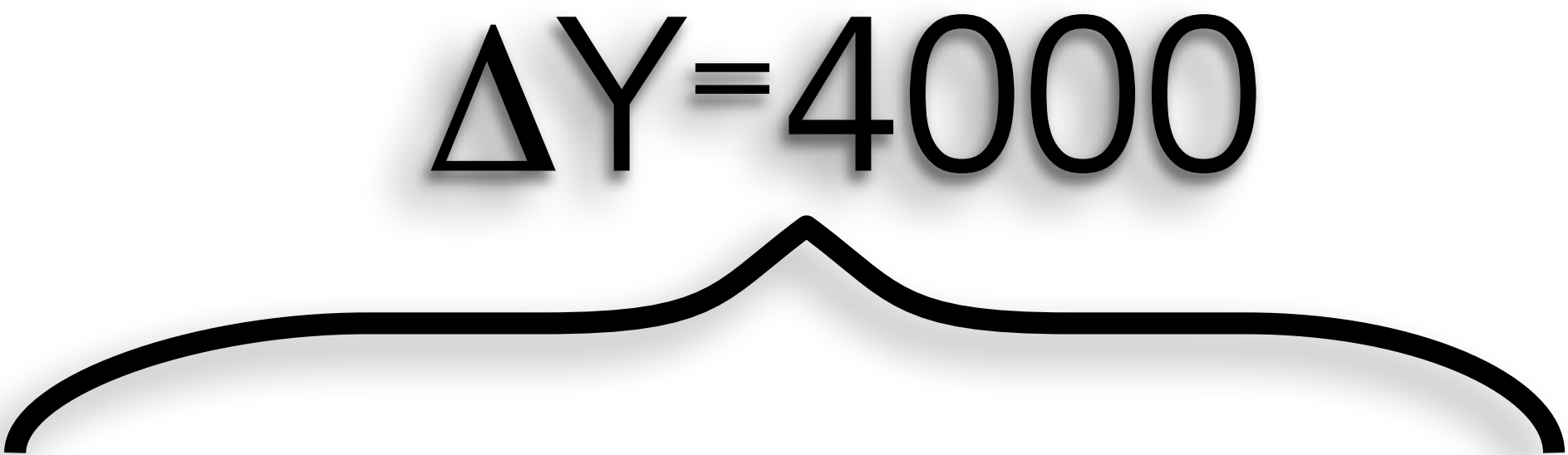






The Intercept


MPC

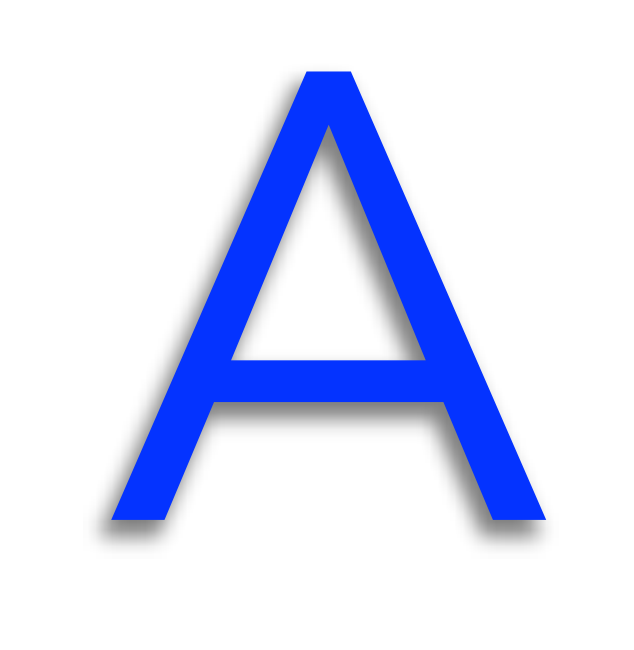

ΔY=4000

ΔAE=3000

$$MPC = \Delta AE / \Delta Y$$

MPC=3000/4000

MPC = 0.75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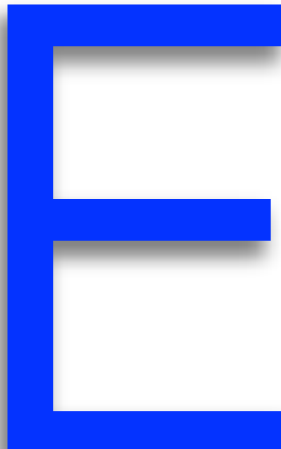

