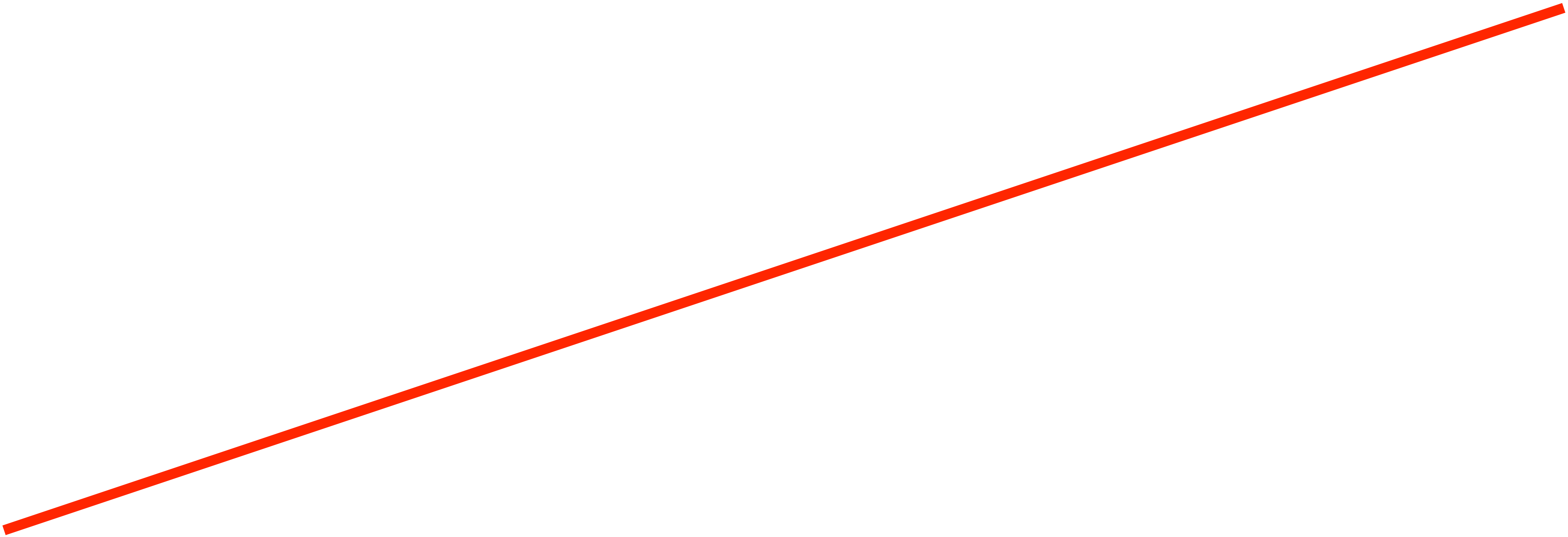
