

10.6: Introduction to Equilibrium in the Income-Expenditure Model

What you'll learn to do: explain and find macro equilibrium in the income-expenditure model



Macro equilibrium in the income-expenditure model is found at the point where the level of GDP, or national income, equals aggregate expenditure. Graphically, this is easy to see as a point along the line that evenly divides the two axis on the graph. This line, called the 45 degree line, shows the only point on the aggregate expenditure line where the total quantity of goods and services being purchased (AD) equals the total quantity of goods and services being produced (AS). Read on to practice finding equilibrium in the income-expenditure model, then apply these principles to recessions and inflations in Keynesian policy.

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