

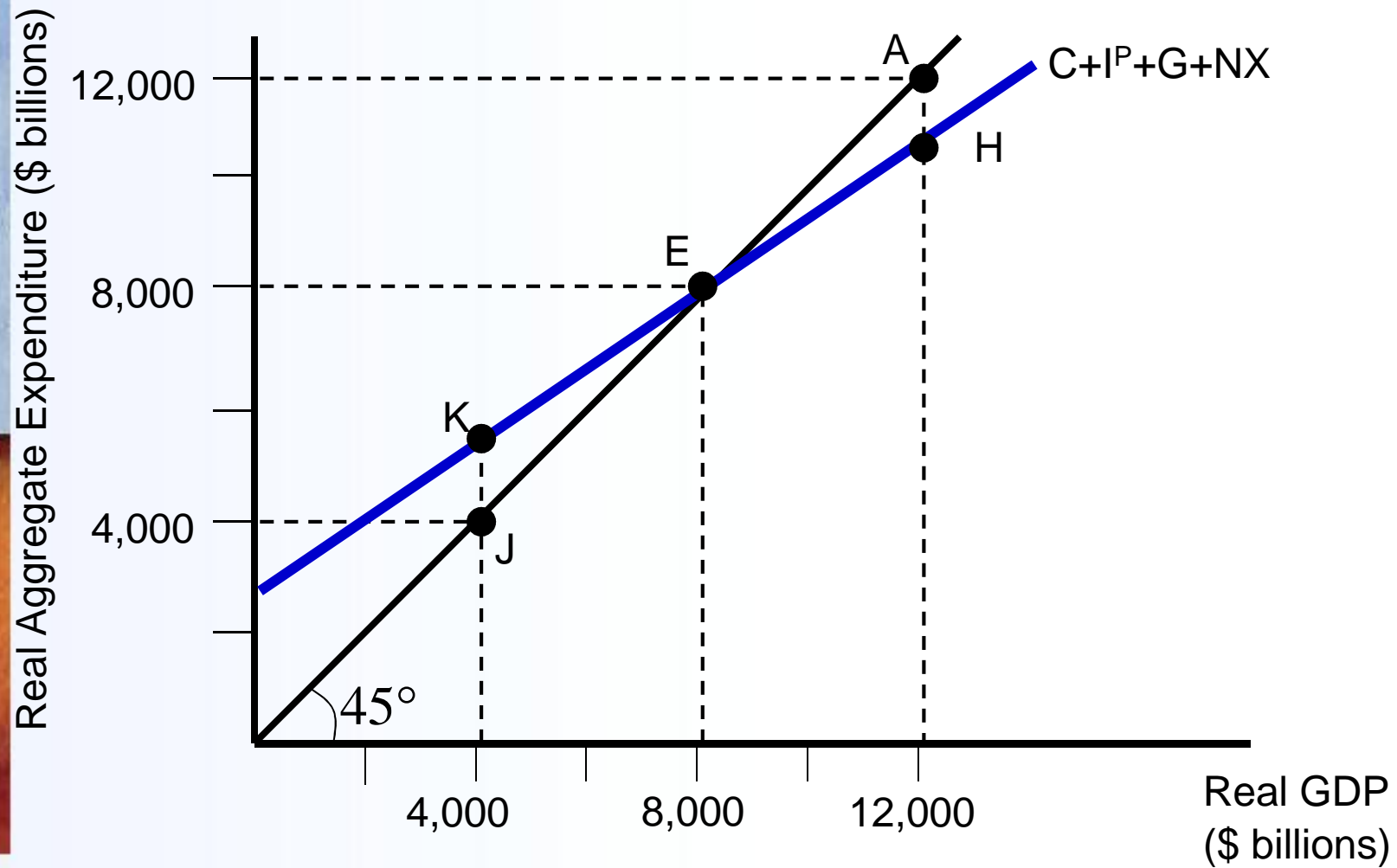
Chapter 10



The Short-Run Macro Model ANSWERING A QUESTION APRIL 22, 2010

Determining Equilibrium Real GDP

Figure 7 Determining Equilibrium Real GDP



Short Run Macro Economic Model

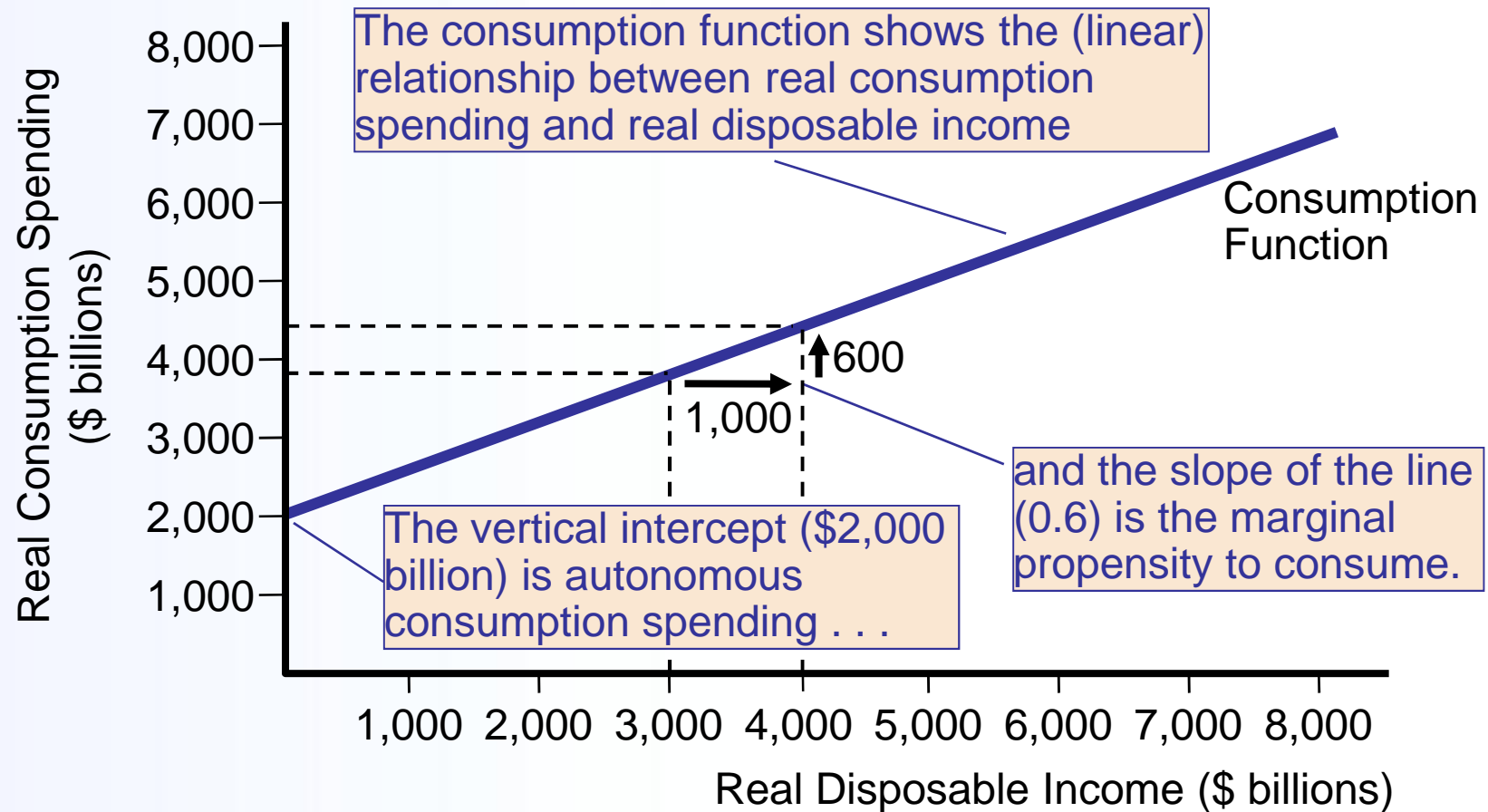
- Distinction between
 - **Behavioral** side of the model – the part of the model that is based on theories of how economic actors behave (Aggregate Expenditures or AE curve)
 - **Equilibrium (or Accounting) condition**
 - which governs how the sectors of the macroeconomic model jibe, but does not represent how any sector behaves (45-degree line)