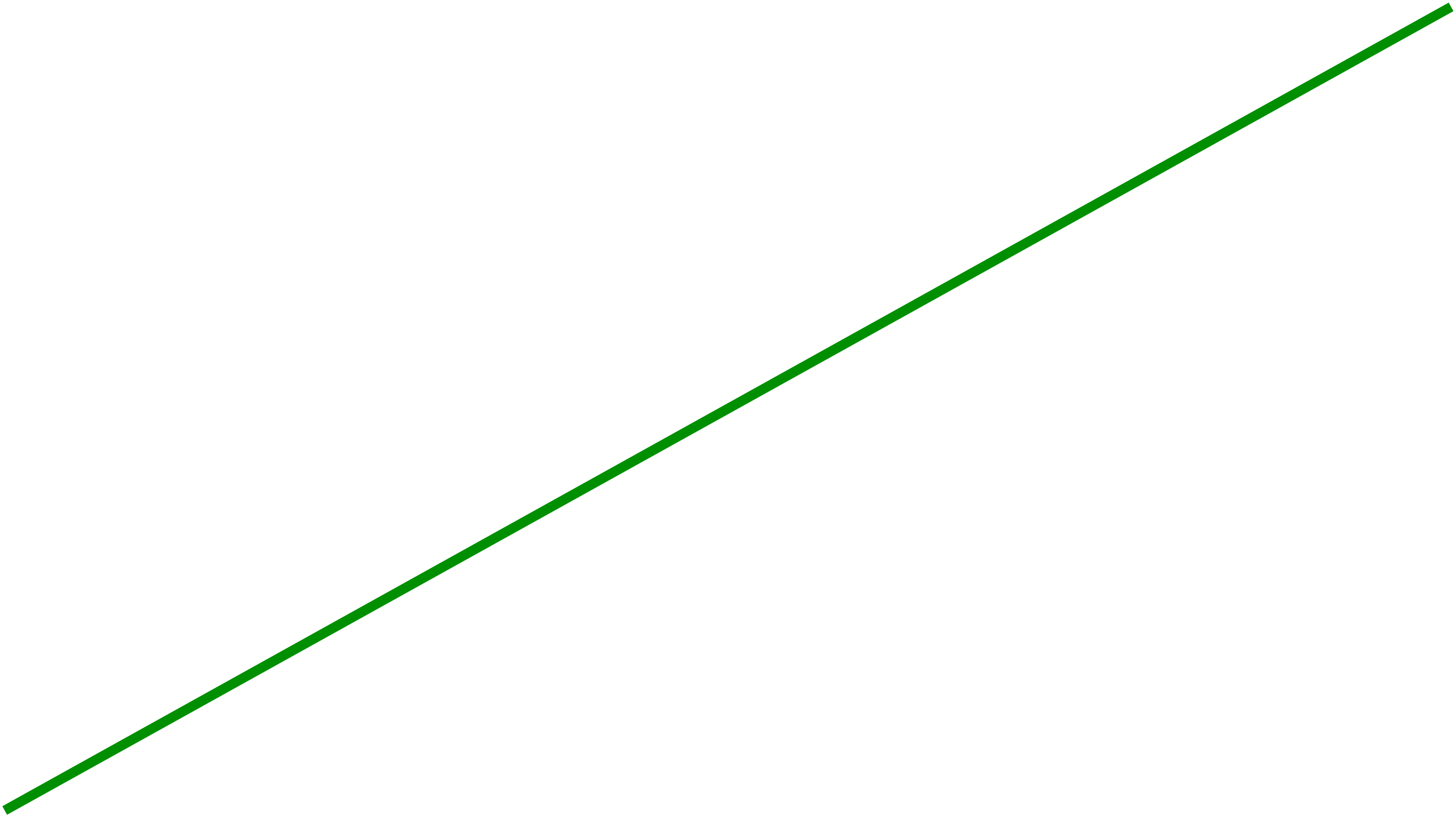
Real Income: Y

