ECO102H1

Fall 2024

Additional Practice Questions

AE Model and Fiscal Policy

Consider the expanded planned aggregate expenditure model below:

$$AE = C + I^p + G + NX$$
$$C = \bar{C} + mpc \times Y - a \times r$$
$$I^p = \bar{I} - b \times r$$
$$G = \bar{G}$$
$$NX = \overline{NX} - mpi \times Y$$

For this question, express interest rates in percent (1% → coefficient is multiplied by 1, not 0.01).

a. Solve for short-run equilibrium output as a function of autonomous spending.