

## SECTION 4: National Income & Price Determination

Need to Know:

$$\text{MPC} + \text{MPS} = 1$$

$$\text{MPC} = 1 - \text{MPS}$$

$$\text{MPS} = 1 - \text{MPC}$$

$$\text{MPC} = \frac{\Delta \text{Consumer Spending}}{\Delta \text{Disposable Income}}$$

$$\text{MPS} = \frac{\Delta \text{Saving}}{\Delta \text{Disposable Income}}$$

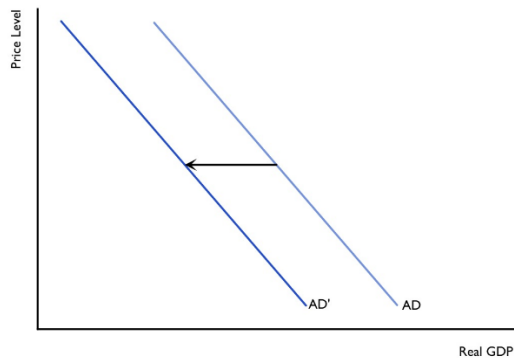
Autonomous Change in Aggregate Spending (AAS)

$$\Delta Y = \frac{1}{(1 - \text{MPC})} \times \Delta \text{AAS}$$

$$\text{Spending Multiplier} = \frac{\Delta Y}{\Delta \text{AAS}} = \frac{1}{(1 - \text{MPC})}$$

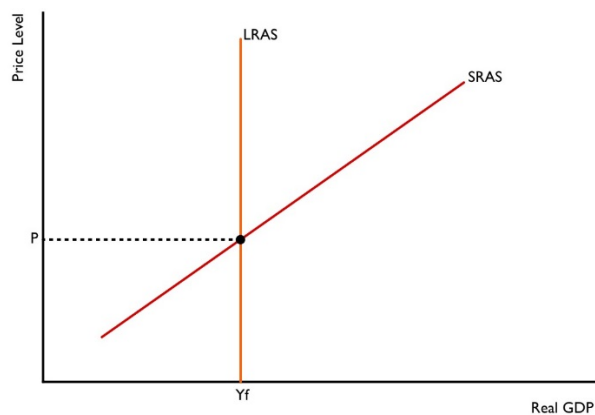
$$\text{Tax \& Tfrs Multiplier} = \frac{\text{MPC}}{(1 - \text{MPC})}$$

$$\text{Aggregate Consumption Function} = C = A + \text{MPC} \times \text{DI}$$



Determinants of AD curve:

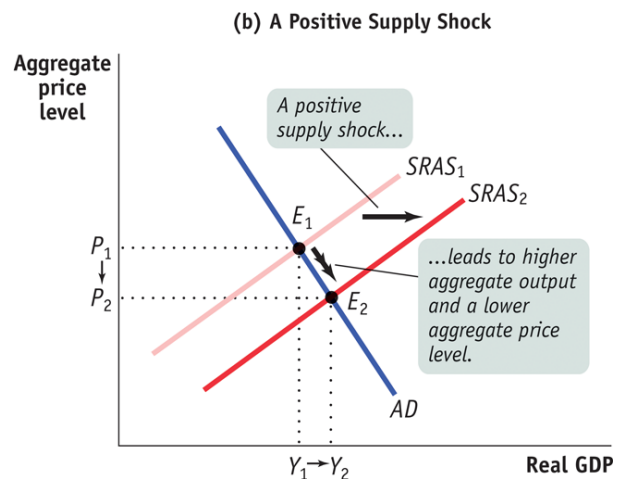
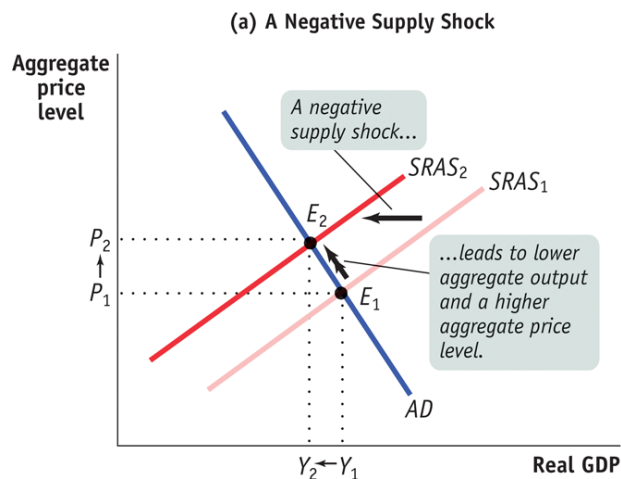
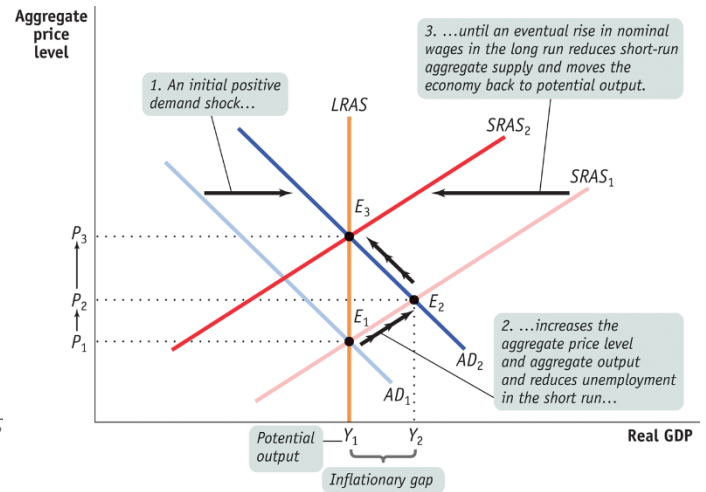
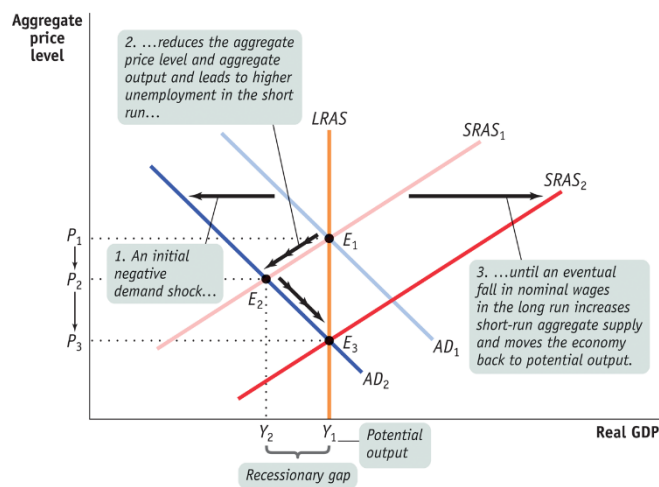
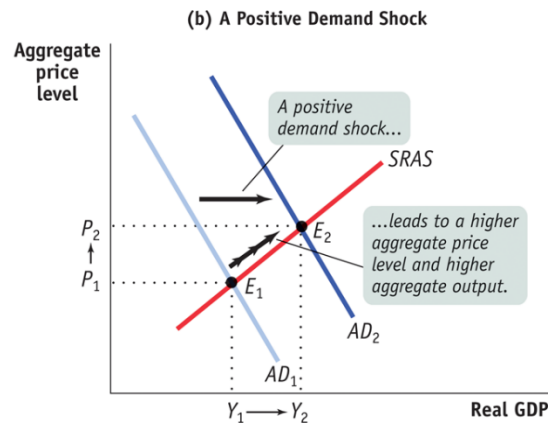
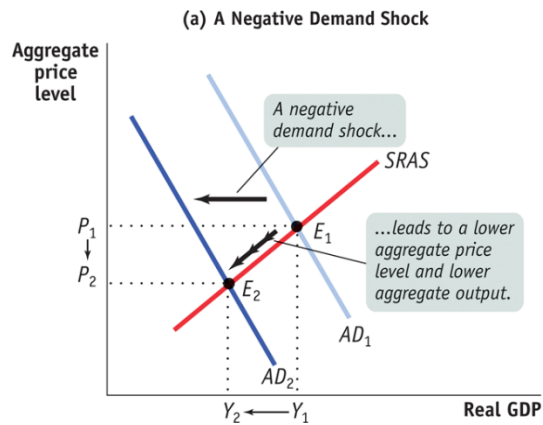
- $\Delta C, \Delta I, \Delta G, \Delta X - \Delta M$
- $\Delta \text{Expectations}$
- $\Delta \text{Wealth}$
- $\Delta \text{Existing Stock of Capital}$
- $\Delta \text{Fiscal Policy}$
- $\Delta \text{Monetary Policy}$



Determinants of SRAS:

- $\Delta \text{Commodity Prices}$
- $\Delta \text{Nominal Wages}$
- $\Delta \text{Productivity}$

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**Expansionary Fiscal Policy** - increase  $G$ , decrease  $T$ , increase transfers

**Contractionary Fiscal Policy** - decrease  $G$ , increase  $T$ , decrease transfers