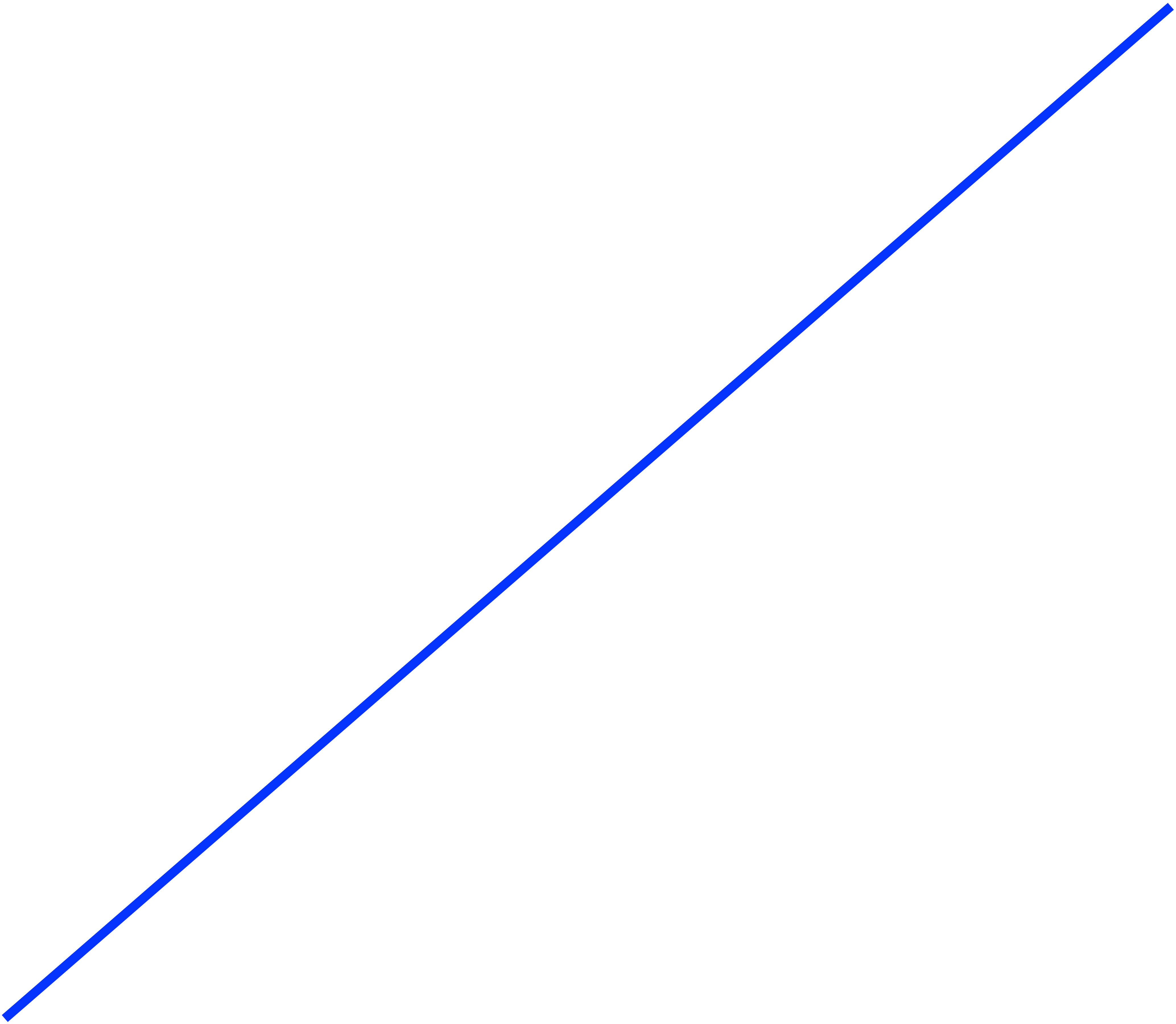
Consumption Expenditures

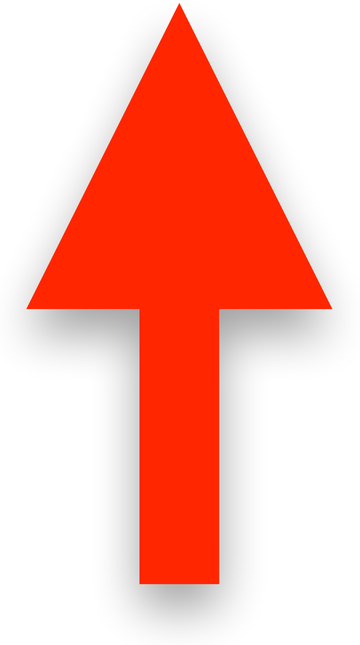
$$Y=10000$$

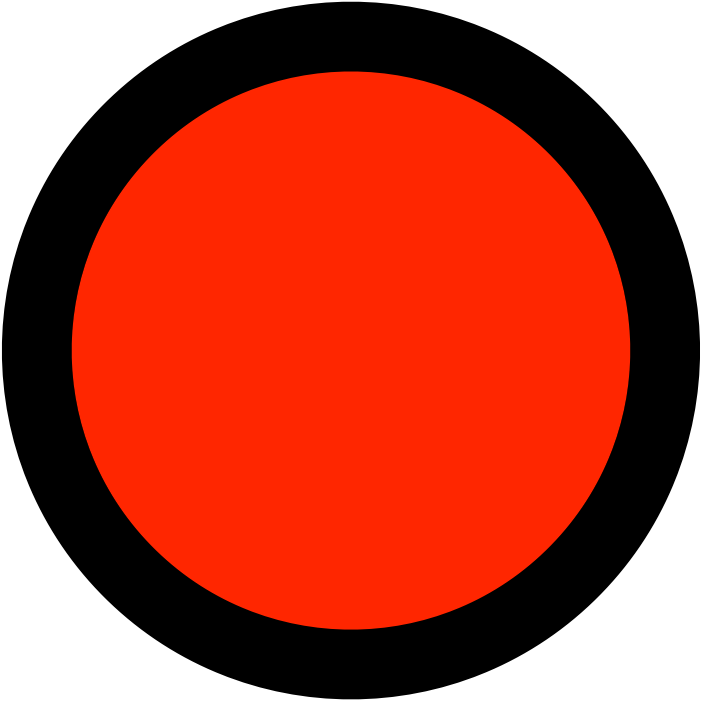
$$Y=11000$$

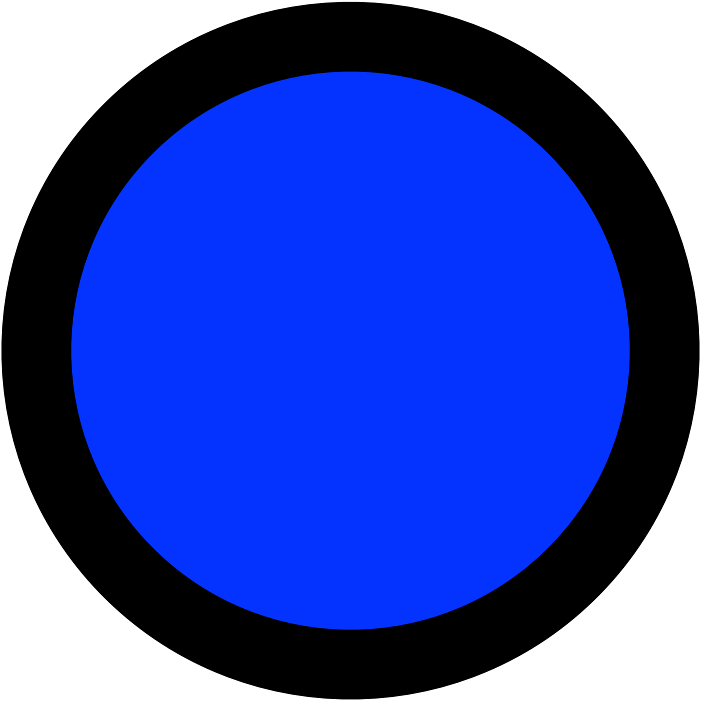












7,500

8,700

9,470

Claudia’s Consumption

Mary's Consumption

Bob’s Consumption

10,300

600

770

800