Consumption Function

- Factors that affect Aggregate Consumption **Spending** (Consumption **Expenditures**)
 - Aggregate Income (GDP)
 - Interest rates (for durable goods consumption)
 - Wealth (net worth)

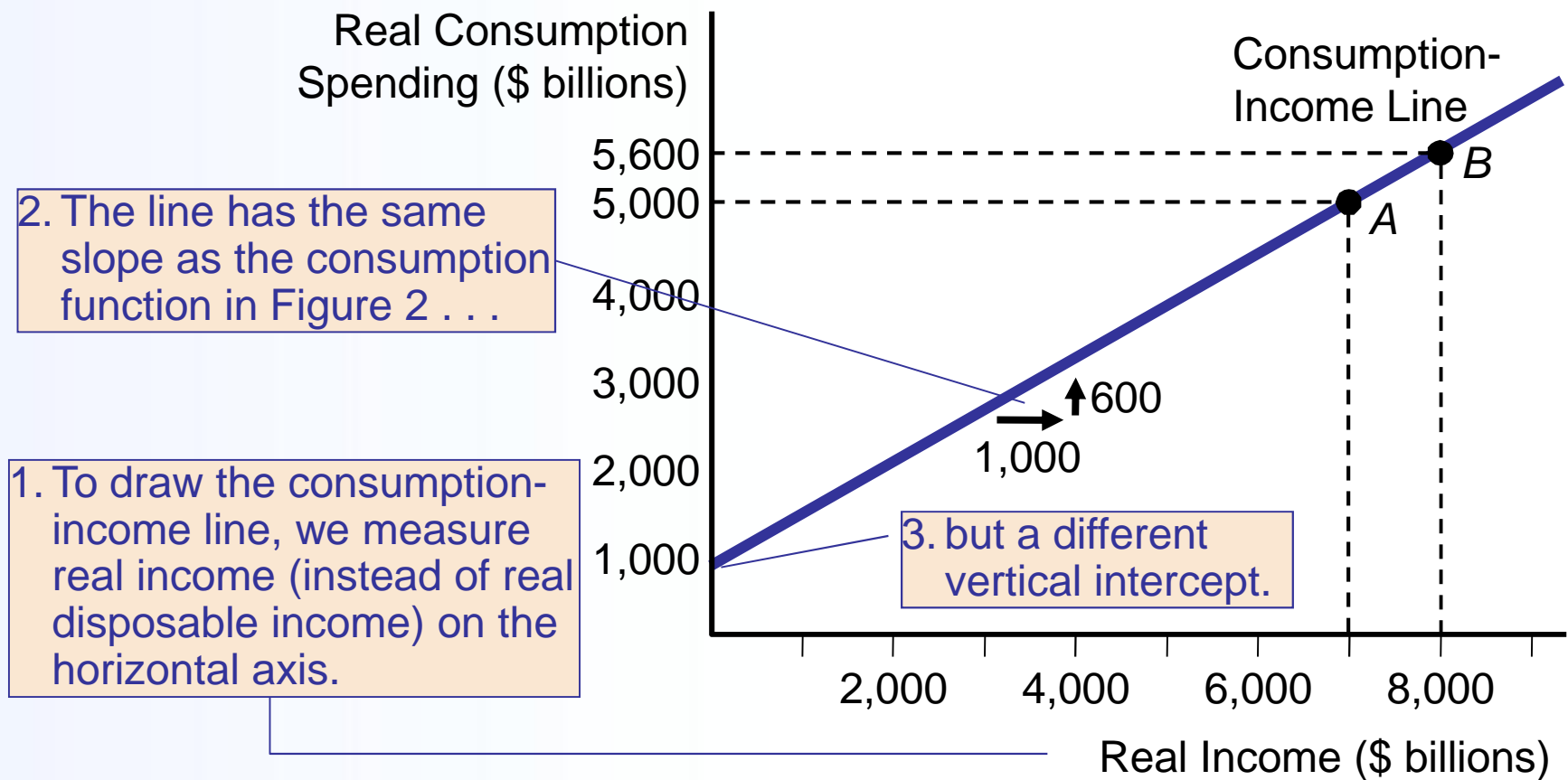
The Consumption Function

Figure 2 The Consumption Function



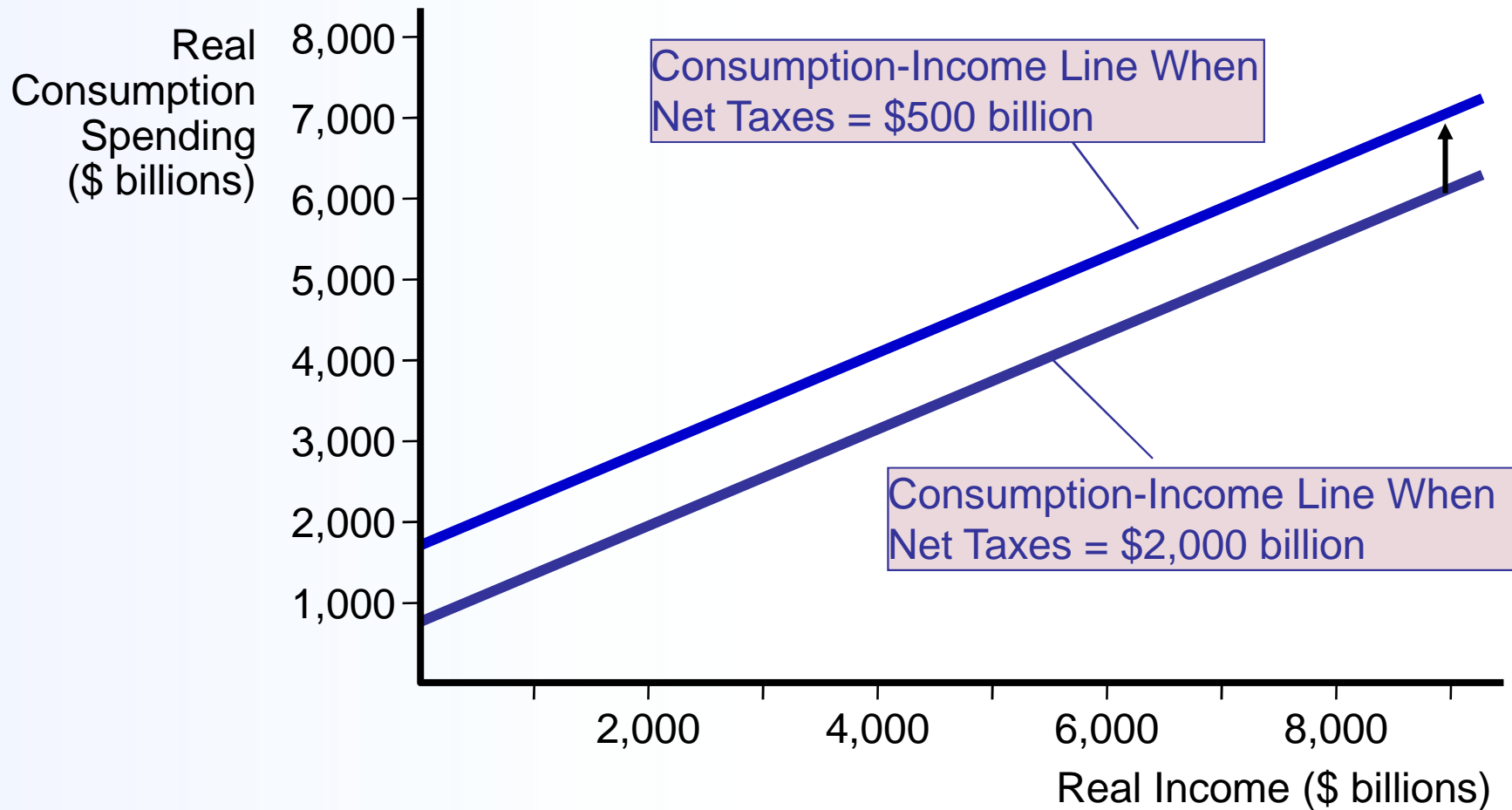
The Consumption-Income Line

Figure 3 The Consumption-Income Line



