

Dr. Barry Haworth
 University of Louisville
 Department of Economics
 Economics 202

Aggregate Expenditure Model

The following equations are taken from the AE model:

$C + S = DI$	<p><i>All Disposable Income is either consumed or saved:</i> C = consumption expenditure, S = savings, DI = disposable income</p>
$DI = Y - T$	<p><i>Disposable Income is your income after personal taxes have been deducted:</i> Y = (overall) income, T = taxes</p>
$AE = C + I + G + (X - M)$	<p><i>Aggregate Expenditure is the sum of all expenditure on final goods and services produced in a given period within the nation's borders:</i> AE = aggregate expenditure, I = investment expenditure, G = government expenditure, X = exports, M = imports</p>
$MPC = \frac{\Delta C}{\Delta DI}$	<p><i>The Marginal Propensity to Consume is a measure of how Consumption changes in response to a change in Disposable Income:</i> MPC = marginal propensity to consume</p>
$MPS = \frac{\Delta S}{\Delta DI}$	<p><i>The Marginal Propensity to Save is a measure of how Savings changes in response to a change in Disposable Income:</i> MPS = marginal propensity to save</p>
$APC = \frac{C}{DI}$	<p><i>The Average Propensity to Consume is the percentage of Disposable Income spent on Consumption:</i> APC = average propensity to consume</p>
$APS = \frac{S}{DI}$	<p><i>The Average Propensity to Save is the percentage of Disposable Income that is not consumed (i.e. Saved):</i> APS = average propensity to save</p>