

Chapter 28 McConnell, Brue and Flynn 20th

Basic Macroeconomic Relationships

In Chapter 27 we discussed the business cycle, unemployment, and inflation. Our eventual goal is to build economic models that can explain these phenomena.

This chapter begins that process by examining the basic relationships that exist between three different pairs of economic aggregates. (Recall that to economists “aggregate” means “total” or “combined.”) Specifically, this chapter looks at the relationships between:

- income and consumption (and income and saving).
- the interest rate and investment.
- changes in spending and changes in output.

The concepts of the average and marginal propensities to consume and save, and the multiplier effect will be introduced.