week 7

savings and investment

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MACROELONIAMIC MODELS

OUTPUT

INCOME

SPENDING

MACROELONOMIC MODELS

PRODUCTION
GENERATES
INCOME TO
HOUSE HOLDS

INCOME

SPENDING

MACROELONGMIC MODELS

PRODUCTION
GENERATES
INCOME TO
HOUSE HOLDS

OUTPUT

INCOME.

SPENDING

CONSUMPTION SHIPLE

MACROELONOMIC MODELS

OUTPUT

PRODUCTION
GENERATES
INCOME TO
HOUSE HOLDS

SPENDING

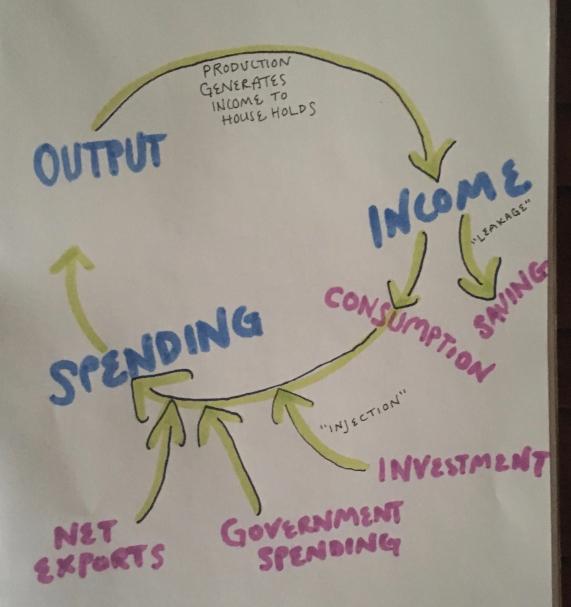
INCOM & LIENTAGE!

INVESTMENT

NET

GOVERNMENT

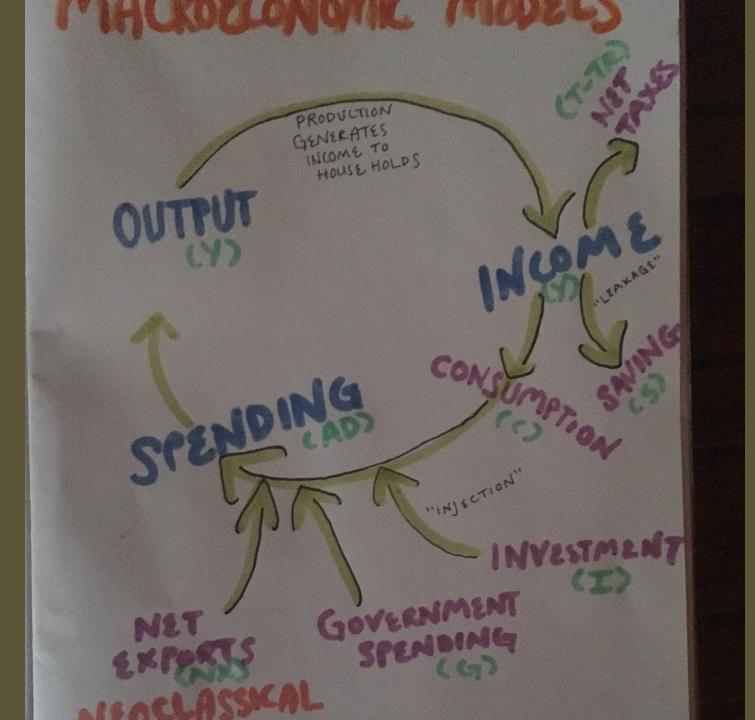
MACROELONOMIC MODELS





KEGNESUAN

- · SAVINGS + INVESTMENT DETERMINED SOPERATELY
- · if SAVINGS > INVESTMENT, SPENDING < OUTPUT
- · if SAVINGSLINVESTMENT, SPENDING > OUTPUT



MHY DOPEOPLE SAVE?

