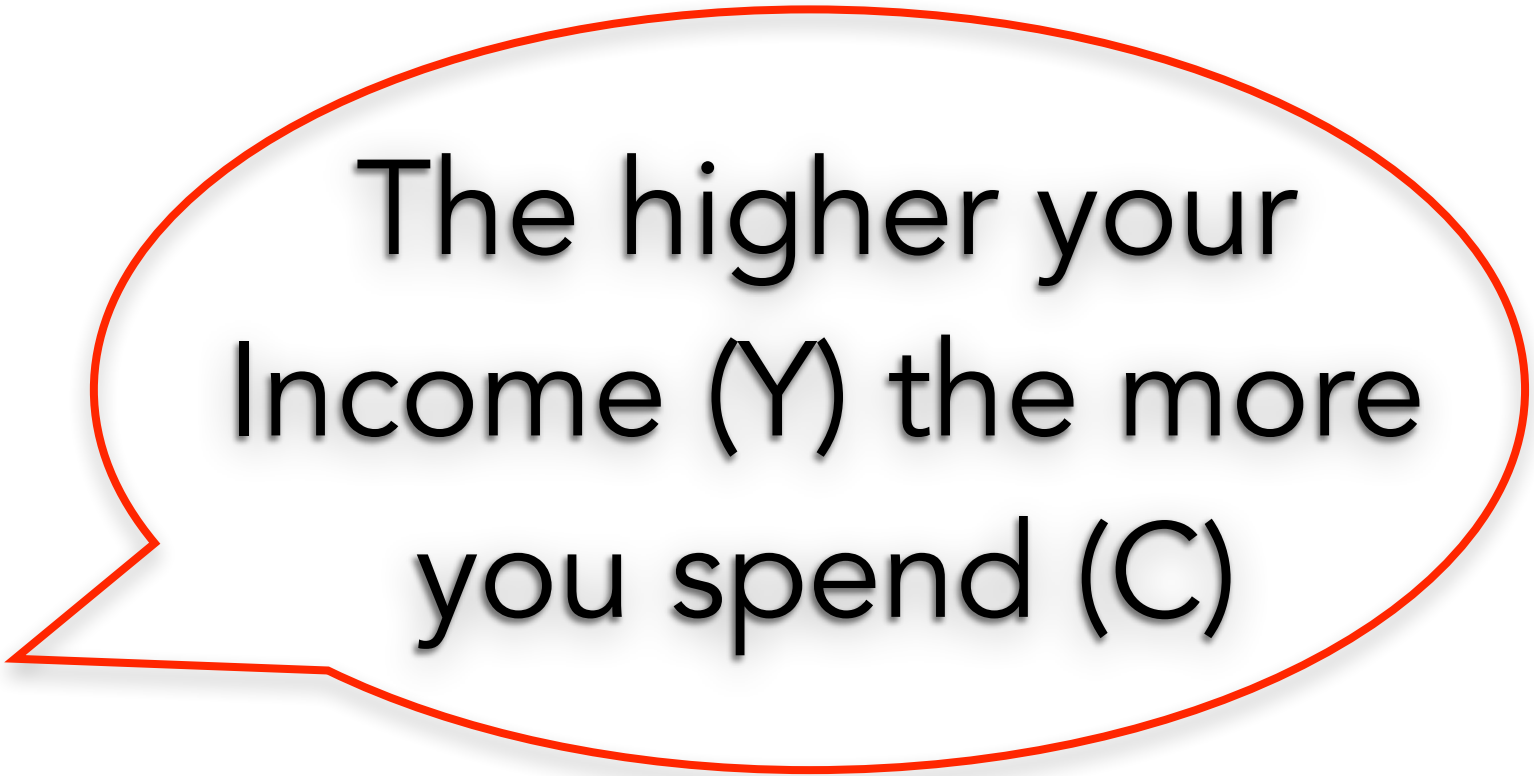
The Consumption Function (C)

Real Income

Real Wealth

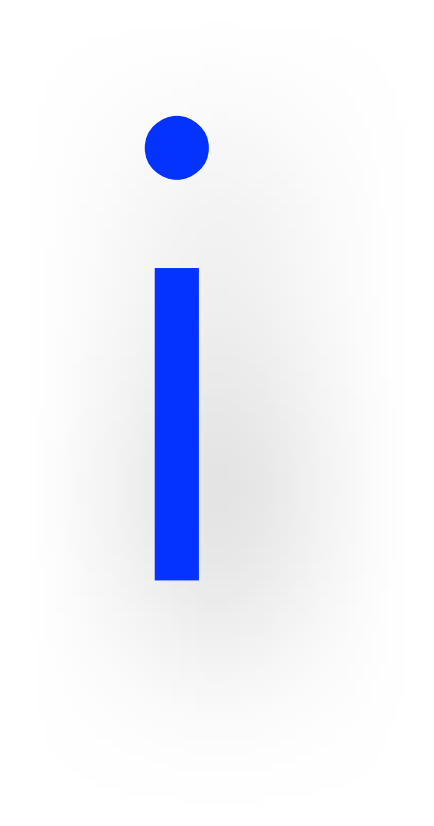
Expectations

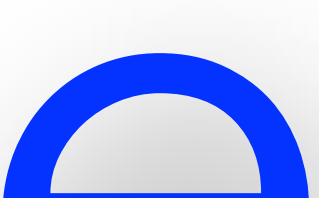
Prices

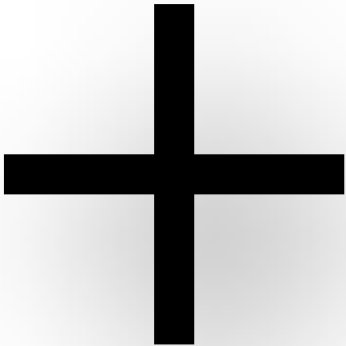

The higher your
Income (Y) the more
you spend (C)

