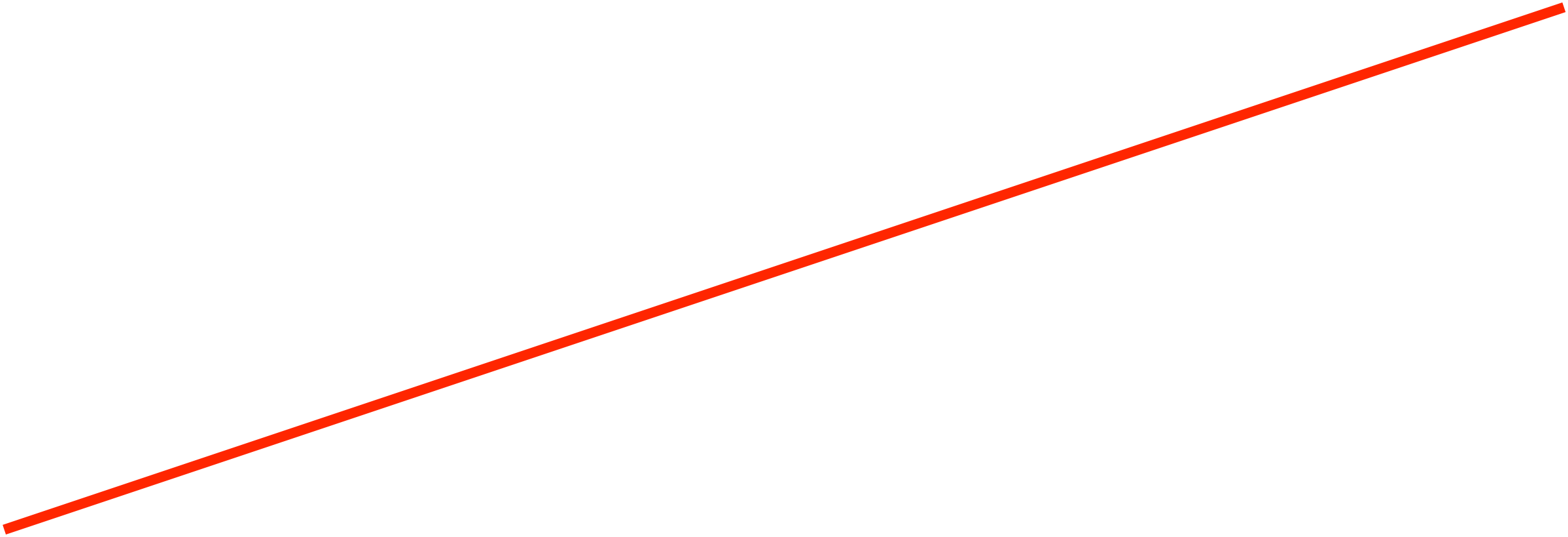
Real Income

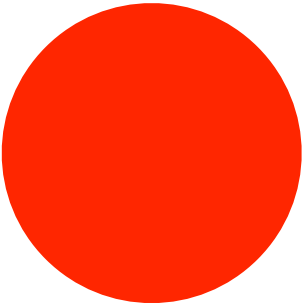
Consumption

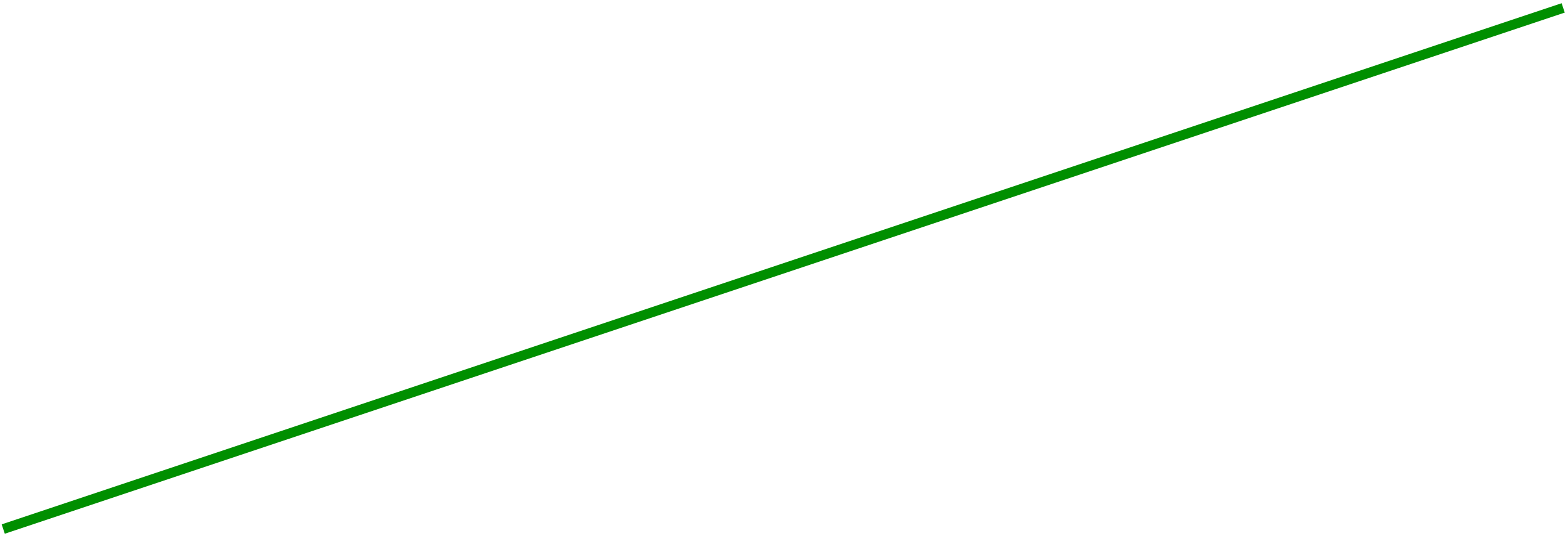
10000

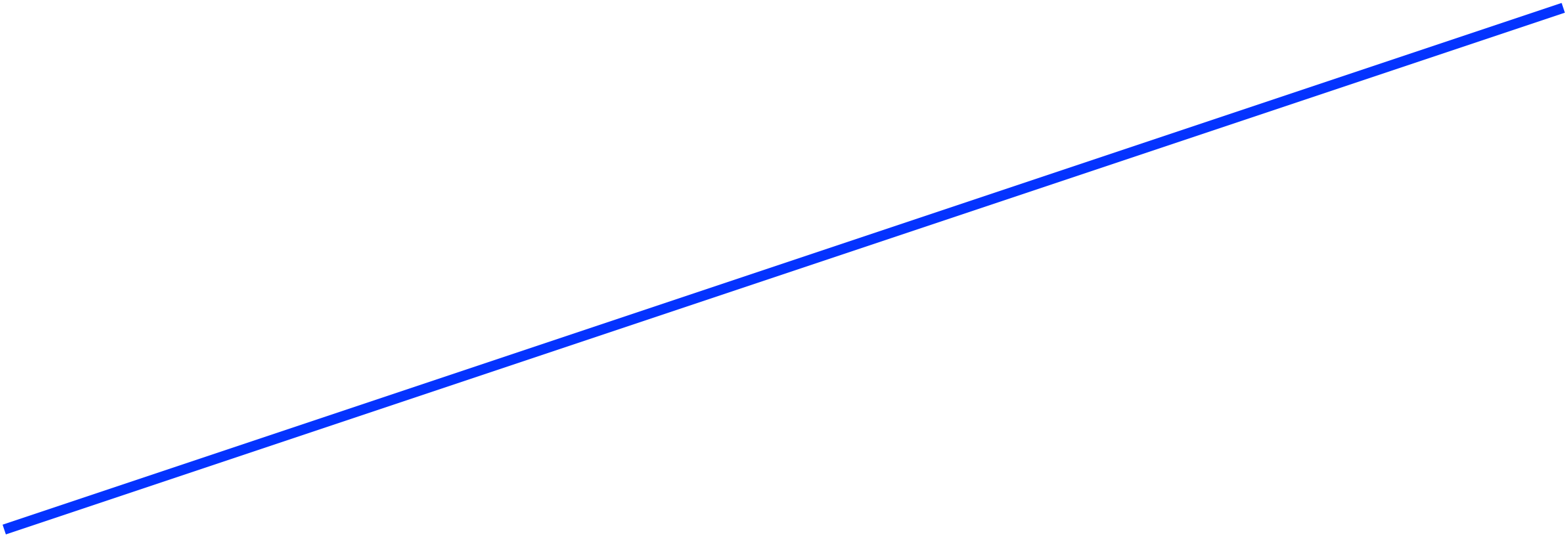
11000

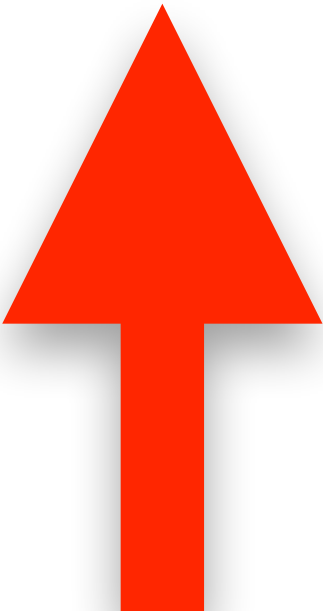
100

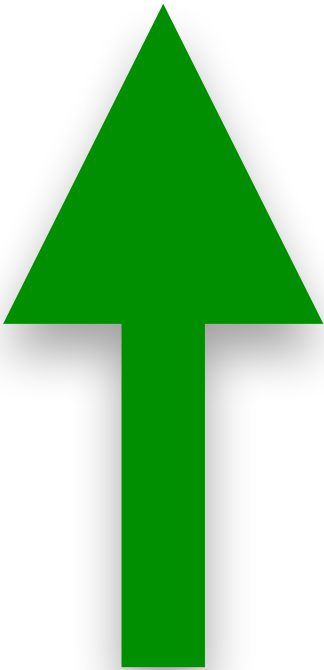


