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| **Determinant** | **Description** | **Explanation** |
| Factors influencing aggregate consumption expenditure (C) | Disposable income (Yd)Interest rates (r)ExpectationsAvailability of creditStock of wealth (property, shares) | Household spending usually lies within non-durable goods as well as durable goods, and is usually stable over the business cycleYd is the most important factor being the Y after T – more Yd means higher levels of consumptionThe cost of credit (r) is important, low interest rates are better than higher interest ratesConsumer expectations influenced by media may change spending levels and patternsStock of wealth influences C, e.g., households with more real assets are more confident when share prices or property prices rise |
| Factors influencing aggregate planned investment expenditure (Ip) | Business expectationsInterest rates (r)Level of past profits $(π)$Government policies (e.g. taxation) | Expenditure on new capital goods that will be used to produce final goods and servicesExpectations of returns influence business spending on investment (expectations regarding current economic activity and future trendsCeteris paribus, interest rates and level of Ip expenditure are negatively relatedGovernment policies impact private investment, e.g. fiscal and monetary policy |
| Factors influencing government expenditure (G) | Discretionary changes in accordance with government policy objectives, e.g. social policies, health, educationAutomatic changes due to the business cycleCan be used to stabilise macroeconomic fluctuations | Majority of G is on current items (goods and services consumed by government institutions and wages and salaries paid to employees)Undertaking in production essential infrastructure involves decisions governed by the need to provide appropriate levels of service across all communitiesEconomic factors are not considered central to government consumption and investment decisions and rather affect government policy decisions |
| Factors influencing net exports (X-M) | Level of domestic and overseas domestic activityExchange ratesTerms of tradePresence of protection (e.g. tariffs) | Exports and imports are reasonably volatile components of aggregate expenditure, particularly in AustraliaOverseas demand for Australian commodity exports and domestic demand for overseas imports influence X-MExchange rates influence X-M, when $A appreciates, domestic residents can by more units of other currencies so imports are cheaper and more competive and vice versaMovements in the ToT are significant (XPI and MPI)Protectionist policies impact trade |