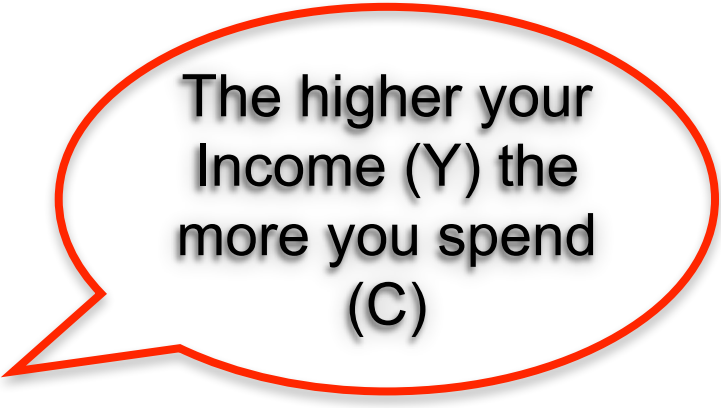


The Consumption Function



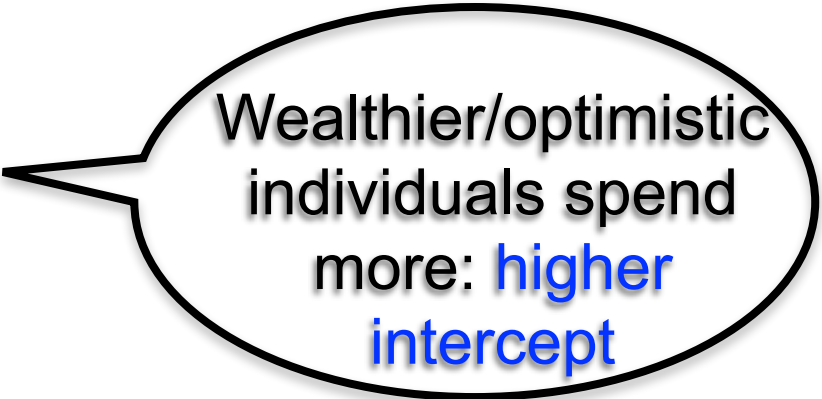


Expectations

A red speech bubble with a white background and a drop shadow, containing the text:

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

C = MPC * Y



Wealthier/optimistic
individuals spend
more: **higher
intercept**

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



Portion of
consumption induced
by income



Portion of consumption
independent from income



induced consumption



Autonomous consumption

$$C = a + MPC * Y$$

The Consumption Function

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

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

induced consumption

Real Income

Real Wealth
Expectations

Wealthier/optimistic individuals spend more: higher intercept

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

Autonomous consumption

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

$$C = a + MPCY$$