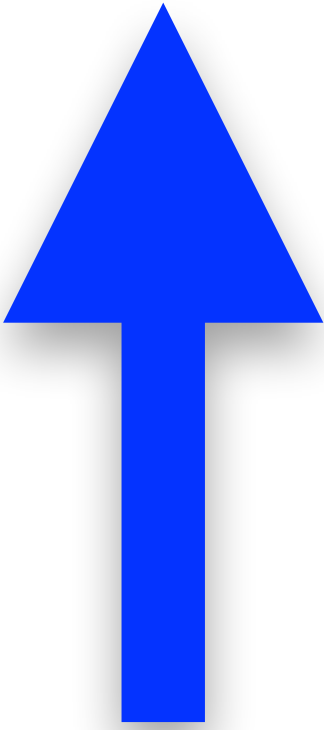


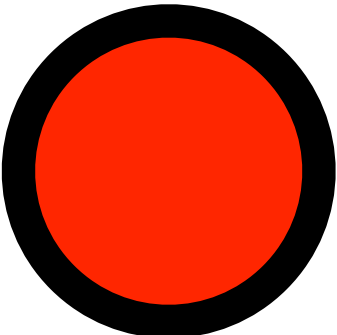


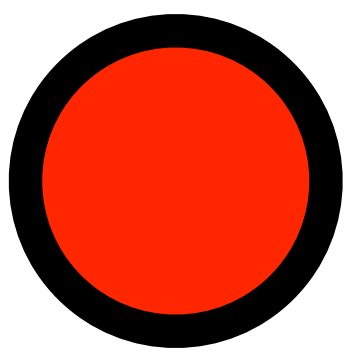


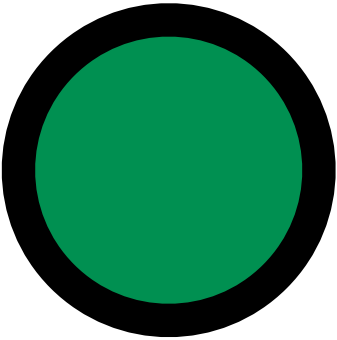


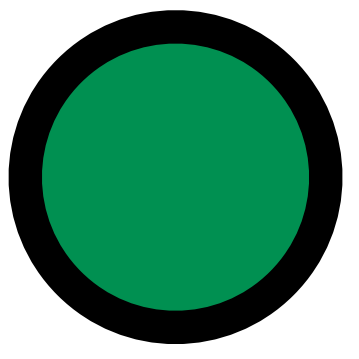


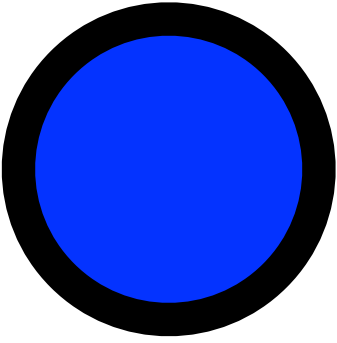








