

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 13

Week 14

| | | |
|---------------------------------|---|---------------------------------|
| Strand | 3 | Macroeconomics |
| Sub Strand | 3.2 | Income and Expenditure analysis |
| Content Learning Outcome | Analyse the income and Expenditure analysis | |

Greetings to all...

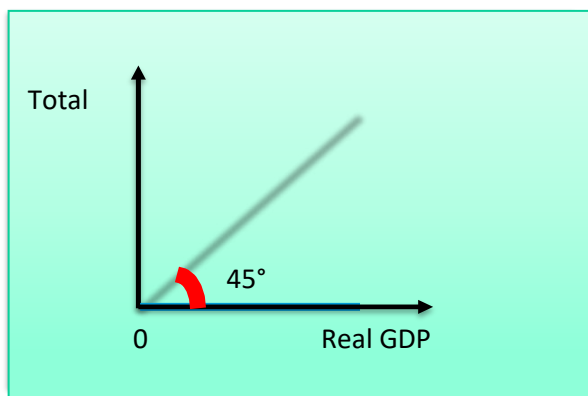
Hope you analysed the Curves of Savings Function, Consumption Function and Aggregate Demand .

Now let's look the AD and AS on one pair of axis.

Lesson Notes (Copy notes and graphs in your book)

The Income and expenditure analysis mostly deals with aggregate supply represented by 45° line, aggregate demand and components of Aggregate demand.

Graph of Aggregate Supply:



Example 1:

$$C = 100 + 0.8Y$$

$$I = 400$$

$$G = 500$$

$$NX = 300 \text{ i.e } (X - M)$$

(All values are in \$M)

Required:

1. Calculate the equilibrium level of income (Real GDP)?
2. Calculate the value of Aggregate Consumption?
3. Derive the Savings Function?

Solutions

1. $Y = C + I + G + (X - M)$

$$Y = (100 + 0.8Y) + 400 + 500 + 300$$

$$Y = 100 + 0.8Y + 400 + 500 + 300$$

$$Y = 1300 + 0.8Y$$

$$Y - 0.8Y = 1300$$

$$0.2Y = 1300$$

$$Y = 1300 / 0.2$$

$$Y = \$6500M$$

2. $C = 100 + 0.8Y$ where Y is taken from part (1)

$$C = 100 + 0.8(6500)$$

$$C = \$5300M$$

3. $S = Y - C$

$$S = Y - (100 + 0.8Y)$$

$$S = Y - 100 - 0.8Y$$

$$S = -100 + 0.2Y$$

Try the example again as this is how you will be calculating GDP using Function.....Stay Safe