

CONCEPT: AGGREGATE EXPENDITURES MODEL AND MACROECONOMIC EQUILIBRIUM

- **Aggregate expenditures (AE)** represent the total _____ in an economy



- ☐ The **aggregate expenditures model** describes the relationship between _____ and _____



> Key Assumption: Prices are _____

> Key Idea: In any particular year, the level of _____ is determined by the level of aggregate expenditure

$$GDP = C + I + G + NX$$

$$AE = \underline{\hspace{2cm}}$$

Macroeconomic Equilibrium occurs when _____

- ☐ In the AE model, think like this:

> AE = _____

> GDP = _____

AE =	Consumption	Investment	Government Purchases	Net Exports

EXAMPLE: Find macroeconomic equilibrium using the information in the following table:

Real GDP (Y)	Consumption (C)	Investment (I)	Government Purchases (G)	Net Exports (NX)	Aggregate Expenditure (AE)	Unplanned Changes in Inventories
\$16,000	\$12,400	\$3,500	\$3,200	– \$1,000		
\$18,000	\$13,700	\$3,500	\$3,200	– \$1,000		
\$20,000	\$15,000	\$3,500	\$3,200	– \$1,000		
\$22,000	\$16,300	\$3,500	\$3,200	– \$1,000		
\$24,000	\$17,600	\$3,500	\$3,200	– \$1,000		

- ☐ If $AE = GDP \rightarrow$ Inventories _____ \rightarrow the economy is _____
 - Everything produced is purchased
- ☐ If $AE < GDP \rightarrow$ Inventories _____ \rightarrow GDP and employment _____
 - Purchases are _____ than production
- ☐ If $AE > GDP \rightarrow$ Inventories _____ \rightarrow GDP and employment _____
 - Purchases are _____ than production