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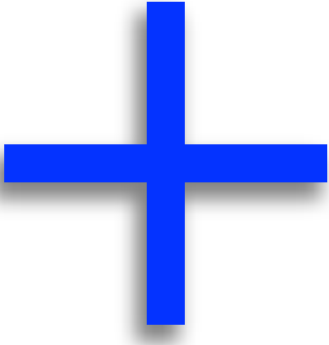

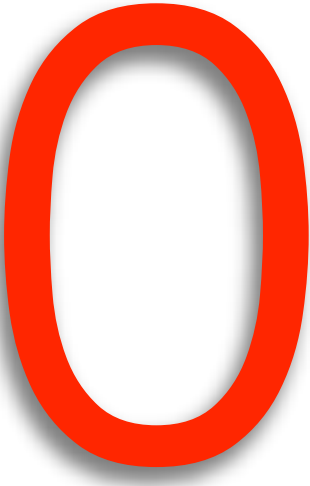

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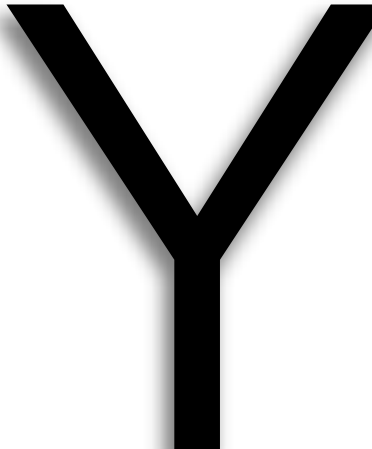
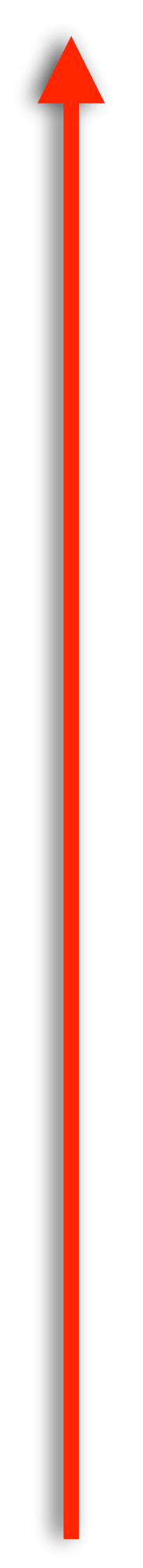
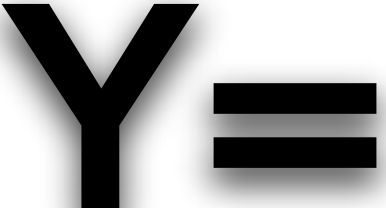
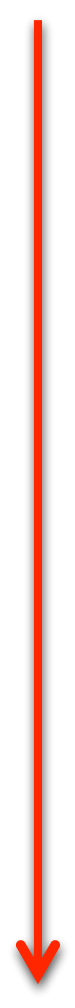


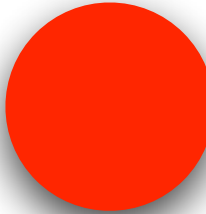


AE =


Y=

Choose any point





13,000

12,000

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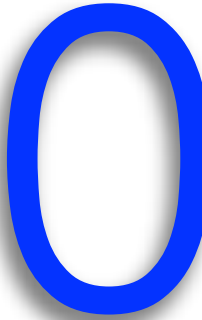

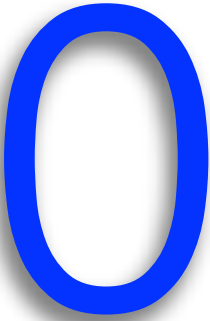

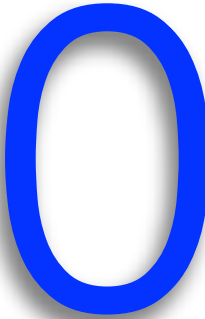

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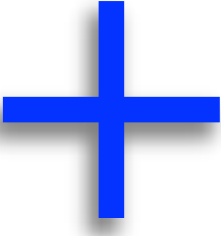

