Simple Keynesian Model

Equilibrium output $Y$ when:

$$\text{leakage} = \text{autonomous spending}$$

Types of leakage:

- saving $s(Y-T)$
- income tax $t_0 Y$
- imports expenditures $xY$

Autonomous spending $A_p$:

- autonomous consumption $a$
- planned autonomous investment $I_p$
- government expenditures $G$
- autonomous net exports $NX_0$
- (less autonomous taxation $cT_0$)

What if autonomous spending $A_p$ is a function of the interest rate $r$?

Then equilibrium $Y$ is also a function of the interest rate:

$$Y = \frac{A_p(r)}{MLR}$$

In general, $A_p$ is a decreasing function of the interest rate $r$. 