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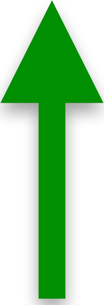

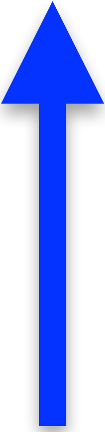

Income increase by: 1000

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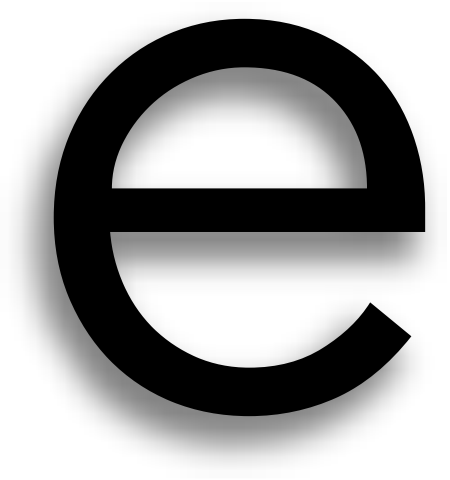
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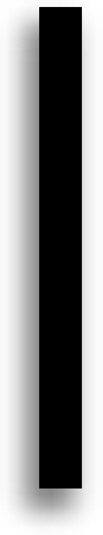

