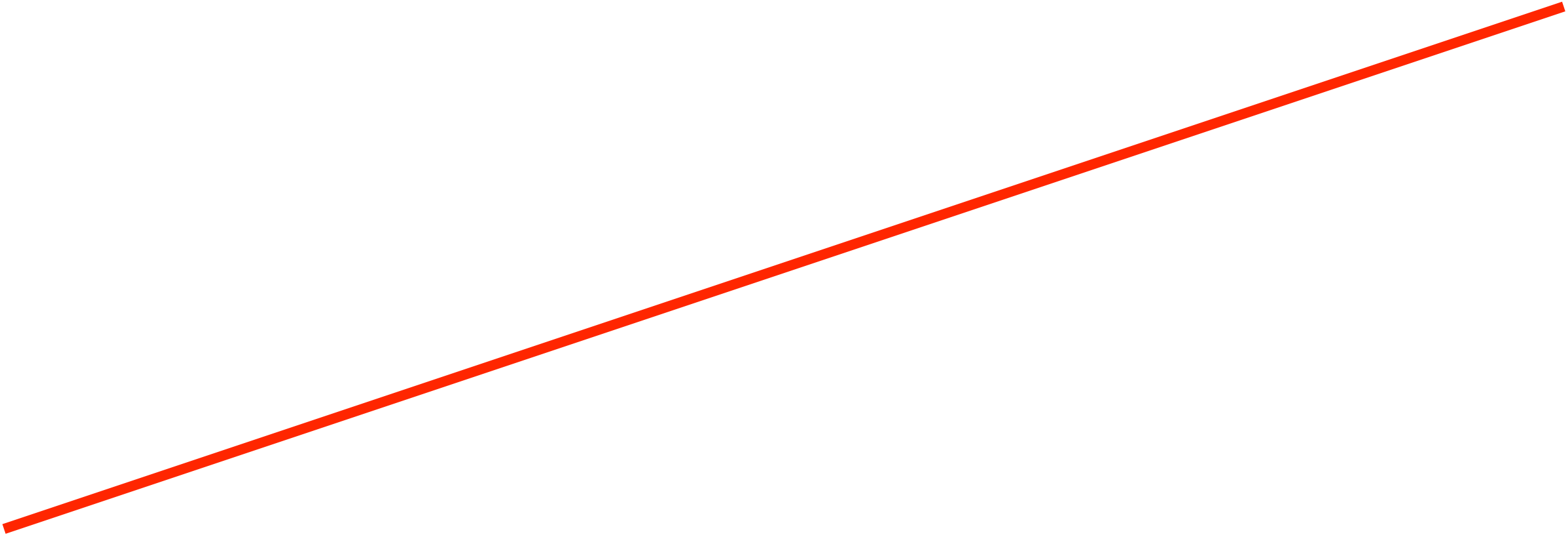
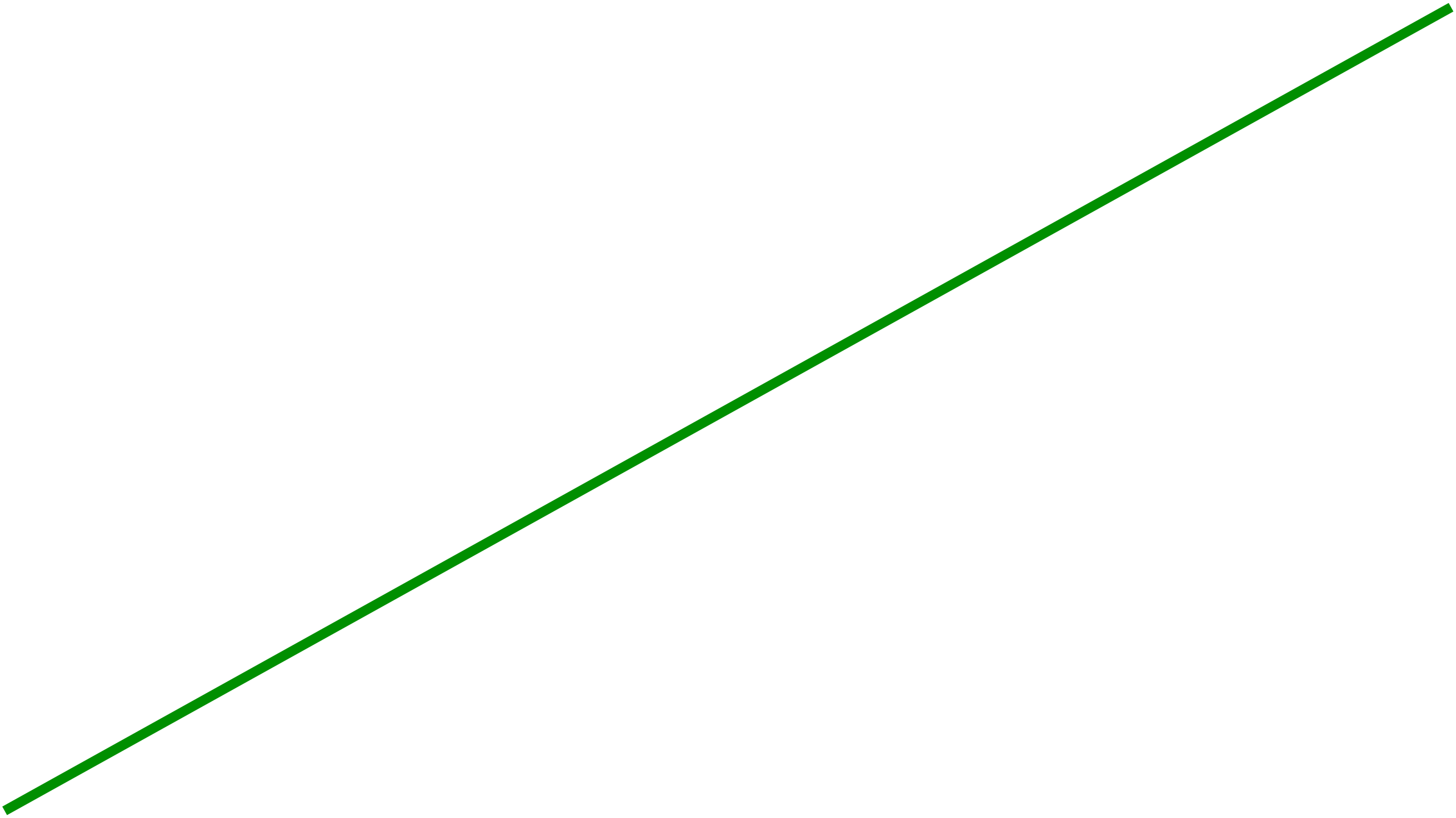
Real Income: Y

