The background is a dark teal color with various financial symbols and numbers scattered across it. Symbols include the dollar sign (\$), yen sign (¥), pound sign (£), and euro sign (€). Numbers are in various sizes and colors (yellow, light blue, white). Some numbers are accompanied by arrows indicating direction (up or down).

# Determining Equilibrium Income

# Introduction

The first form of the condition for an equilibrium level of income is:

$$Y = E = C + I + G$$

Equilibrium income (  $Y$  ) is the endogenous variable to be determined.

The autonomous expenditure terms  $I$  and  $G$  are given, as is the level of  $T$ ; these are the exogenous variables determined by factors outside the model.

# Continued

Consumption is, for the most part, induced expenditure determined endogenously by the consumption function

$$C = a + bYD = a + bY - bT \quad (YD = Y - T).$$

$$Y = C + I + G = C + S + T$$

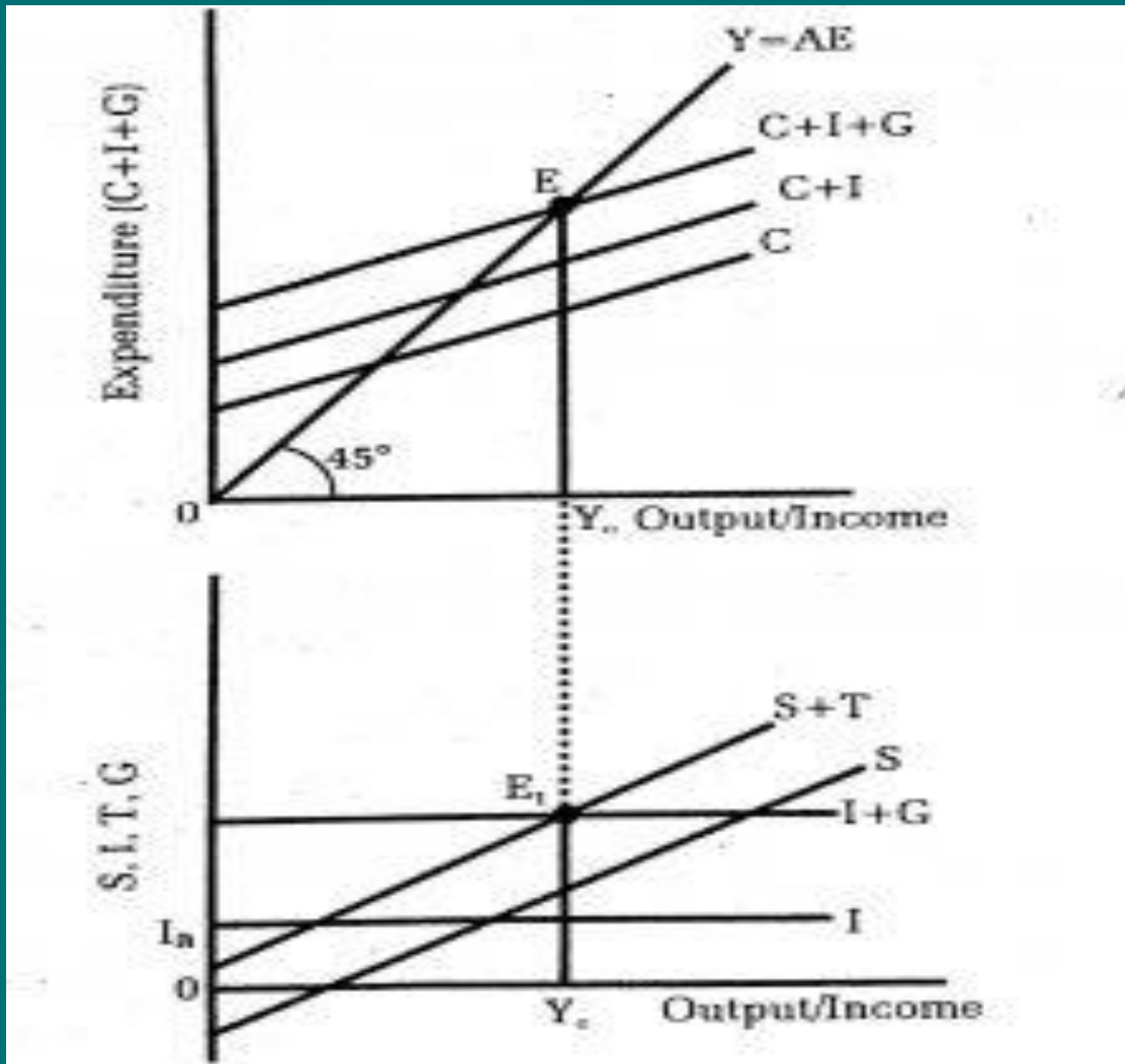
$$Y = a + bY - bT + I + G$$

$$Y - bY = a - bT + I + G$$

$$Y(1 - b) = a - bT + I + G$$

$$Y = \frac{1}{1-b} (a - bT + I + G)$$

# Equilibrium Income



5

1

1

0

4

2

¥

4

8