CONCEPT: QUANTITATIVE ANALYSIS OF AGGREGATE EXPENDITURE MODEL

● We can use linear equations to solve for macroeconomic equilibrium where ___________________

☐ Recall the calculation of Aggregate Expenditures:

AE =	Consumption	Investment	Government Purchases	Net Exports

☐ Macroeconomic Equilibrium can be stated as the point where:

$$Y = C + I + G + NX$$

☐ The trickiest part of the solution is that the formula for consumption uses the variable for GDP (Y)

> Consumption, C = A + MPC(YD), is dependent on GDP (Y) because:

- Higher GDP leads to higher disposable income
- Higher disposable income leads to higher consumption

EXAMPLE: Use the following information to solve for macroeconomic equilibrium:

C = 2,000 + 0.65Y   I = 3,200   G = 2,800   X = 500   M = 1,500

PRACTICE: Use the following information to solve for macroeconomic equilibrium (T is a lump-sum tax):

C = 1,500 + 0.75(Y-T)   I = 3,400   G = 2,600 + T   X = 750   M = 2,000   T = 500