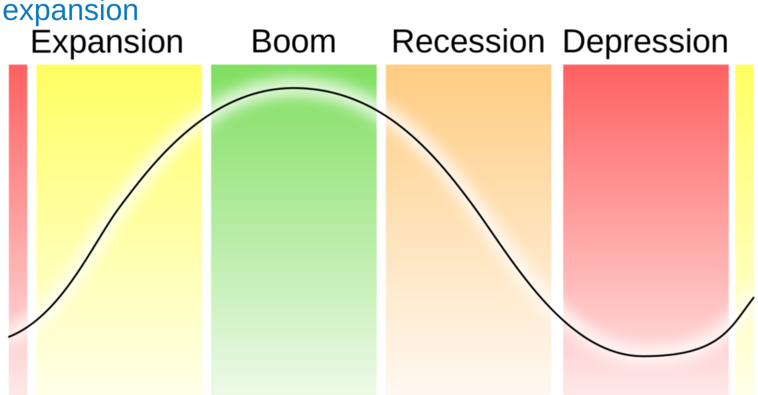
10.2: Introduction to the Income-Expenditure Model

What you'll learn to do: use the income-expenditure model to explain periods of recession and expansion



You've already learned the basic tenets of Keynesian economics in the context of the aggregate demand-aggregate supply model. In this section, you'll learn about an alternative approach for thinking about the Keynesian perspective. This approach is known as the income-expenditure model, or the Keynesian cross diagram (also sometimes called the expenditure-output model or the aggregate-expenditure model). It explains in more depth what's behind the aggregate demand curve, and why the Keynesians believe what they do. The model looks at the relationship between GDP (or national income) and total expenditure.