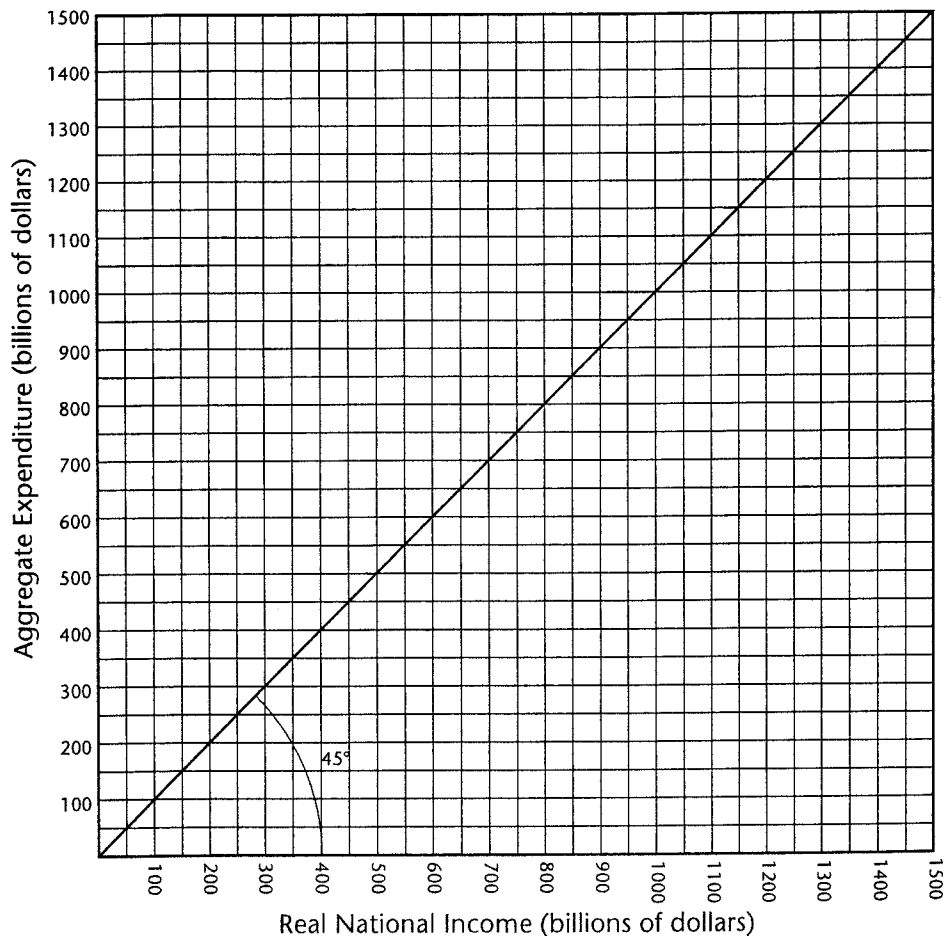## ACTIVITY 26
Plotting the Investment Function

Assume that country XYZ has a consumption function as shown in the table *Consumption Function of Country XYZ*.

Consumption Function of Country XYZ
(all figures are in billions of dollars)

Real income	Consumption expenditure	Aggregate expenditure I = 200	Aggregate expenditure I = 300
900	750	_____	_____
1,000	800	_____	_____
1,100	850	_____	_____
1,200	900	_____	_____
1,300	950	_____	_____
1,400	1,000	_____	_____

1. Plot the consumption function on the graph *Plotting the Consumption Function of Country XYZ*. Label it C.

**Plotting the Consumption Function of Country XYZ**

Real National Income (billions of dollars)

ACTIVITY 26 continued

2. Plot the investment function (I) when I = 200. What is the equilibrium level of income? _____

3. Plot the investment function (I) when I = 300. What is the equilibrium level of income? _____

4. Now show graphically the effects of each of the following changes on aggregate expenditure. On each graph, show the original aggregate expenditure (label *AE*) and the new aggregate expenditure (label *AE₁*). It is the direction of the change that is important. The first change is illustrated for you.

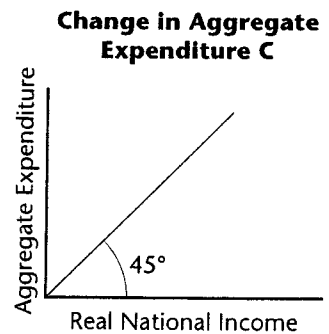_____ a. Congress cuts personal income taxes.

Change in Aggregate Expenditure A
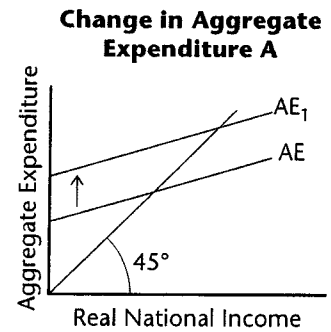
_____ b. Business leaders believe that the economy is headed for a recession.

Change in Aggregate Expenditure B
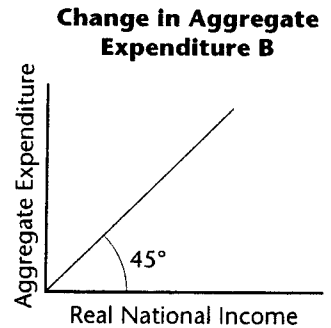
_____ c. Survey shows consumers are confident about the future of the economy.

Change in Aggregate Expenditure C

Change in Aggregate Expenditure D

_____ d. Economic booms in Japan and Europe increase demand for U.S. exports.

Change in Aggregate Expenditure E
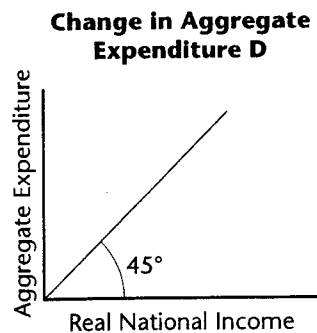
_____ e. Because of a reduction in the corporate income tax, businesses increase their investment in new plant and equipment.