

Module 16 Income and Expenditure

The housing boom in Ft. Myers Florida from 2003-2006, followed by the housing bust in 2008, is a small-scale example of an economy-wide boom and bust. These cycles are often driven by ups and downs in investment spending that multiplies to affect the whole economy.

Discussion:

Assume that you will get a raise in your pay. What will you do with this extra money?

Now assume that you have been given a raise of \$1 per day. What options do you have for this additional income?

Class Activity: Complete the following exercises.

- 1.) Draw a graph showing the effect on the aggregate consumption function of an increase in disposable income.
- 2.) Draw a graph showing the effect on the aggregate consumption function of the expectation that disposable income will decrease in the future.
- 3.) Draw a graph showing the effect on the aggregate consumption function of an increase in wealth.

Discussion Questions:

- 1.) Why is it important for businesses to minimize any unplanned changes in their inventories?
- 2.) Is it easier or harder for firms to minimize any planned changes in their inventories today than it was 50 years ago?