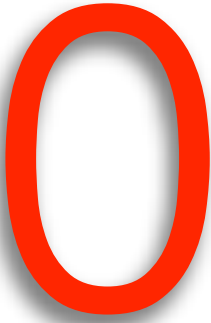

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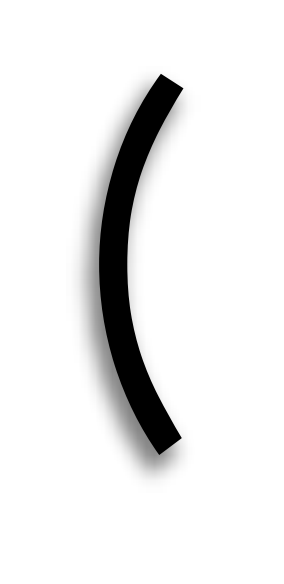

1

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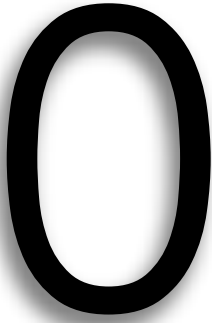

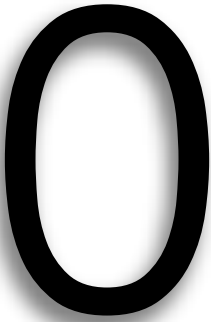

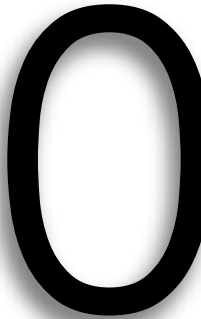

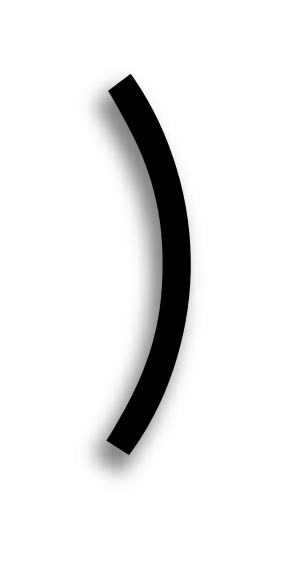

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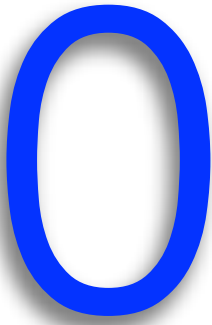
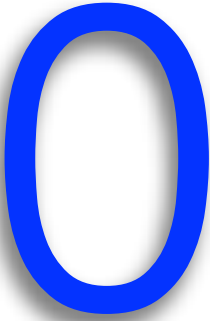
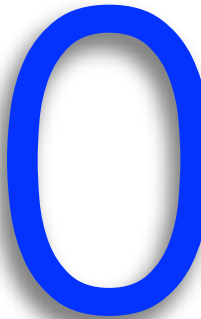
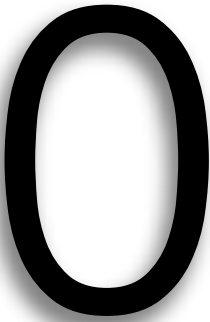
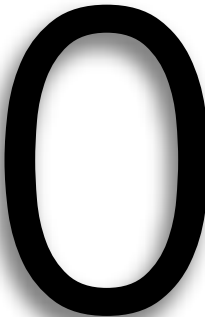