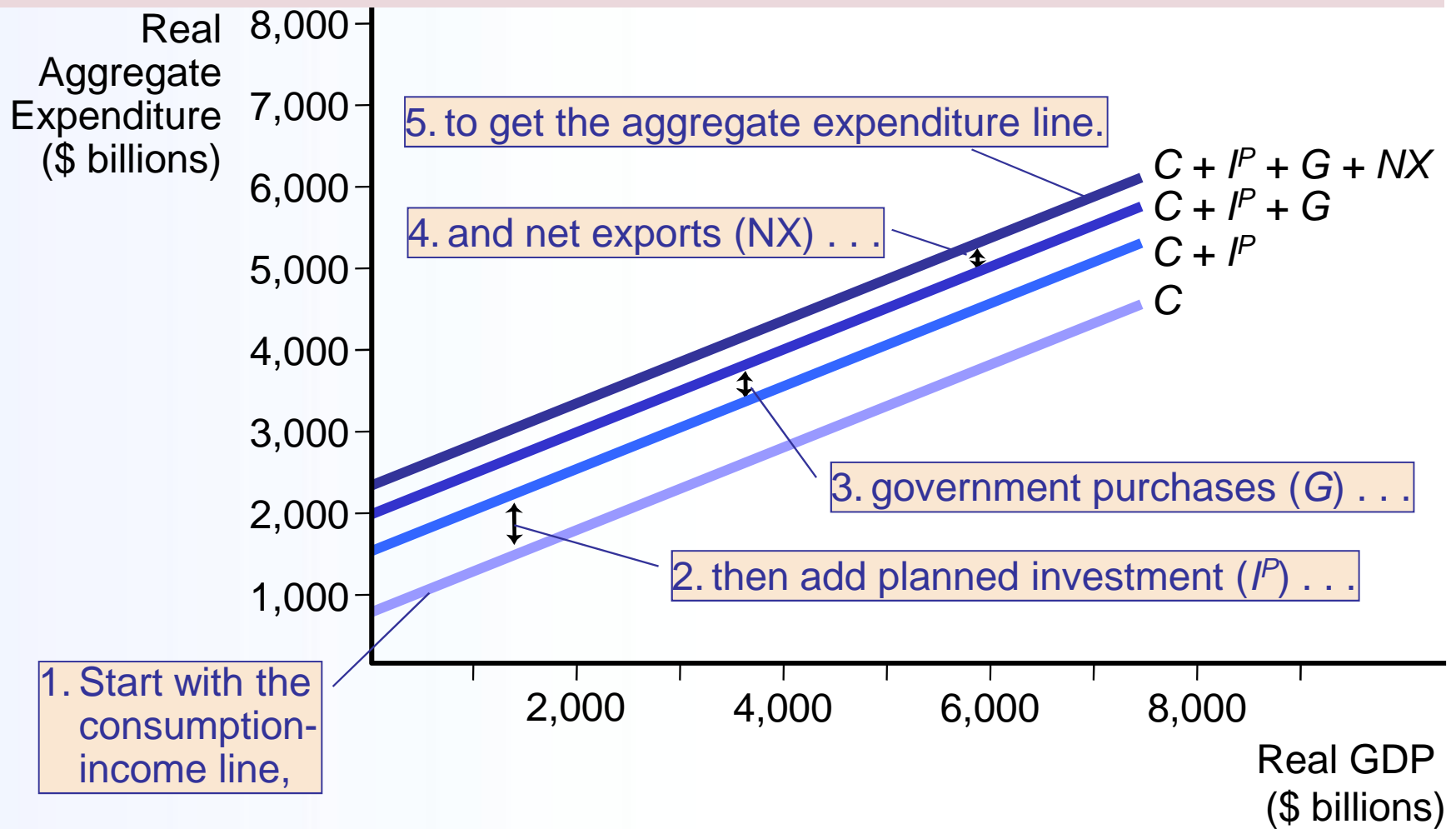
Shift the Consumption-Income Line

Figure 4 A Shift in the Consumption-Income Line



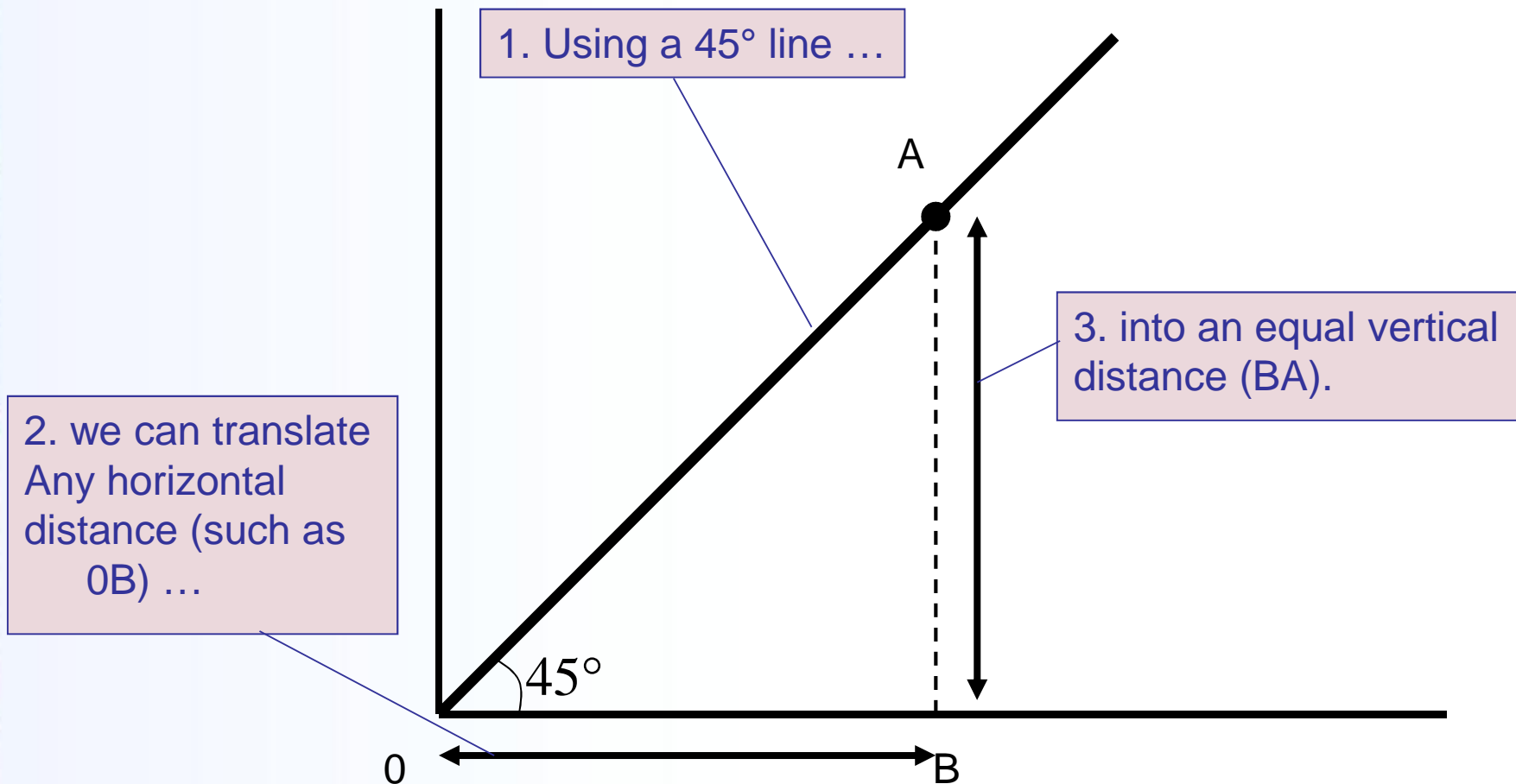
Deriving the Aggregate Expenditure Line

Figure 5 Deriving the Aggregate Expenditure Line



Using a 45° to Translate Distances

Figure 6 Using a 45° to Translate Distances



Determining Equilibrium Real GDP

Figure 7 Determining Equilibrium Real GDP

