Chapter Three

Theory of consumption and consumption is Islam.

Consumption function:-

consumption function indicates the functional relationship between consumption (C) and Personal disposable income (Yd).

Mathmatically,

$$C = f(Yd)$$

More,

Specially,

$$C = a + bYd$$

where, C =

a = Intercept (constant)

b = slope (rate of change between Yd and C)

Yd = Personal disposable income

Determinants of consumption function in Islam :-

Islamic Consumption $Ic = f(Yd, I, H, V, z, S)$

where,

Ic - Islamic consumption.

Yd = Personal disposable legal income.

I = Intra family consumption level.

H = Same (Horig level) level of consumption of society.

V = Different (vertical level) level of consumption of society.

z = Level of obligatory transfer payment (zakat)

S = level of obligatory transfer (sadaqah/Qand-e-Hasanah)

More, Specially,

$$C = a + bYd.$$

where,

C = Consumption

a = Intercept (constant)

b = slope (rate of change between Yd and c)

Yd = Personal disposable income.

Question

1. what are the variable of Islamic consumption function

*The variable are :-

Yd = Personal disposable income.

   (After paying the tax to the government what remain
   too to your hand)

I = Intra-family consumption level ('family/social
   responsibility)

H = Horizontal level (equal level) of consumption
   in a Society.

V = vertical level (different level) "   "
   in a Society.

z = level of obligatory transfer Payment (

S = level of voluntary transfer Payment (sadqah/Qar

e - Hasanah)

* Mathmatically consumption equation (function)

$$C = a + b y d$$

where,

    C = Personal consumption.

    a = Intercept (constant)

    b = Slope (rate of change between c and yd)

    yd = Personal disposable income

More,

    specially,

        $C = 150 + 0.6 yd$ $\Big\}$ $\Big($ suppose, $a = 150$,
                                    $b = 0.6 \Big)$

        $yd = C + S$

       $\rightarrow C = yd - S$

       $\rightarrow S = yd - C$

In two sector economy,

$$S = I \quad (S = \text{savings}, \ I = \text{Investment})$$

More,
 Specially,.

$$C = 150 + 0.6 \, Yd \quad \left\{ \begin{array}{l} \text{suppose,} \\ a = 150 \\ b = 0.6 \end{array} \right.$$

Suppose again,

$$I = 2000 \; Tak$$

* Find out the level of Yd, c and s.

Given,

$$C = 150 + 0.6 \, Yd$$

$$I = 2000 \, TK$$

$$Yd = C + I$$

$$\Rightarrow Yd = 150 + 0.6 \, Yd + 2000$$

$$\Rightarrow Yd = 2150 + 0.6 \, Yd$$

$$\Rightarrow (1) Yd - (0.6) Yd = 2150 \quad (\text{this line is for understand})$$

$\Rightarrow Yd - 0.6 Yd = 2150$

$\Rightarrow 0.4 Yd = 2150$

$\Rightarrow Yd = \dfrac{2150}{0.4}$

$\Rightarrow Yd = 5375$

Then,

$C = 150 + 0.6 \times 5375$

$= 150 + 3225$

$\therefore C = 3375$

$S = Yd - C$

$= 5375 - 3375$

$= 2000$

So,

we can say $S = I$