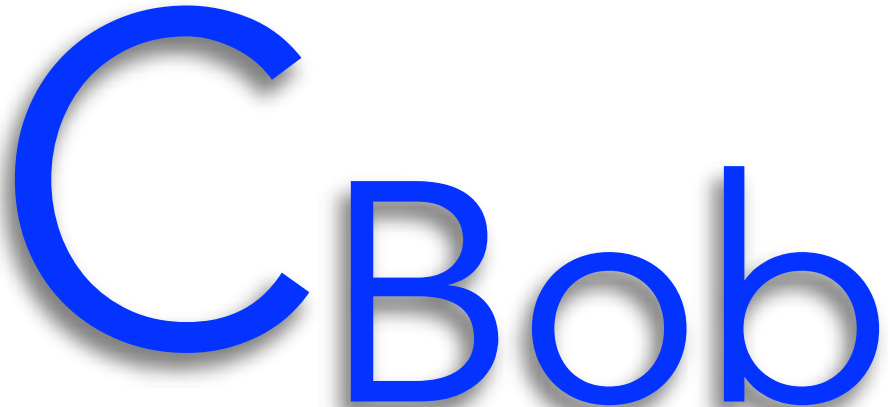




7,500

8,000

8,500


CBob

700

700

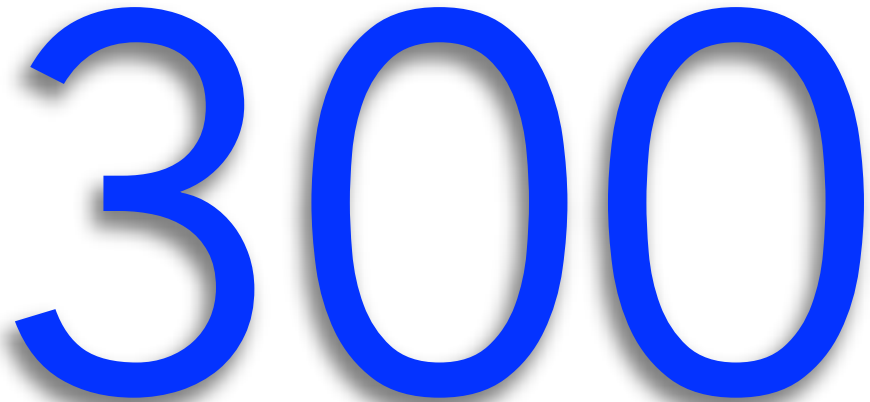
700

1000

1000

1000

200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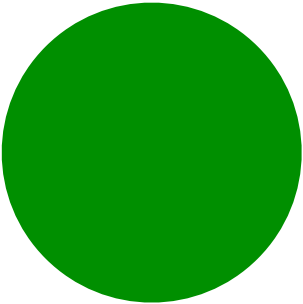
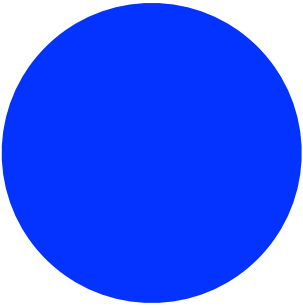