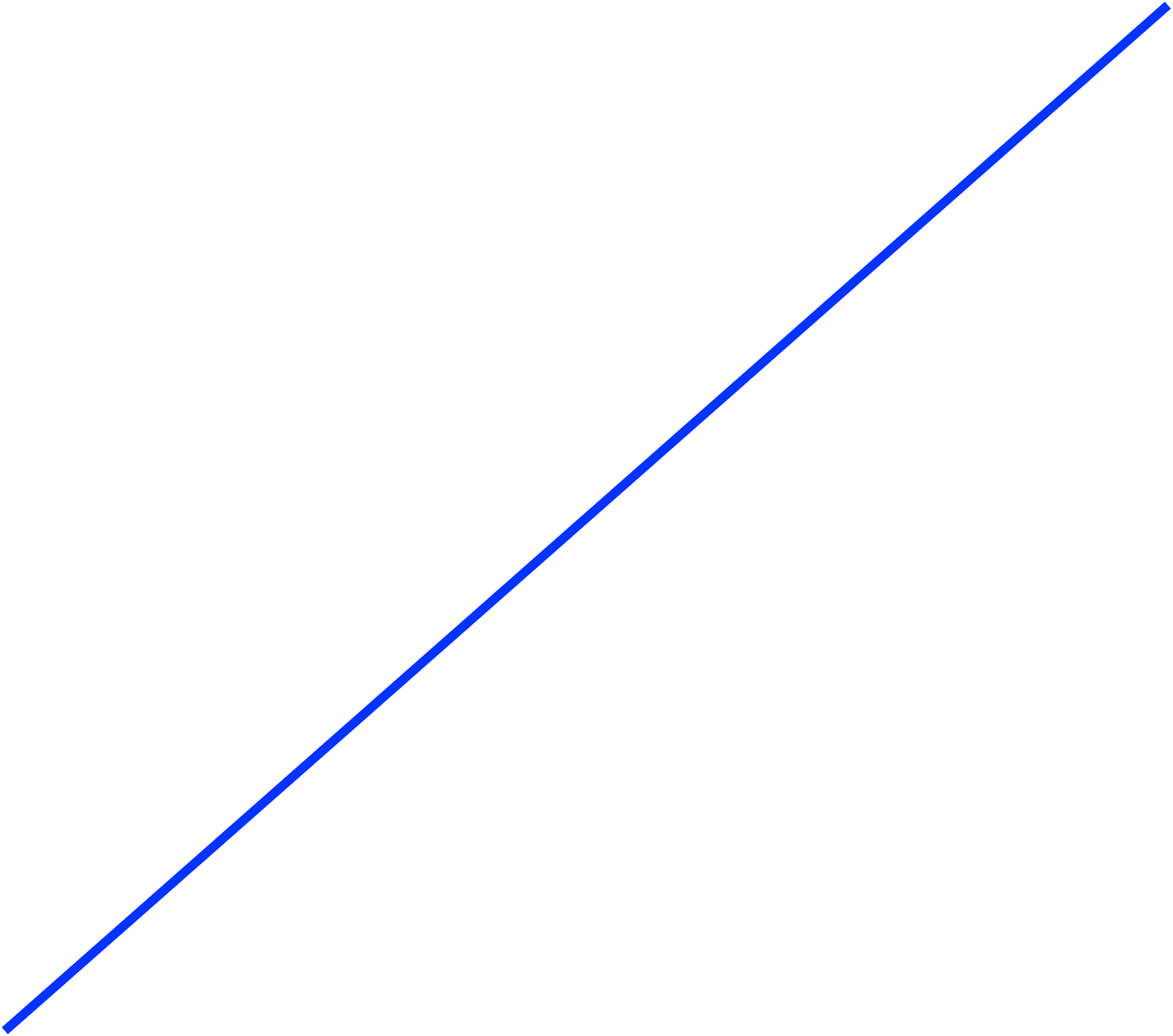
Consumption Expenditures

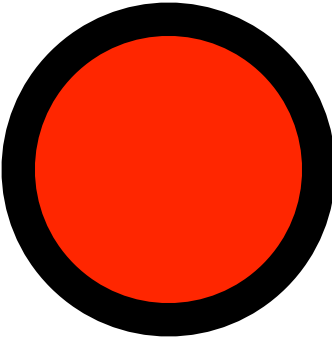
Y=10000

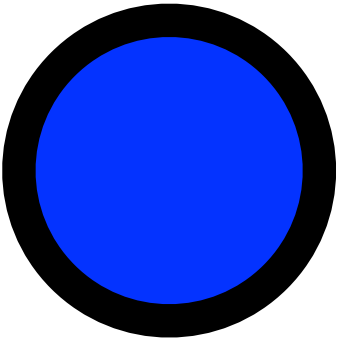
Y=11000











7,500

8,700

9,470

Claudia's Consumption

Mary's Consumption

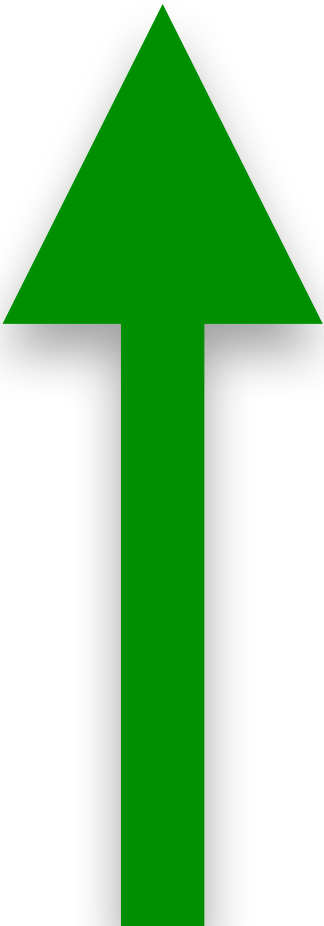
