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

LESSON NOTES

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

Week 15

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

Greetings to all…

In the last lesson we looked at a simple calculation of Real GDP.

Now let's look at another example of other calculations related to income & expenditure analysis.

Lesson Notes (Copy notes and examples in your book)

Example 2:

C = 10 + 0.9YD

T = 0.7Y

I = 60

G = 90

X = 80

M = 40 + 0.1Y

(Hint: YD =Y-T)

All values are in $m.

Required:

1. Calculate the **equilibrium level of Real GDP**?
2. Calculate **Net exports**?
3. Calculate the **value of MPS**?
4. At what **level of income** will savings be equal to zero?
5. What **economic term** is used to **describe negative savings**?

Solutions

1. **Equilibrium level of Real GDP**

   $Y = C + I + G + (X – M)$
   $Y= (10 + 0.9YD) + 60 + 90 + [80 - (40 + 0.1Y)]$
   $Y= 10 + 0.9(Y -T) + 150 + (80 -40 – 0.1Y)$
   $Y= 10 + 0.9 (Y- 0.7Y) +150 + 40 – 0.1Y$
   $Y= 10 + 0.9 (0.3Y) + 150 + 40 – 0.1Y$
   $Y= 10 + 0.27Y + 150 + 40 – 0.1Y$
   $Y= 200 + 0.27 – 0.1Y$
   $Y= 200 + 0.17Y$
   $Y – 0.17Y = 200$
   $0.83Y = 200$
   $Y = 200/ 0.83$
   $Y = \$240.96m$

2. **Net Exports = X – M**

   $NX = [80 - (40 + 0.1Y)]$
   $= 80 – 40 – 0.1Y$
   $= 40 – 0.1Y$
   $= 40 – 0.1(240.96)$
   $= \$ 15.90m$

3. MPS = 1- MPC
   MPS = 1- 0.9
   MPS = 0.1

4. S = -10 + 0.1Y
   0 = -10 + 0.1Y
   0 + 10 = 0.1Y
   10 = 0.1Y
   10/0.1 = Y
   Y = $100m

5. Dis-savings

Activity: C= 20 + 0.6Y, I = 40, G = 65, X =45 and M = 5 + 0.2Y ….(note all values are in $M) Use the information to solve the same 4 questions as discussed in the above example)

Stay Safe…….