



$$\text{Disposable Income } (Y^d) = \text{Income } (Y) - \text{Taxes } (Tx) + \text{Transfers } (Tr)$$

**Disposable Income:** Income left to consume and save after paying Taxes and receiving Transfers

Without Government:  $C \equiv a + MPC(Y)$

With Government, consumption depends  
on Disposable Income:

With Government:  $C = a + MPC(Y - Tx + Tr)$

$$Y_d = Y - T_x + T_r$$

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