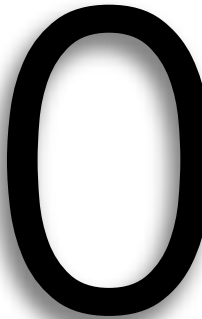




A







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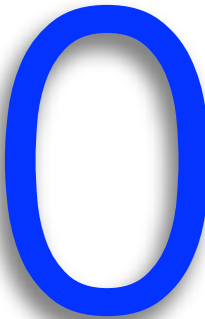
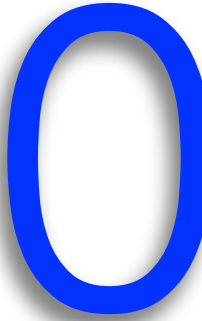
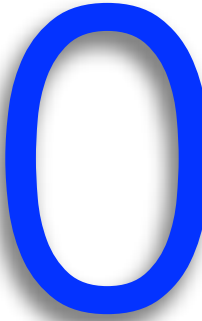
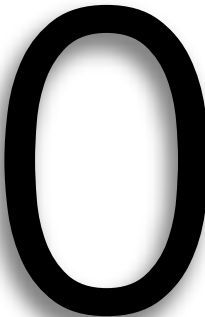
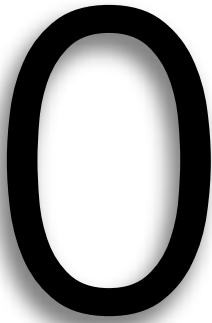
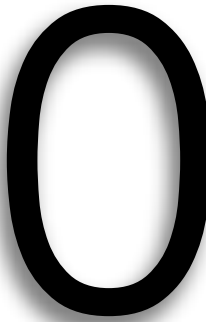






