PENANG SANGAM HIGH SCHOOL
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LESSON NOTES

Subject: Economics **Year/Level:** 13C

Week 9

Strand	3	Macroeconomics
Sub Strand	3.2.1	Income & Expenditure analysis
Content Learning Outcome	Analyse the income and expenditure analysis	

Greetings to all…

Now we will look at the elements of Income and expenditure model in terms of Aggregate demand and Aggregate supply. The functions of these elements will be utilized to mathematically solve the equilibrium level of GDP. Therefore, its important you understand the components for calculation.

Lesson Notes (Copy in your note book)

Definition:

Aggregate Supply (AS)
Is the total supply of goods and services available to a market in an economy.

Aggregate demand (AD

Aggregate demand refers to the quantity of national output that is purchased at given price and represents the total demand in the economy.

Thus aggregate demand (AD) = C + I + G + (X – M).

Component of AD	Symbol	Description in national account
Consumption spending	C	Final consumption expenditure: private.
Investment spending	I	Gross fixed capital formation.
Government spending	G	Final consumption expenditure: Government.
Export receipts	X	Export of goods and services.
Import payments	M	Import of goods and services.
Gross domestic payment	GDP	Expenditure on gross domestic product.

Components of aggregate demand

1. Consumption- there are two types:
(i) **Autonomous consumption-** the amount necessary for survival. This consumption takes place even if there is no income.

(ii) **Induced consumption-** consumption that varies with income. Higher the income, higher is the **con**sumption.

2. **Investment-**there are two types:

(i) **Intended investment /gross fixed capital formation-**value of investment goods made in the economy. *Net fixed capital formation includes all new capital goods minus depreciation.*

(ii) **Unintended investment/unintended disinvestment-** this includes all changes in stock.

INDUCED INVESTMENT – means increase in expenditure on capital goods in times of increasing national income and decreasing investment with fall in national income.

3. **Government**- all spending by government on goods and services including both operating and capital expenditures E.g. Government build new schools, paying salaries to civil servants.

4. **Net exports**- export receipts minus import payments.

(We will look at the functions of the components in the next lesson)

Stay Safe…..