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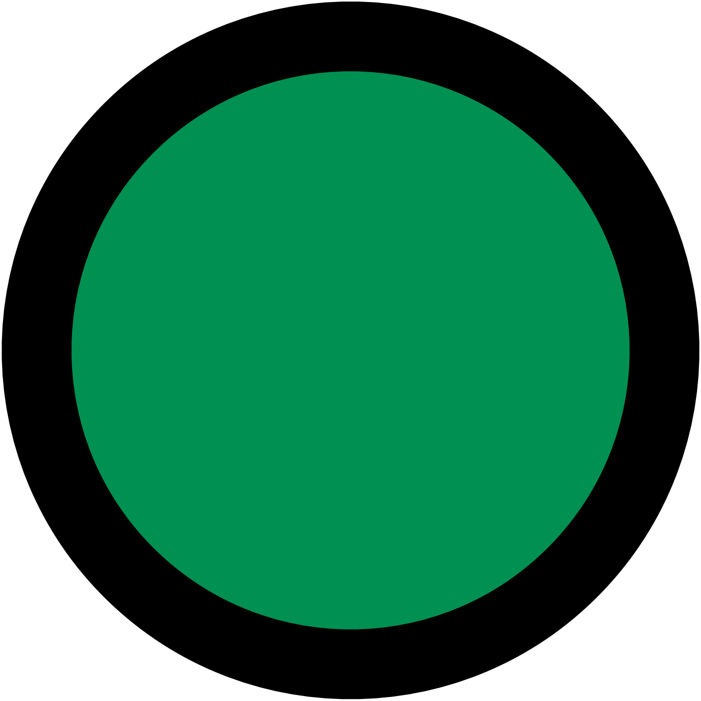
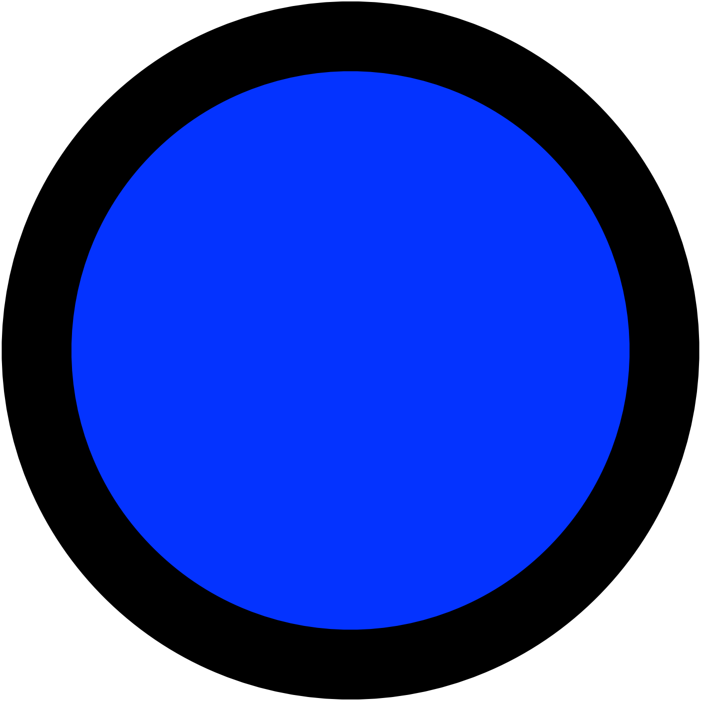