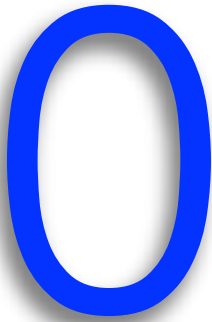


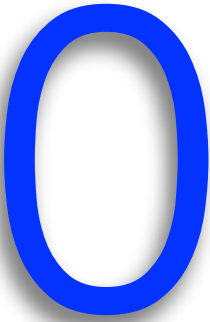


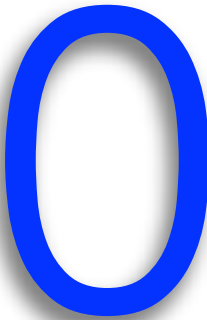


A

4

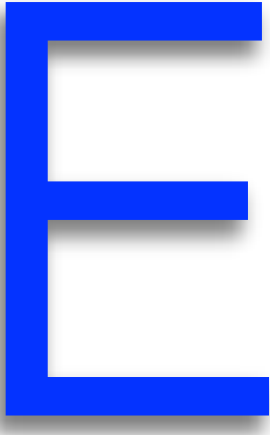


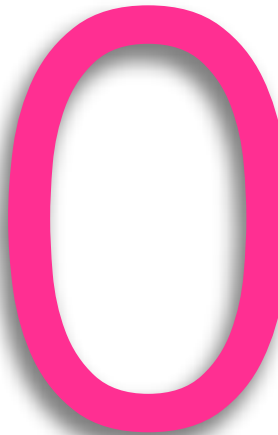


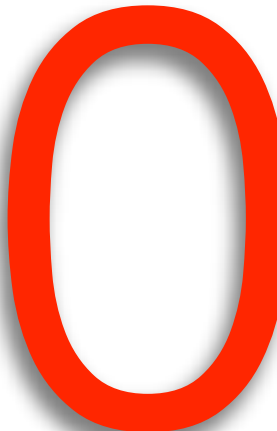


A