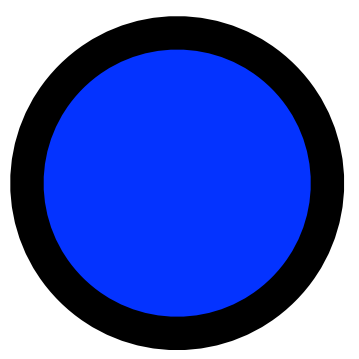




70%

70%

70%



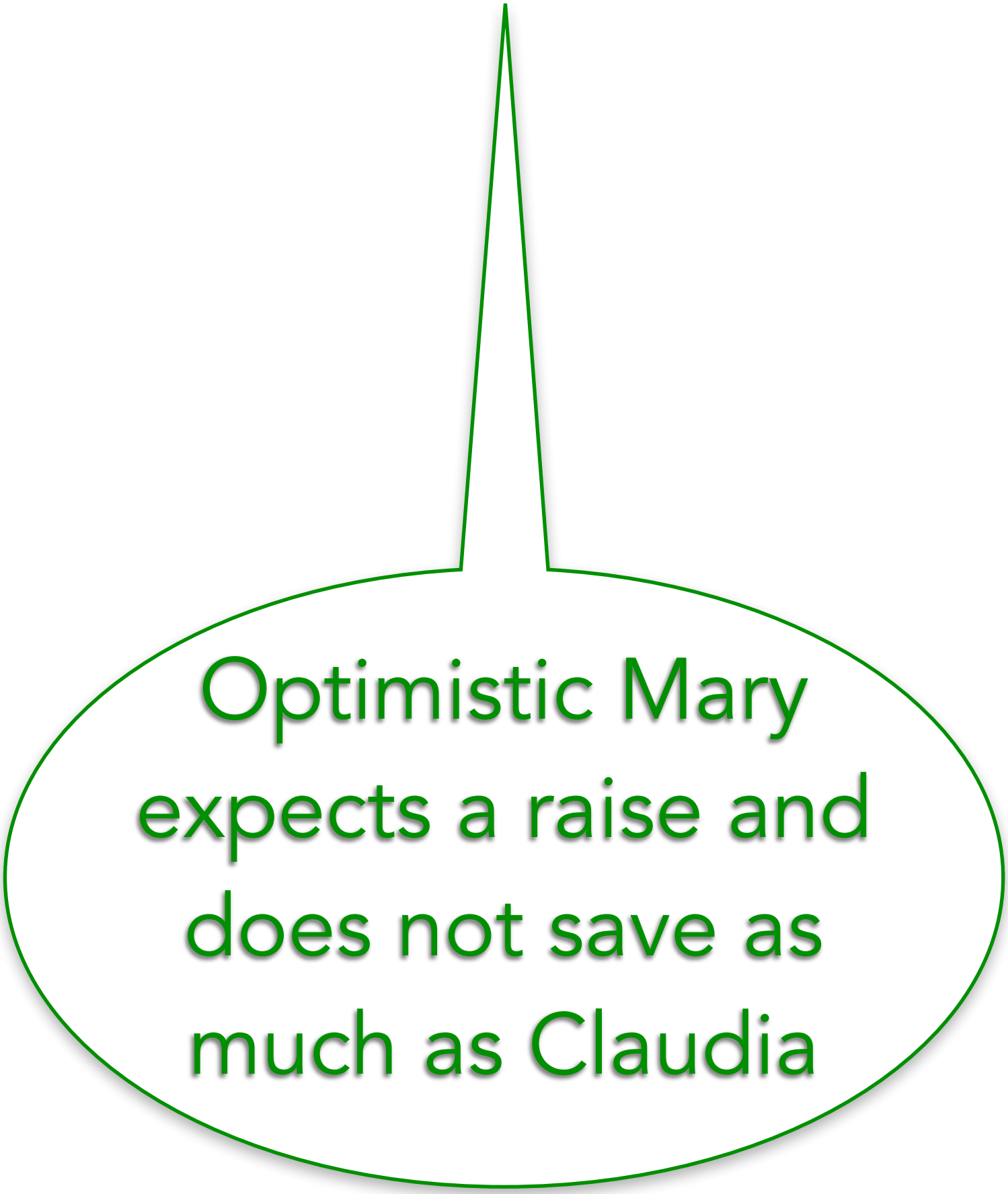
For all, the MPC = 70%

These three individuals react the same to a $1,000 increase in income

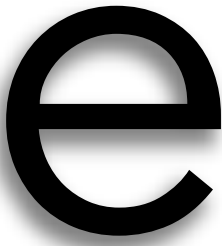
Their consumption line is higher: a larger intercept

