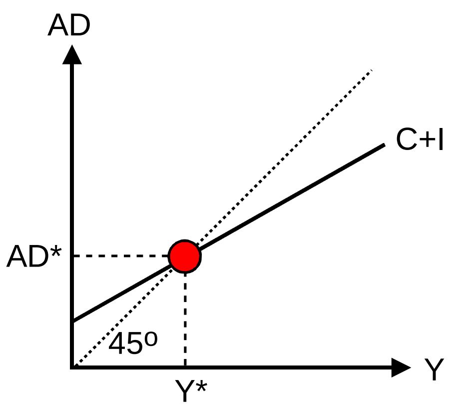
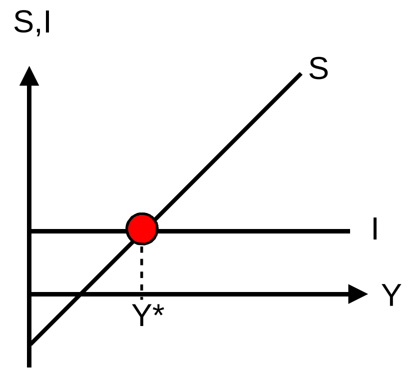
Equilibria (Keynes)

Two sectors: Households and firms
(Two-sector - model)

AD = Y

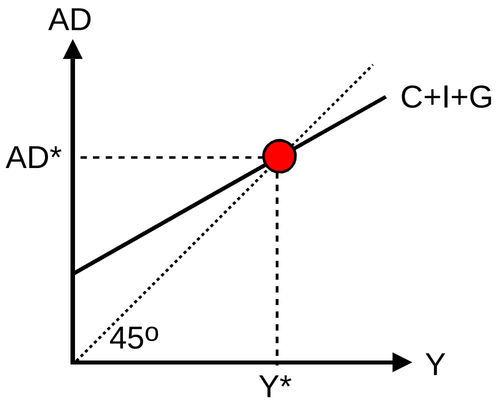


S = I

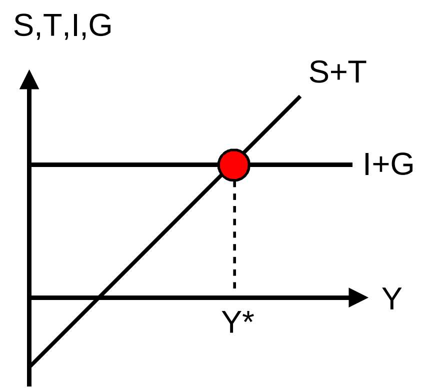


Three sectors: Households, firms and governments
(Closed economy with government - model)

AD = Y

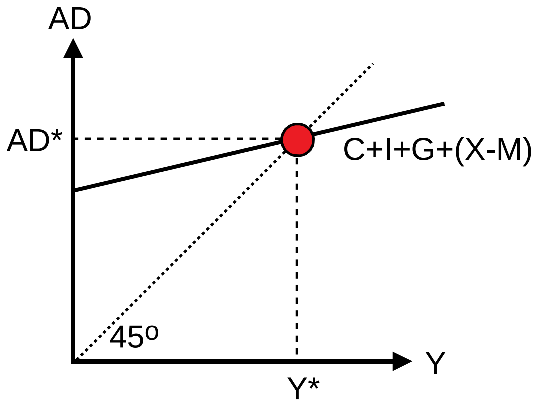


S + T = I + G

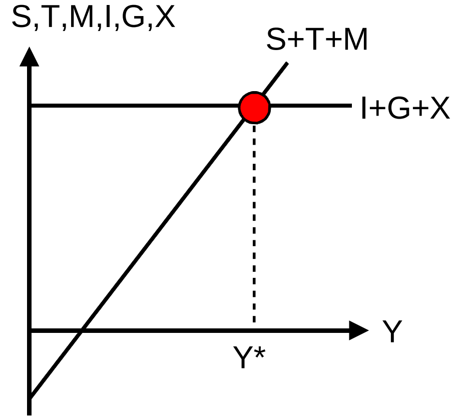


Four sectors: Firms, households, governments and foreign sector
(Open economy - model)

AD = Y



S + T + M = I + G + X



Abbreviations and explanations

- **AD** = Aggregate demand
  AD (open economy) = C + I + G + (X - M)
  AD is **planned** demand.

- **Y** = **Actual** output

- An **equilibrium** exists if **planned demand** equals **actual output (AD = Y)**
  (not necessarily a situation of full employment).

  Disequilibria exist if AD > Y (expansionary gap) or if AD < Y (contractary gap).

- **Withdrawals** in the open economy model:
  - S = Savings
  - T = Taxes
  - M = Imports

- **Injections** in the open economy model:
  - I = Investment
  - G = Government spending
  - X = Exports

- An **equilibrium** exists **if withdrawals equal injections:**
  - Two-sector - model: **S = I**
  - Closed economy with government - model: **S + T = I + G**
  - Open economy - model: **S + T + M = I + G + X**

  Disequilibria exist if withdrawals > injections (contractary gap) or
  if withdrawals < injections (expansionary gap).

- **C** = Consumption