Aggregate Expenditure

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Definition

- Aggregate expenditure refers to the total spending on finished goods and services within a period of time
- There are four main components to aggregate expenditure
- ***AE=C+I+G+(X-M)***

Consumption *(YCEW)*

- Consumption spending refers to spending undertaken by households
- Largest proportion of aggregate expenditure
- Service spending makes up the largest proportion of consumption expenditure
- The factors affecting consumption spending are
  - Disposable Income ***(Y)***
  - Interest rates ***(C)***
  - Expectations ***(E)***
  - Stock of Wealth ***(W)***

Planned Investment *(PIGE)*

- Planned investment refers to the acquisition of capital by firms
- Most volatile component of aggregate expenditure
- The factors affecting planned investment are
  - Profitability ***(P)***
  - Interest rates ***(I)***
  - Government policy ***(G)***
  - Expectations ***(E)***

Government Spending

- Government spending refers to spending made by the government through its annual budget into the economy
- Can be further broken up into capital spending and current spending

Net Exports

- Refers to the balance of overseas trade
- Effected by the terms of trade, interest rates, commodity prices etc.

The Consumption Function

- The consumption function assumes that there will always be an autonomous level of saving and that consumers have a marginal propensity to consume
- The gradient of the consumption function represents this marginal propensity to consume
- ***MPS= 1-MPC***

The Multiplier effect

- The multiplier effect refers to a difference in the proportion of an increase in autonomous investment when compared with national income

- Thus an increase in autonomous investment will result in a larger increase in national income
- An increase in autonomous investment can only be caused by a change in investment or government spending
- ***k=1/MPS= 1/(1-MPC)***
- The gradient of the AE model is the MPC