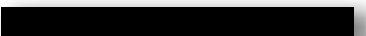
Wealthier Bob doesn't need to save as much and can spend more

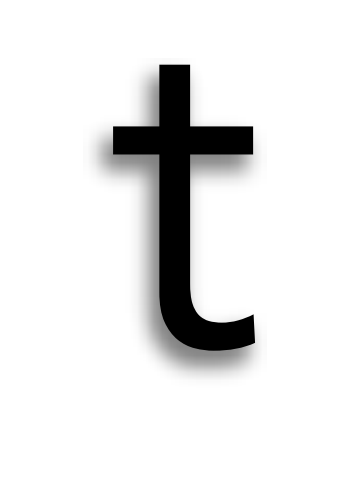
CMary

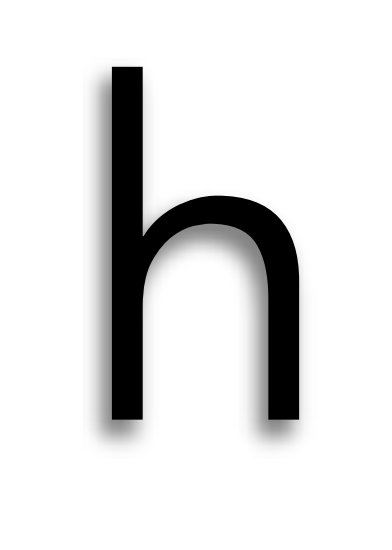

Optimistic Mary expects a raise and does not save as much as Claudia

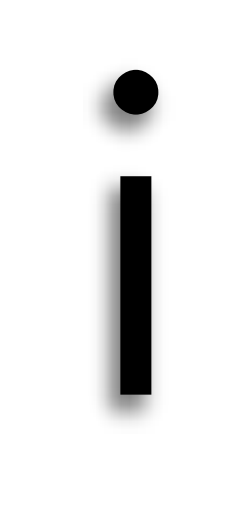
CClaudia

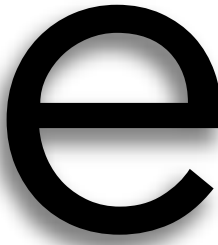


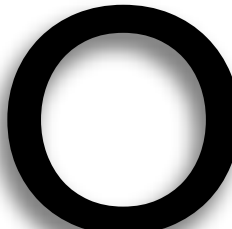


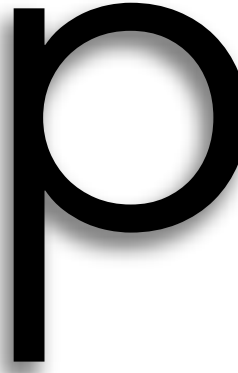


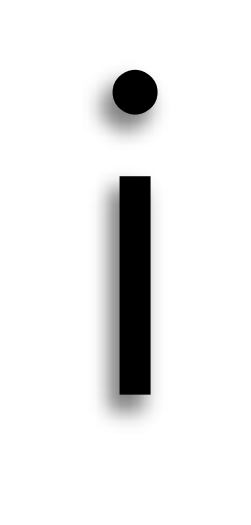