A







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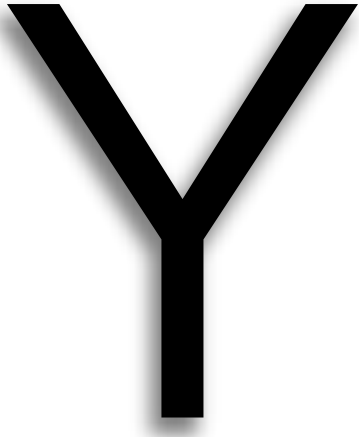
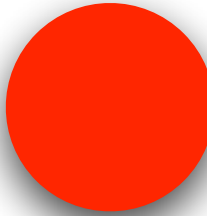
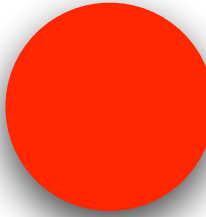
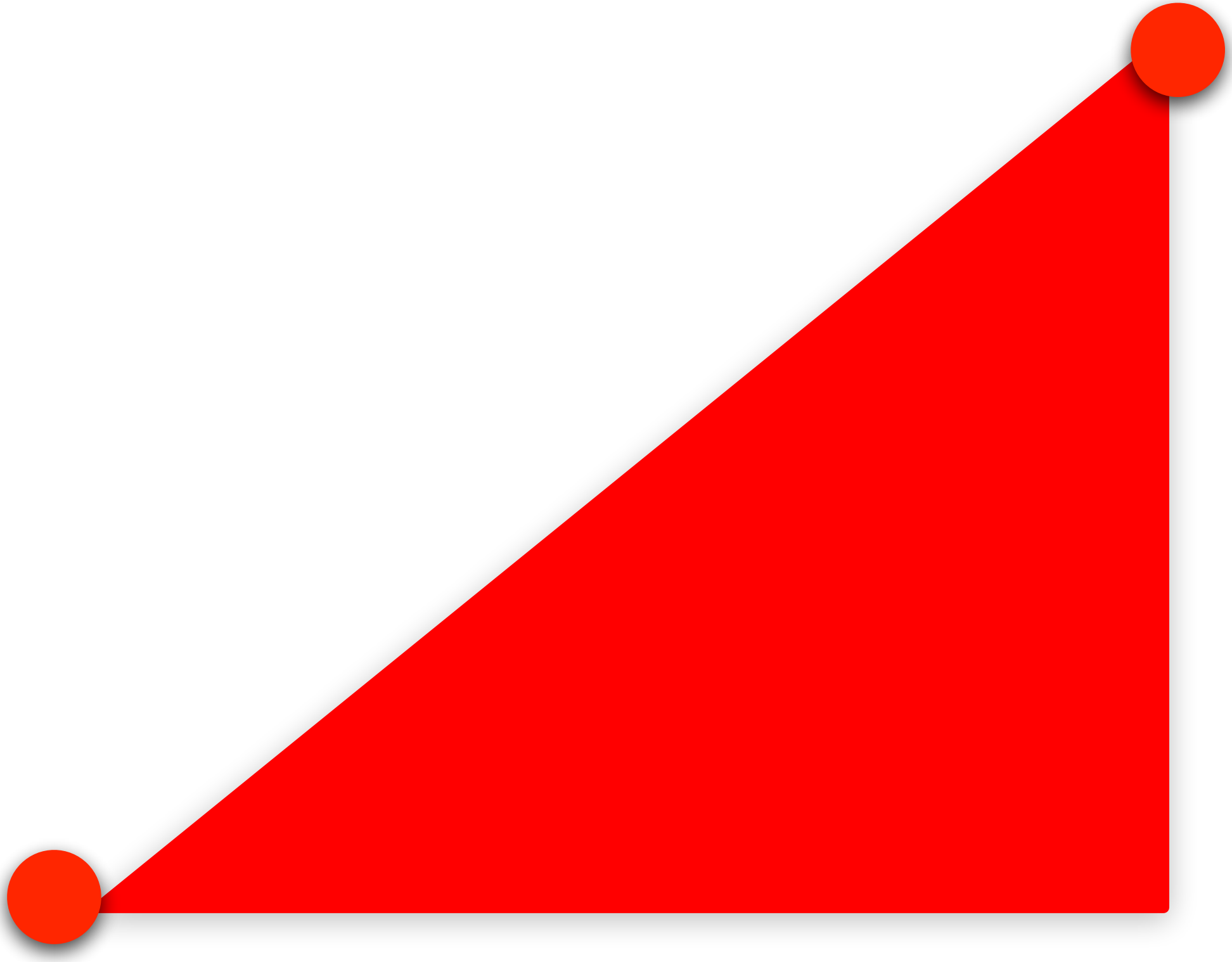
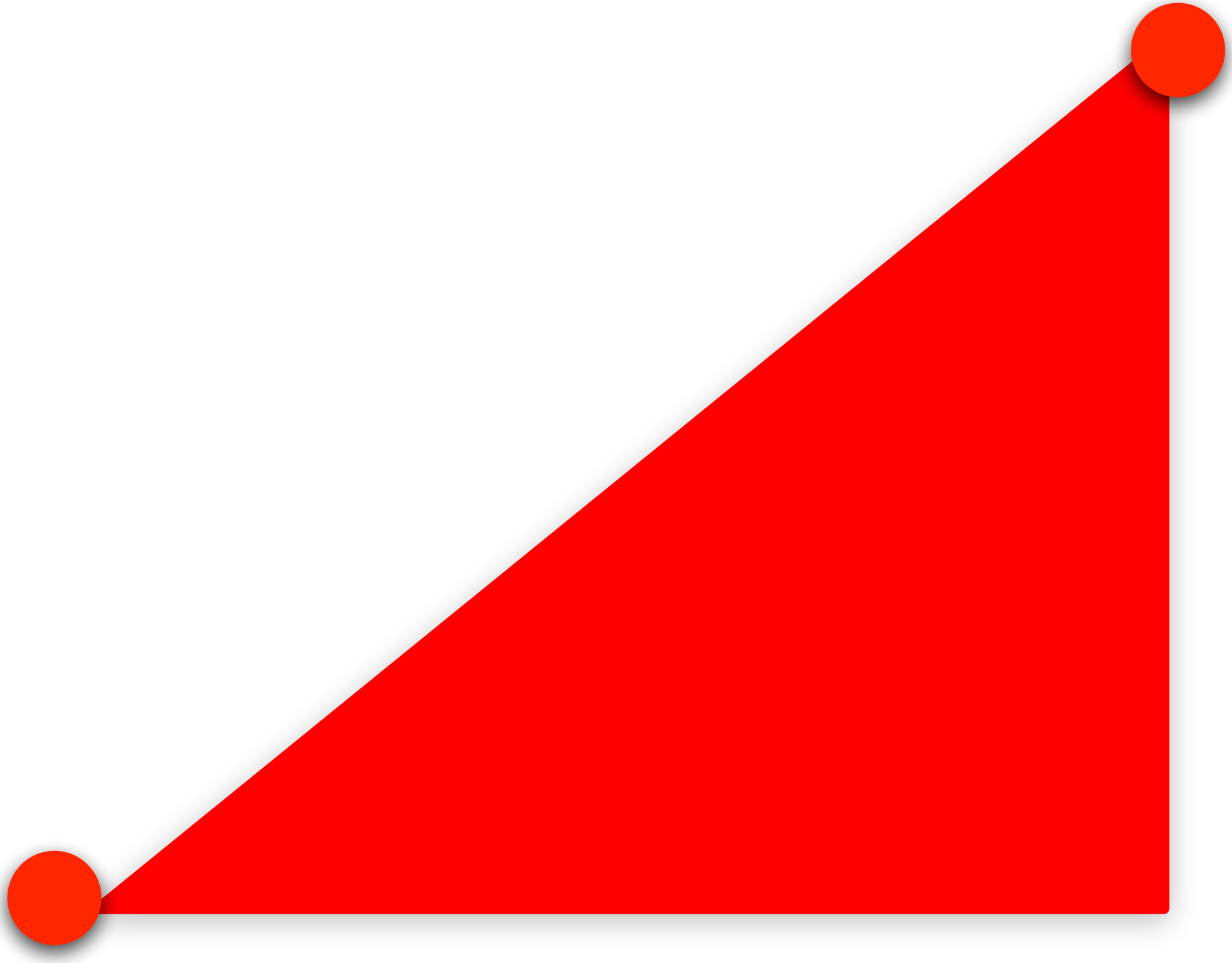