WHY DOPEOPLE SAVE? KEYNESIAN

NEOCLASSICAL

WHY DOPEOPLE SAVE? KEYNESIAN

· DEPENDS ON MARGINAL PROPENSITY TO CONSUME (MPC)

NEOCLASSICAL MAINSTREAM

· DEPENDS ON INTEREST RATE

WHY DOPEOPLE SAVE? KEYNESIAN

· DEPENDS ON MARGINAL PROPENSITY TO CONSUME (MPC)

MPC IS DETERMINED BY

- · WEALTH
- · CONSUMER CONFIDENCE
- · ATTITUDES TOWARD SAVINGS
- . GOVERNMENT POLICIES
 RELATED TO CONSUMPTION
- · DISTRIBUTION OF INCOME

WHY DOPEOPLE SAVE? Kay Nas AN

· DEPENDS ON MARGINAL PROPENSITY TO CONSUME (MPC) MPC IS DETERMINED BY

DE the change in C= consumption y= income

- · WEALTH
- · CONSUMER CONFIDENCE
- · ATTITUDES TOWARD SAVINGS
- . GOVERNMENT POLICIES RELATED TO CONSUMPTION
- · DISTRIBUTION OF INCOME

MPC = consume now - consumed then

AC

how much income how much income Dy we received then

BANN CILL

WHY DOPEOPLE SAVE?

· DEPENDS ON MARGINAL PROPENSITY TO CONSUME (MPC) MPC IS DETERMINED BY

DE the change in CE consumption y= income

- · WEALTH
- · CONSUMER CONFIDENCE
- · ATTITUDES TOWARD SAVINGS
 - . GOVERNMENT POLICIES RELATED TO CONSUMPTION
 - · DISTRIBUTION OF INCOME

MPC = how much we how much we consumed then

DC

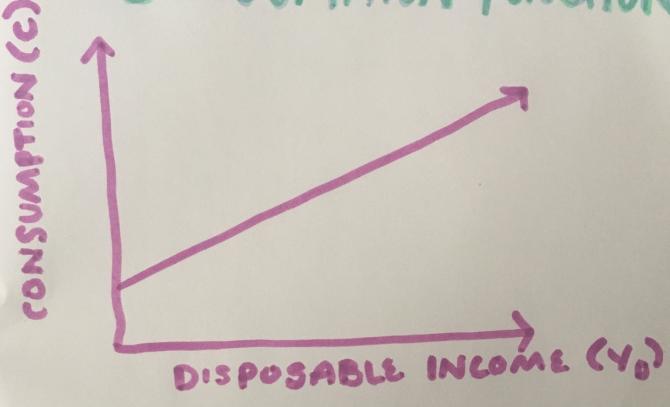
Now much income how much income DY we received then

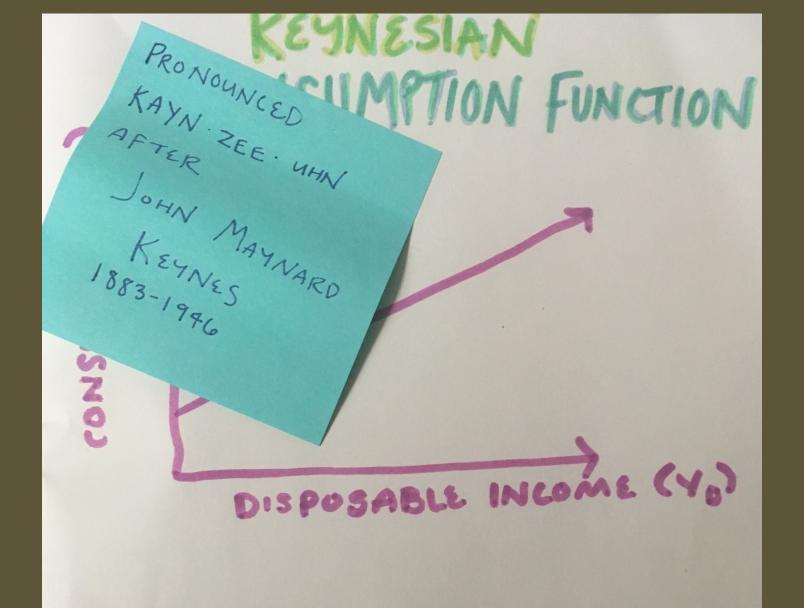
· DEPENDS ON INTEREST RATE

INTEREST RATE IS DETERMINED BY

- · INFLATION (LONGRUN)
- · MONETARY POLICY (CENTRAL BANK)
- · FISCAL POLICY (GOVERNMENT)