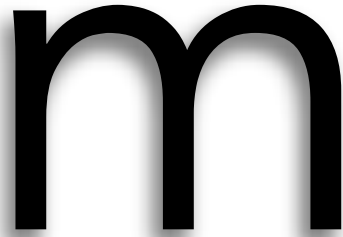


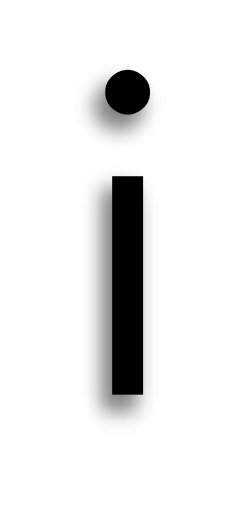


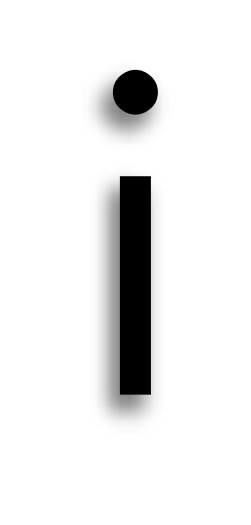


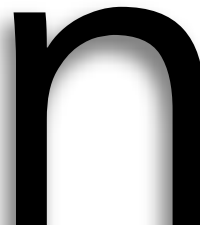


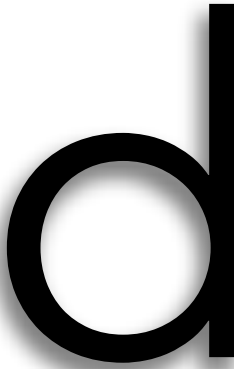


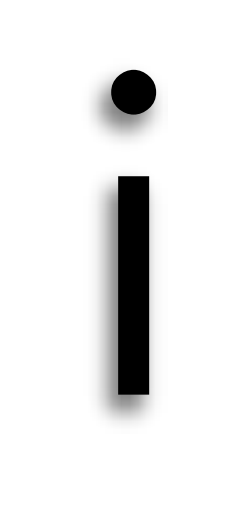


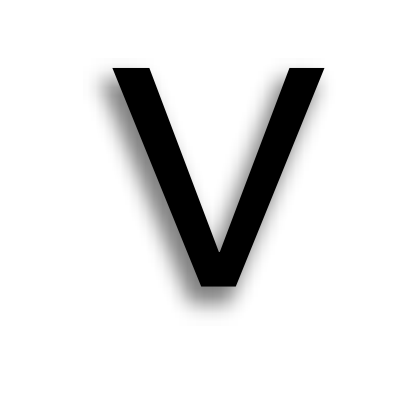


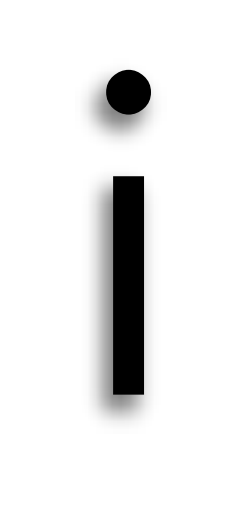


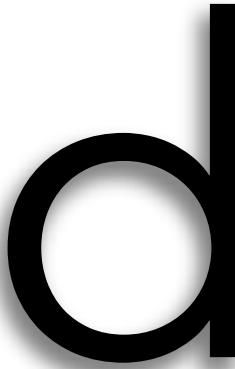


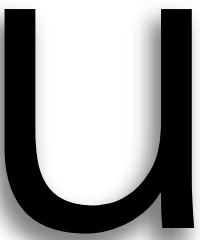


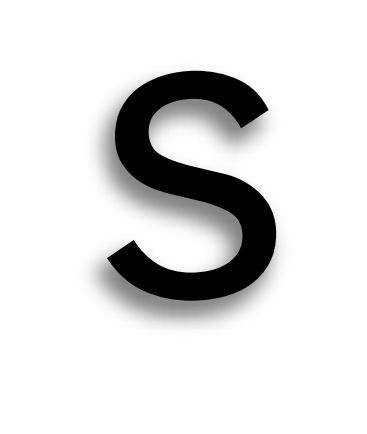


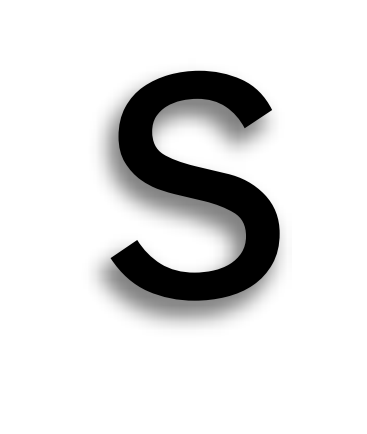