Wealthier/ optimistic individuals spend more: higher intercept

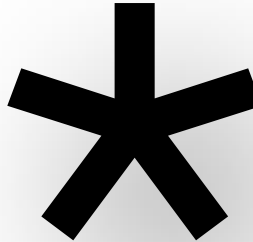
C

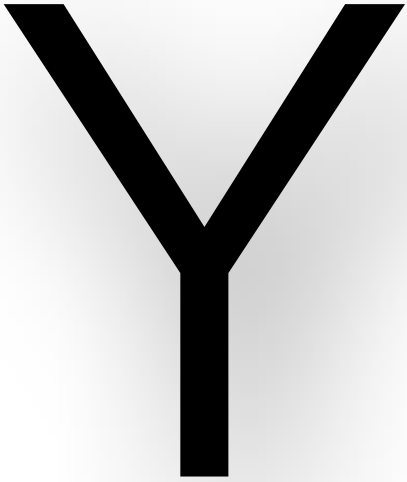


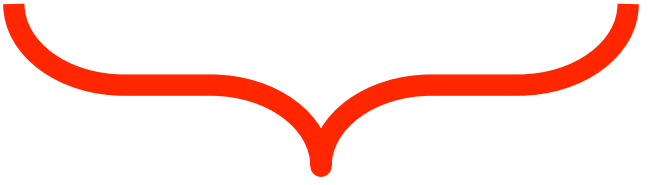




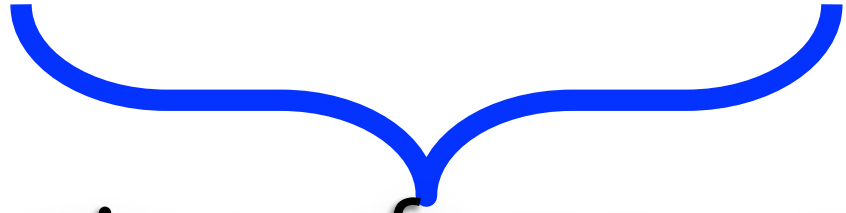
M



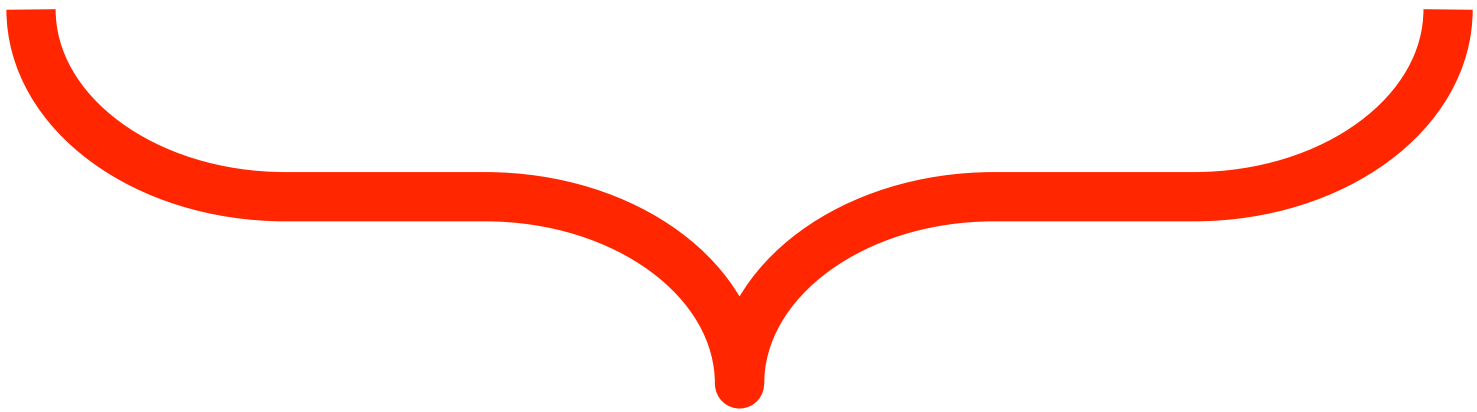




Portion of consumption induced by income

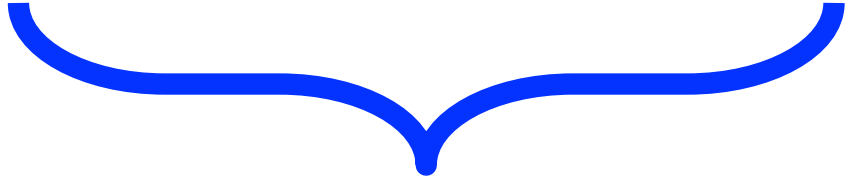


Portion of consumption independent from income



induced

consumption



Autonomous

consumption

$$C = a + MPC*Y$$

$$C = MPC * Y$$

Higher prices decrease real wealth: lower intercept

$$C = \text{intercept} + MPC * Y$$

The Consumption Function (C)

Real Income

Real Wealth

Expectations

Prices

The higher your Income (Y) the more you spend (C)

Wealthier/ optimistic individuals spend more: higher intercept

Higher prices decrease real wealth: lower intercept

$$C = \underbrace{\text{intercept}}_{\text{Autonomous consumption}} + \underbrace{MPC*Y}_{\text{induced consumption}}$$

$$C = a + MPC*Y$$

INTRODUCING THE GOVERNMENT