Simple Keynesian Model

Equilibrium output Y when:

leakage = 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.