

Multiplier Model

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Aggregate Expenditure

- **Aggregate Production** - the total amount of final goods and services produced in an economy
- Remember! Production creates an equal amount of income
- Aggregate production/income curve demonstrates this relationship, Ex: graph
- **Aggregate Expenditures** - the total amount of spending on final goods and services in the economy
- There are four classifications of aggregate expenditures, and they may look familiar
 - Consumption, Investment, Government, and Net Exports
- There are two types of expenditures
 - **Autonomous expenditures** - expenditures that do not systematically vary with income
 - **Induced expenditures** - expenditures that vary with income

Expenditure Function

- **Aggregate expenditure (AE) curve** - graphical representation of the relationship between income and aggregate expenditure
 - Ex: graph
- The slope of the AE curve is equal to the marginal propensity to expend
- **Marginal propensity to expend (mpe)** - the ratio of the change in aggregate expenditures to a change in income
- By assumption $0 < mpe < 1$
- Compare with **marginal propensity to consume (mpc)**
- **Aggregate expenditure function** - the mathematical relationship between income and expenditure
- $AE = AE_0 + mpe \times Y =$ autonomous expenditures + induced expenditures