9,500



60%

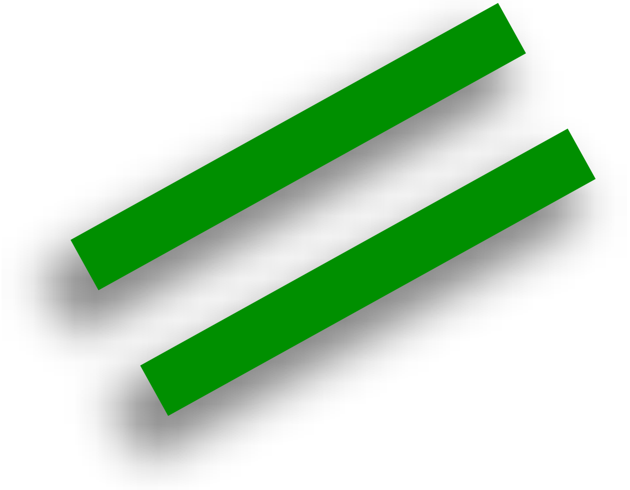
77%

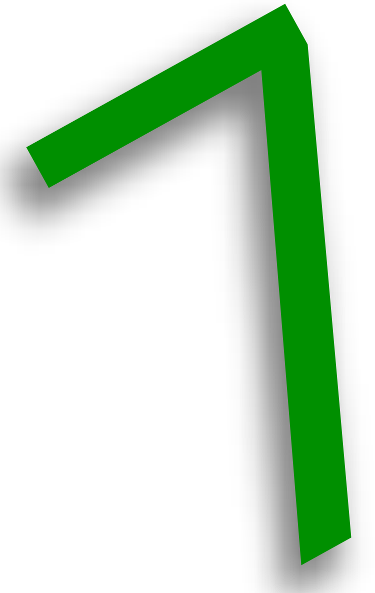
80%

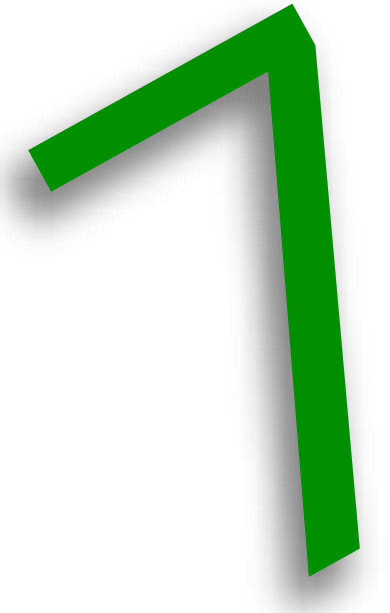
MPC = 60%

M

P





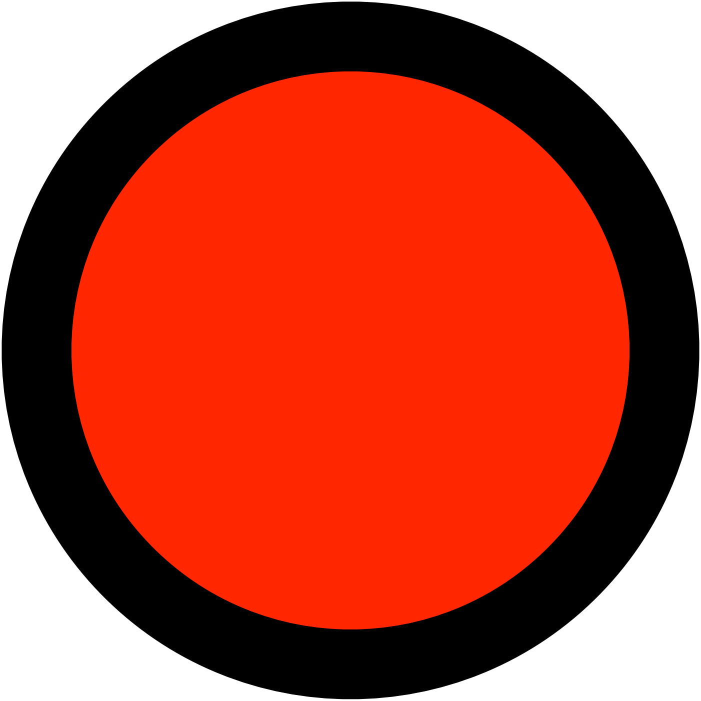


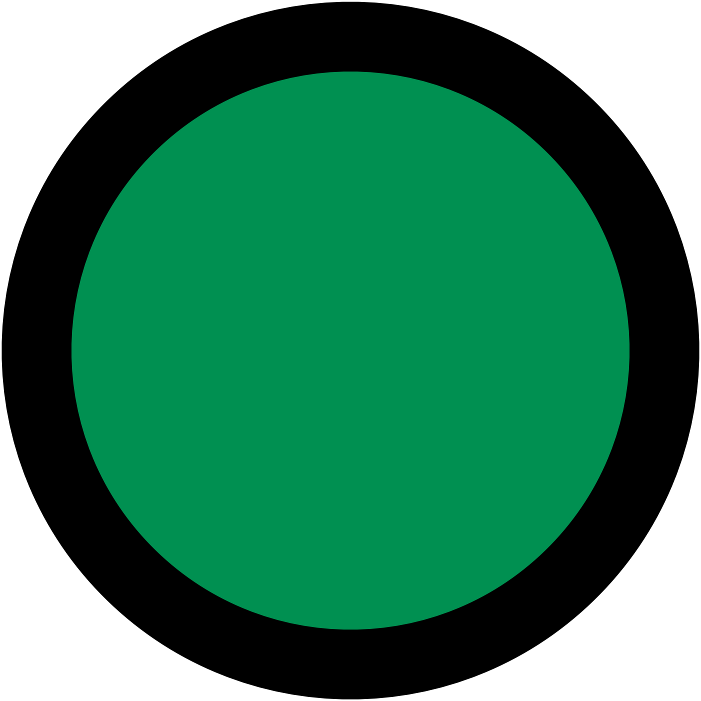
MPC = 80%

