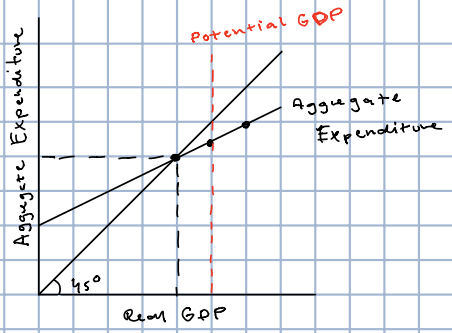
1 a)



A larger marginal propensity to consume makes the consumption function steeper. Factors such as a change in consumption & Real GDP cause this.

b) This line demonstrates at which points the aggregate expenditures are equal to level of output or national income

2

I = 5 billion
G = 4 billion
X = 2 billion
T = 0

a) marginal propesity to consume = 6 billion or 0.6

$y = \left(\frac{1}{1-c_1}\right)(c_0 - c_1 T + I + G + X)$

c_0 = autonomous expenditure

$c_0 = 5$
$T = 0$
$I = 5$
$G = 4$
$X = 2$

multiplier $= \frac{1}{1-.6} = 2.5$

$y = 2.5(16)$
$= 40$

$5 - .6(0) + 5 + 4 + 2$
$5 + 5 + 4 + 2$
$10 + 6$
$= 16$

c) national saving

$S = Y - C - G$
$C = 5 - 0 + 0.6(40)$
$C = 29$

40 = income at point of spending balance

$S = 40 - 29 - 4$
$= 7$