CONSUMPTION FUNCTION





CONSUMPTION FUNCTION

CONSUMPTION (C)

DISPOSABLE INCOME (YD)

C=C+mpc(Yo)

C=500+0.6 (disposable)

KEYNESIAN CONSUMPTION FUNCTION

CONSUMPTION (C)

DISPOSABLE INCOME (YO)

C=C+Mpc(Yb)

C=500+0.6(disposable)

Key

CE CONSUMPTION

C = AUTONOMOUS

MPC=Marginal PROPENSITY TO CONSUME

Y = DISPOSABLE INCOME

CONSUMPTION FUNCTION

DISPOSABLE INCOME (YO)

C=C+MPC(YD)

C=500+0.6(disposable) what is Yo?

C= CONSUMPTION : CONSUMPTION : CONSUMPTION : CONSUMPTION : CONSUMPTION : CONSUMPTION : CONSUM E

YD = DISPOSABLE INCOME

CONSUM

BUDGABLE INCOME (Y)

C=C+mpc(%) C=C+mpc(Y-T)

C=500+0.6(disposable)
what is Yp?

Yp = income - taxes

Yp = Y - T

REY

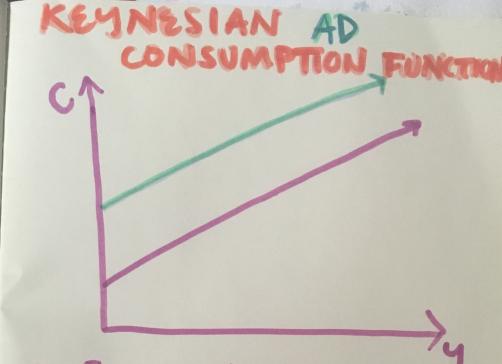
C = CONSUMPTION

C = AUTONOMOUS
CONSUMPTION

MPC = M2RGINAL
PROPENSITY TO
CONSUME

Yo = DISPOSABLE INCOME

Y = TAXES



C= C+MPC (Y-T) AD= C+1+G+NX

where ...

CECONSUMPTION

C= AUTONOMOUS CONSUMPTION

MOCE MARGINAL PROPENSITY TO CONSUME.

4= income

T = taxes

~.

AD: AGGREGATE DEMAND

13 INVESTMENT

G: GOVERNMENT

NX = NET EXPORTS (exports less imports)

PRICY

QUANTITY

REAL INTEREST RATE

QUANTITY UNITS OF CURRENCY

PRICY

REAL INTEREST RATE

DEMAND

QUANTITY UNITS OF CURRENCY

PRICY

REAL INTEREST RATE

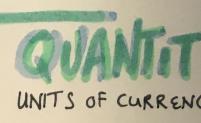
DEMAND

WHY REAL INTEREST RATE?

QUANTITY UNITS OF CURRENCY

DEMAN

REAL INTEREST RATE? UNITS OF CURRENCE



- · LOANS ARE LESS LIQUID THAN MONEY -> LONG RUN
- · IF INFLATION IS HIGH, MORE PEOPLE WILL WANT TO TAKE MORE LOANS EVEN AS THE NOMINAL INTEREST RATE STAYS THE SAME BECAUSE WHAT THEY HAVE TO PAY BACK WONT BE WORTH AS MUCH (IN TERMS OF PURCHASING POWER) - REAL INTEREST RATE = NOMINAL INTEREST RATE - INFLATION RATS

REAL INTEREST RATE

SUPPLY

DEMAND

NHY REAL INTEREST RATE? UNITS OF CURRENCY

- · LOANS ARE LESS LIQUID THAN MONEY -> LONG RUN
- · IF INFLATION IS HIGH, MORE PEOPLE WILL WANT TO TAKE MORE LOANS EVEN AS THE NOMINAL INTEREST RATE STAYS THE SAME BECAUSE WHAT THEY HAVE TO PAY BACK WONT BE WORTH AS MUCH (IN TERMS OF PURCHASING POWER)
- -> REAL INTEREST RATE = NOMINAL INTEREST RATE INFLATION RATE