Claudia spends 60% of the extra income

Mary spends 77% of the extra income

Bob spends 80% of the extra income





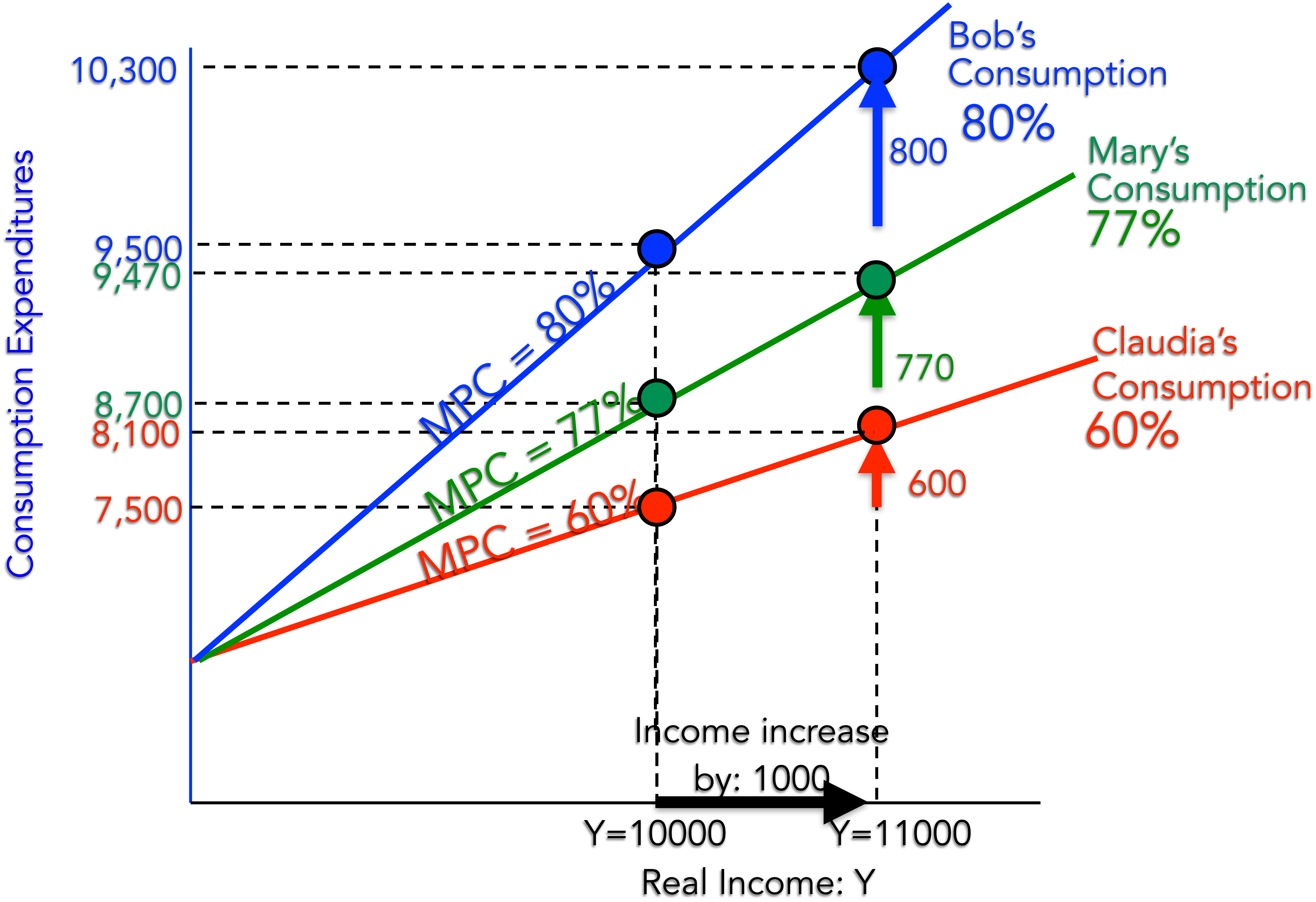
Increase in Income is the same for all

Consumers react differently to increases in income

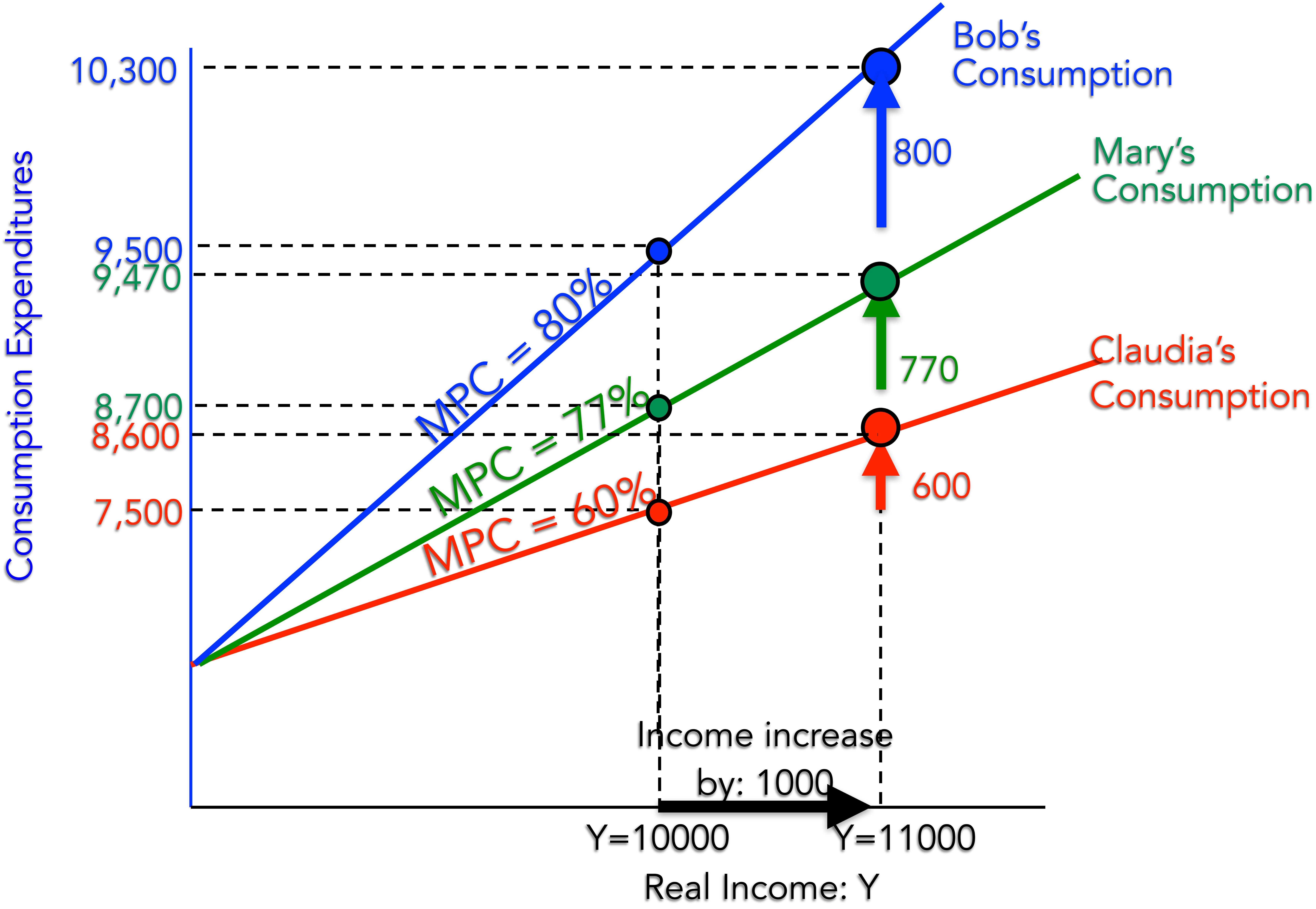
% of the extra income spent is different

% of the extra income spent is called the Marginal Propensity to Consume: MPC

MPC = 77%



% of the extra income spent is called the Marginal Propensity to Consume: MPC



% of the extra income spent is called the

Marginal Propensity to Consume: MPC