EE 212 PRINCIPLES OF MACROECONOMICS (SECTION 046402)

Lecture #9

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Equation for DAE

Suppose $T = 0$, $\therefore Y^d = Y - T = Y$

$$DAE = C + I + G + X - M$$

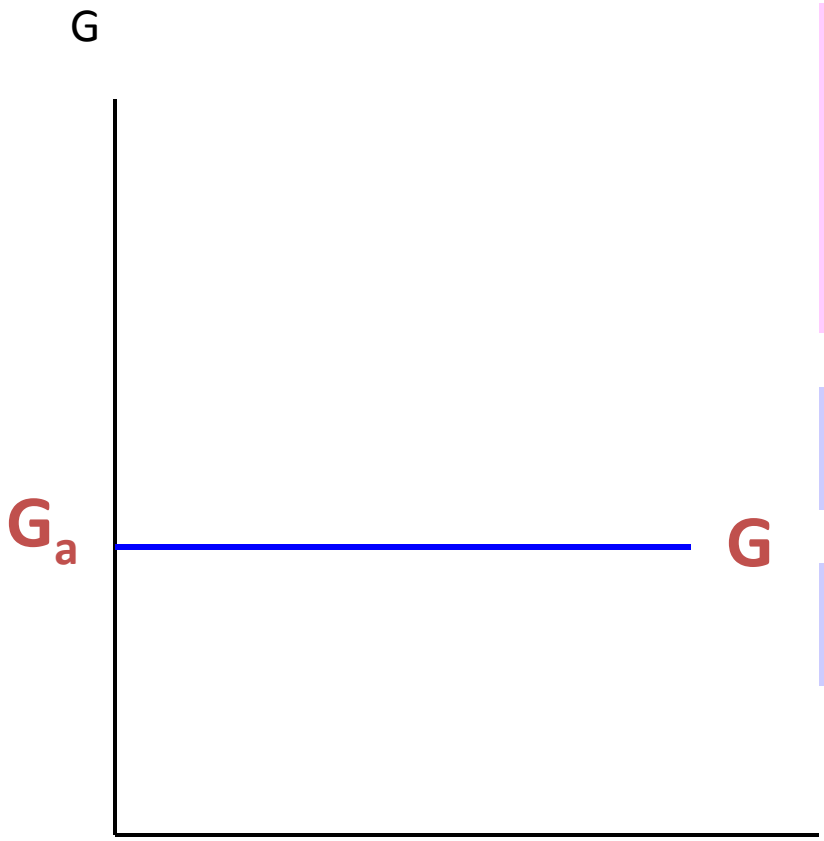
$$= (C_a + bY) + (I_a + dY) + G_a + X_a - (M_a + mY)$$

$$= (C_a + I_a + G_a + X_a - M_a) + (bY + dY - mY)$$

$$= (C_a + I_a + G_a + X_a - M_a) + (b + d - m)\,Y$$

MPC MPI MPM

Relationship between G and Y

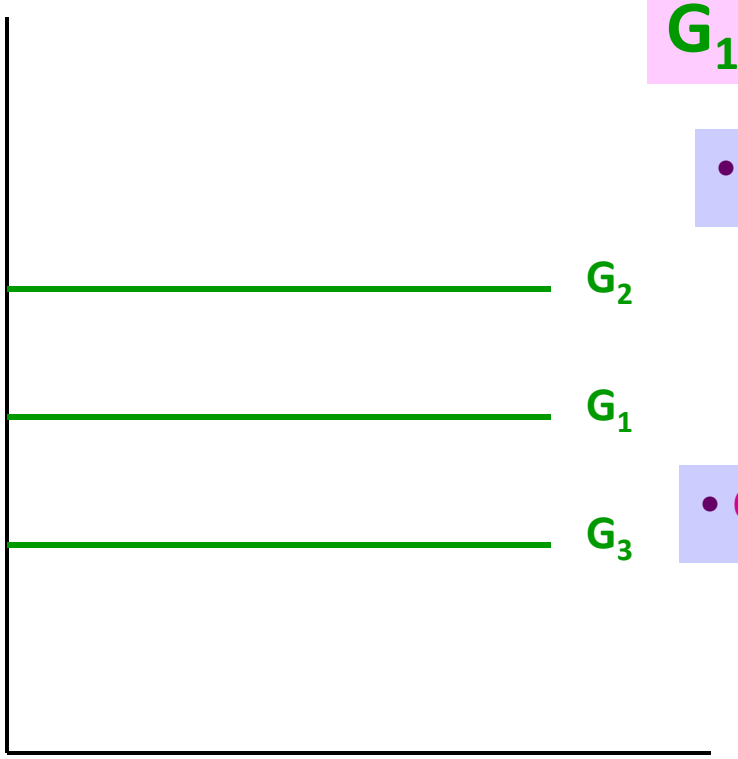


- Suppose G does not depend on current Y (since government spending budget needs to be planned in advance)

- Y ↑ ⇒ $G = G_a$

- Y ↓ ⇒ $G = G_a$

Shift of government spending curve (G)



