Lecture Recap

Open Economy Goods Market

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  4. Imports (IM) $= m_1 Y$ where m_1 is the propensity to import and Y is domestic output

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  5. Consumption (C) = $c_0 + c_1 Y_D$ where $Y_D = Y - T$ is disposable income, c_0 is autonomous consumption and c_1 is the marginal propensity to consume

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  5. Consumption (C) = $c_0 + c_1 Y_D$ where $Y_D = Y - T$ is disposable income, c_0 is autonomous consumption and c_1 is the marginal propensity to consume
  6. Investment (I) = $d_0 + d_1 Y$ where d_0 is autonomous investment and d_1 is the marginal propensity to invest

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- Equilibrium output:

$$Y = \frac{1}{1 - c_1 - d_1 + m_1}(c_0 - c_1 T + d_0 + G + x_1 Y^*)$$

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  - Propensity to import (m_1) inversely affects the multiplier.
  - Propensity to export (x_1) increases autonomous spending, and thus output.