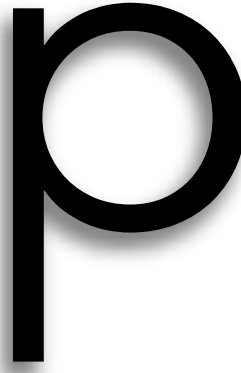


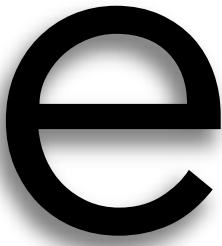


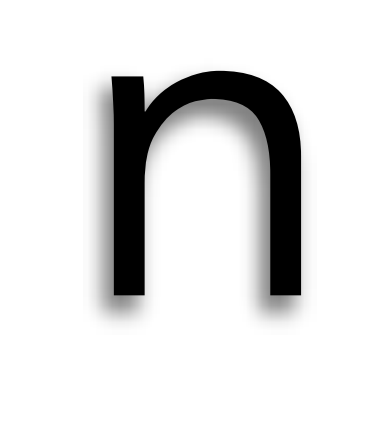


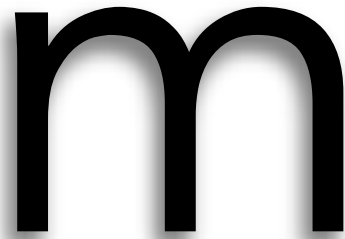


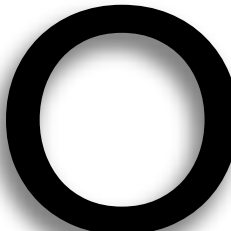


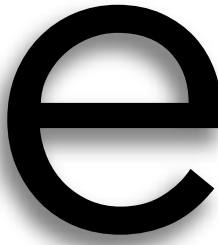


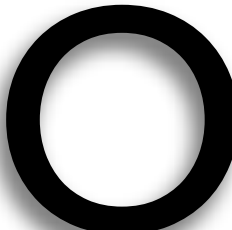


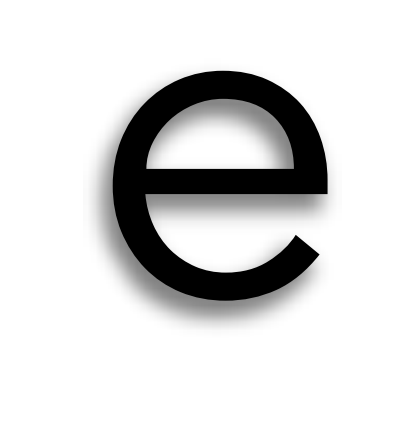


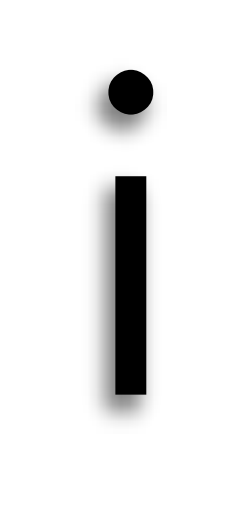


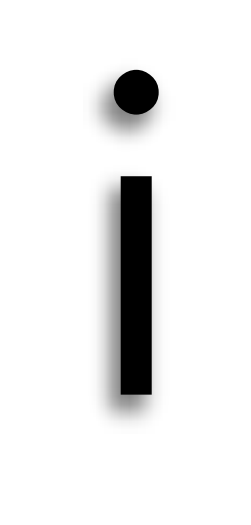


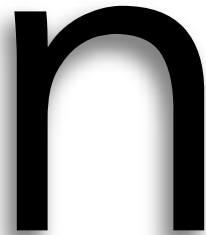


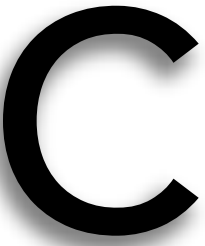