Choose any two points









AE= intercept + MPCY

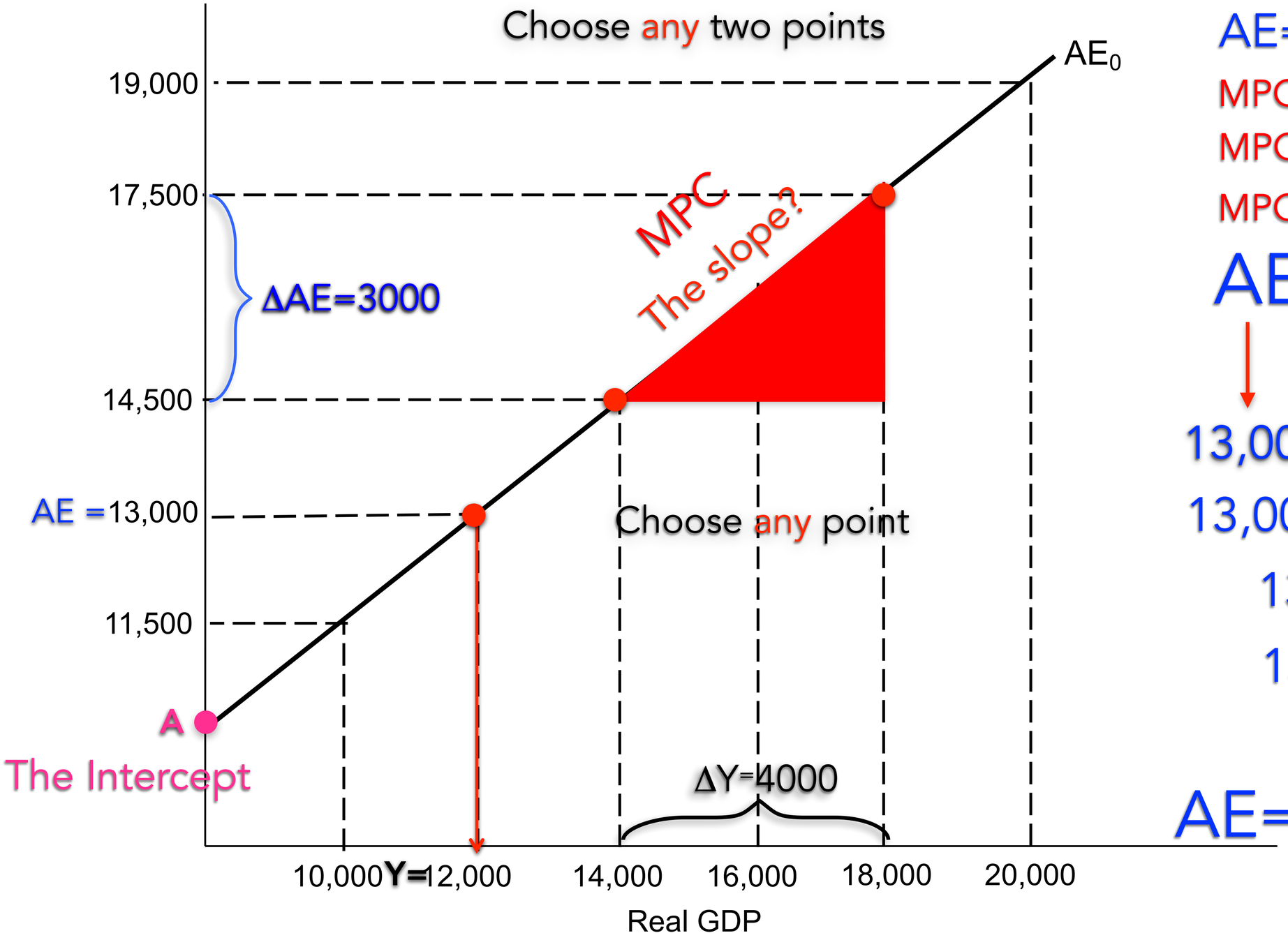
$$AE = A + 0.75Y$$

$$13{,}000 = A + 0.75\,(12{,}000)$$

$$13{,}000 = A + 9{,}000$$

$$13{,}000 - 9{,}000 = A$$

4,000 = A



AE= intercept + MPCY

MPC=ΔAE/ΔY

MPC=3000/4000

MPC = 0.75

AE= A + 0.75Y

13,000 12,000

13,000 = A +0.75 (12,000)

13,000 = A + 9,000

13,000 - 9,000 = A

4,000 = A

AE= 4,000 + 0.75Y

We will use the following values for this example:

C = 100 + 0.9**Y**

I = 1,000 billion

G = 500 billion

X= 900 billion

M= 600 billion

NX= 900 - 600 = 300