

## Who buys goods?

**Consumers: Consumption C.**

**Firms: Planned Investment I.**

$$AE = C + I$$

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## Consumption C

1. **Aggregate output Y is aggregate income to consumers.**
2. **Higher Y  $\rightarrow$  Higher consumption.**

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**Example:**

$$C = 100 + .75 Y$$

$$MPC = .75$$

$$\text{Multiplier} = 1 / (1 - .75)$$

$$= 1 / .25$$

$$= 4$$

**Income rises \$4 for each \$1 extra investment or consumption.**

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**Suppose equilibrium income is 500.**

**Investment rises by 12.**

**What is new equilibrium income?**

**Answer: Income rises by  $12 \times 4 = 48$ .**

**New equilibrium income is 548.**

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