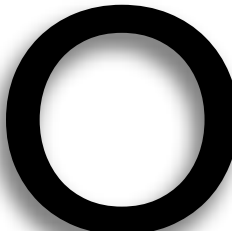


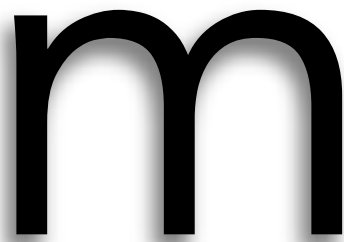


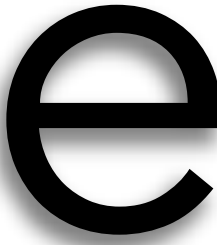








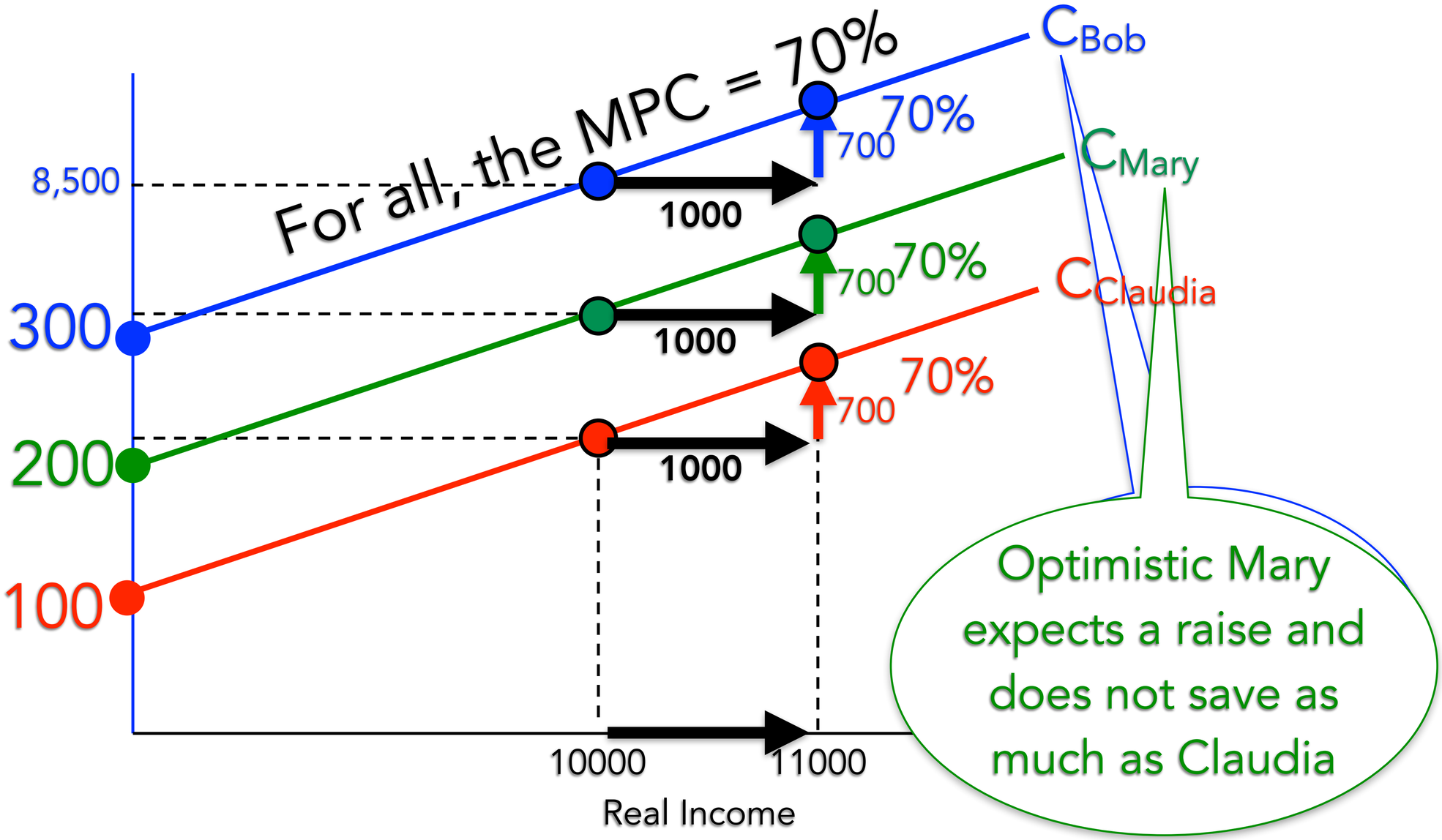


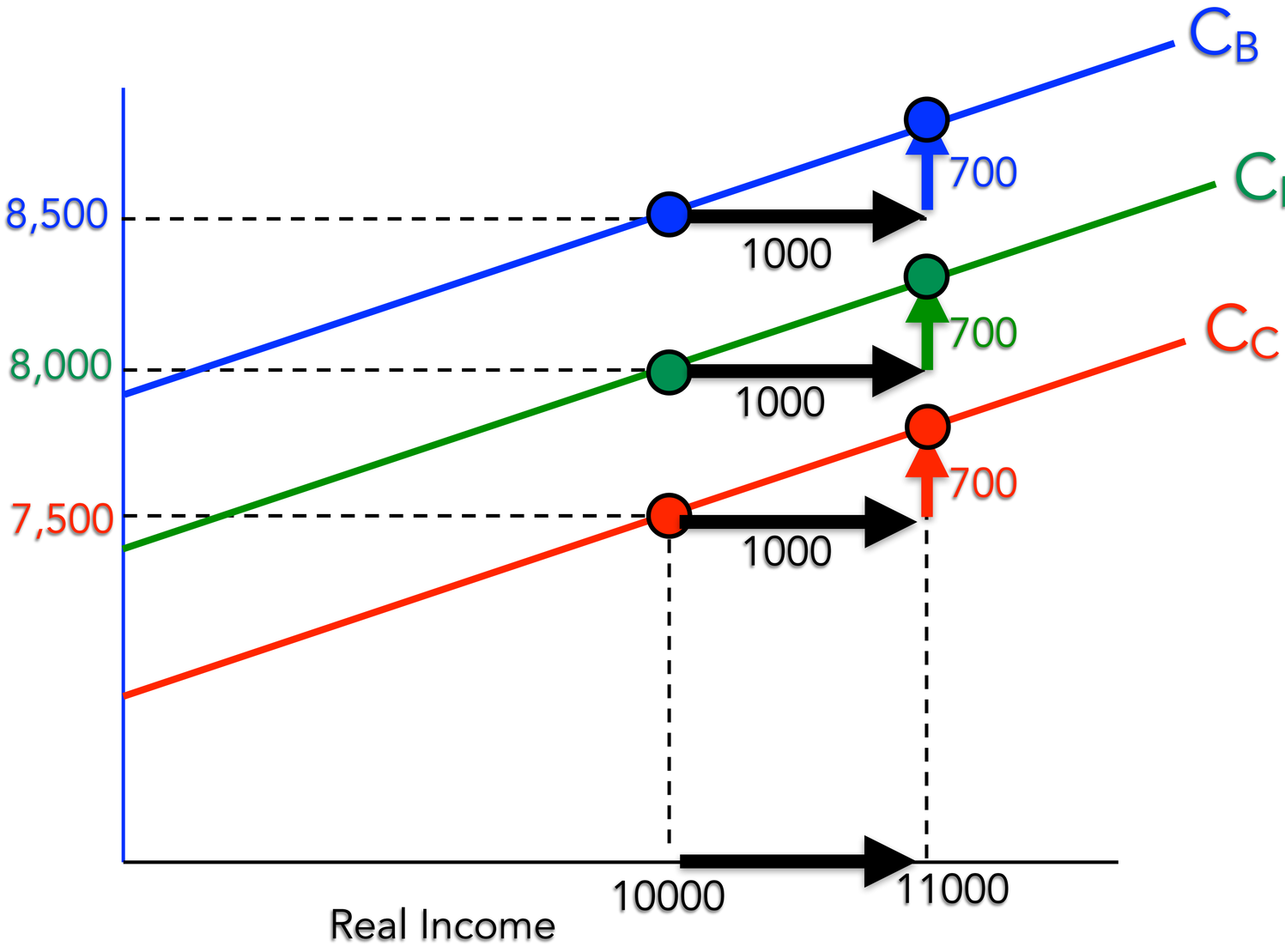


Wealthier/optimistic individuals spend more of their income.

Wealthier/optimistic individuals spend more of their income.

Their consumption line is higher: a larger intercept




C_B
C_C
8,500
8,000
7,500
700
700
700
1000
1000
1000
10000
11000
Real Income