- start with government spending level G_1

- Expansion Fiscal Policy

G shift up to G_2

- Contraction Fiscal Policy

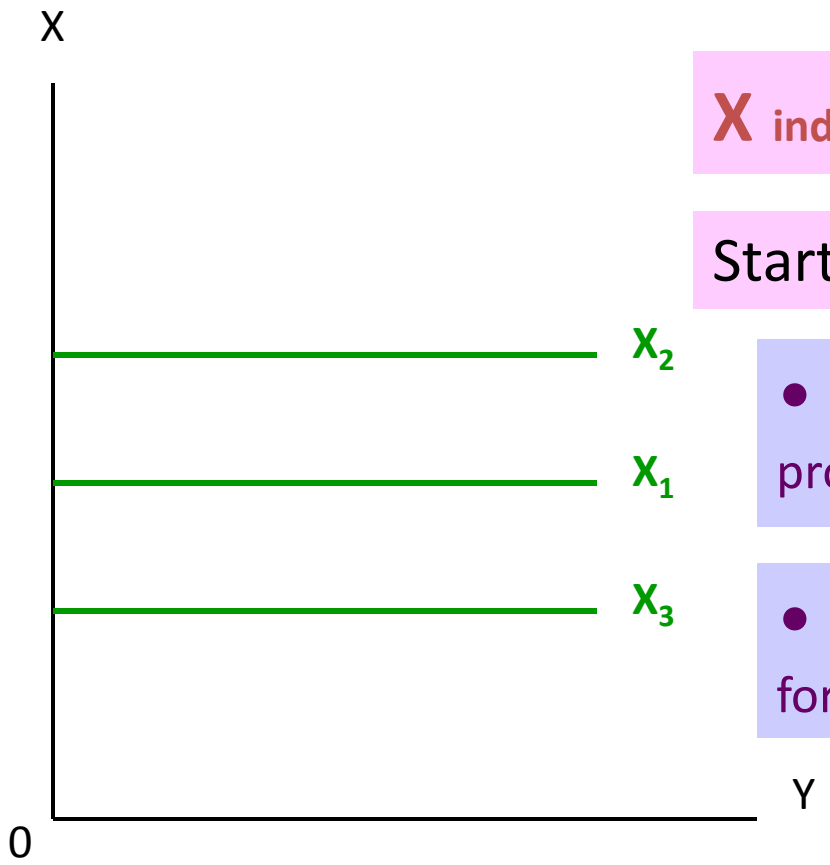
G shift down to G_3

3.2.4 Net export (X-M)

Factors determining export

- Government export policy
- Political and economic stability
- Price of export G&S (compared with other countries)
- Demand from foreign market

Export Curve



X independent to **Y**

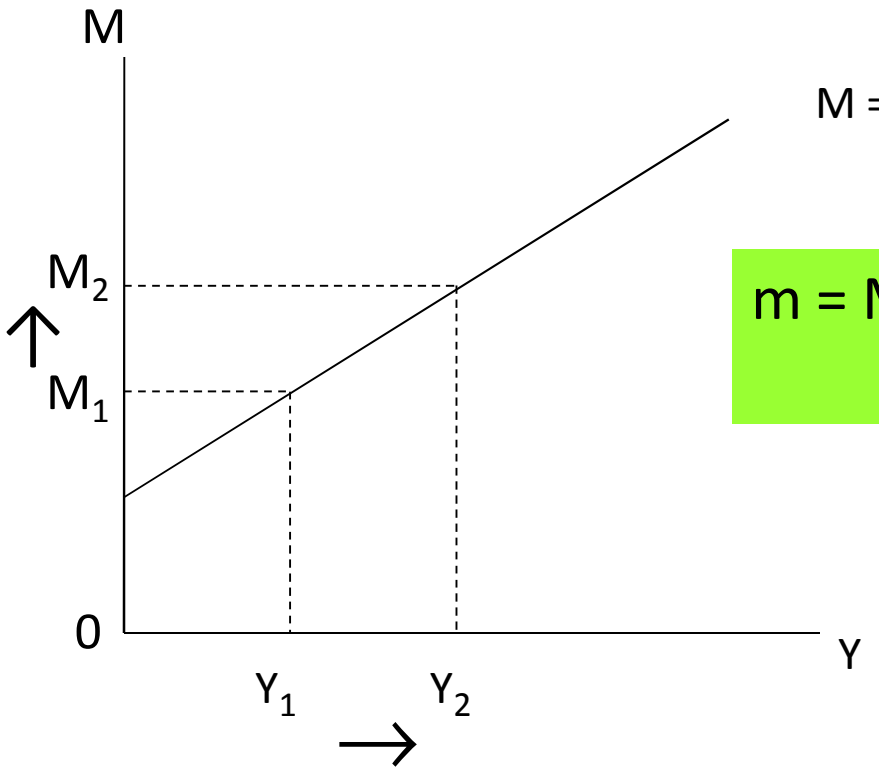
Start with export level X_1

- Government export promotion policy → **X** shift up to X_2
- Demand from foreign market ↓ → **X** shift down to X_3

Factors determining Import

- National Income (Y)
- Consumer loan
- Price of import G&S (compared to domestic G&S)
- Consumer taste
- Exchange rate expectation

Import curve



$m = MPM = \frac{\Delta M}{\Delta Y}$

Marginal Propensity to Import

Net export (X – M) curve