Bob's Consumption

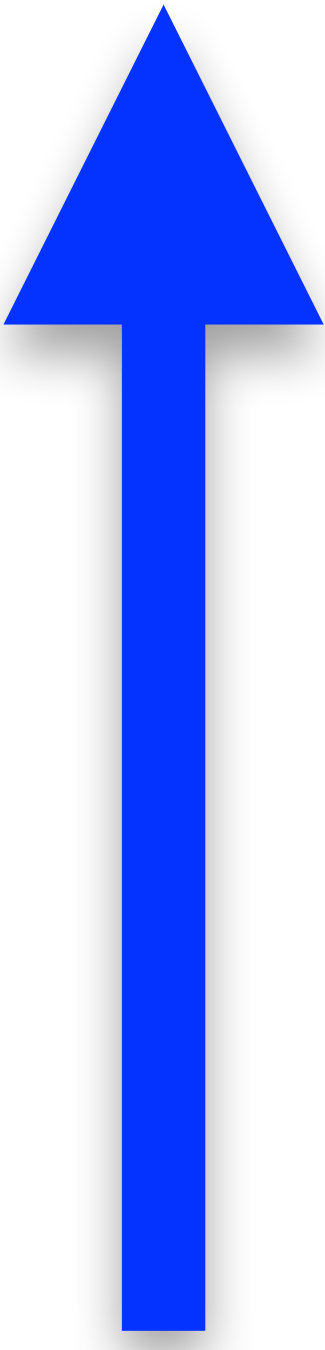
10,300

600

770

800

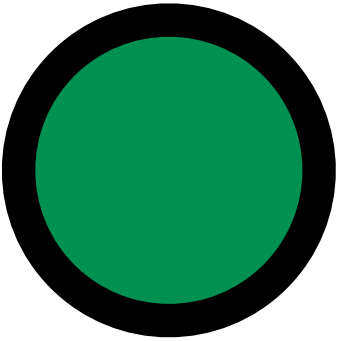




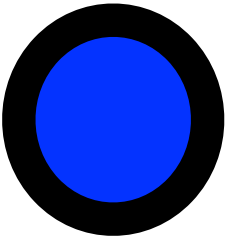
Income increase by: 1000

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

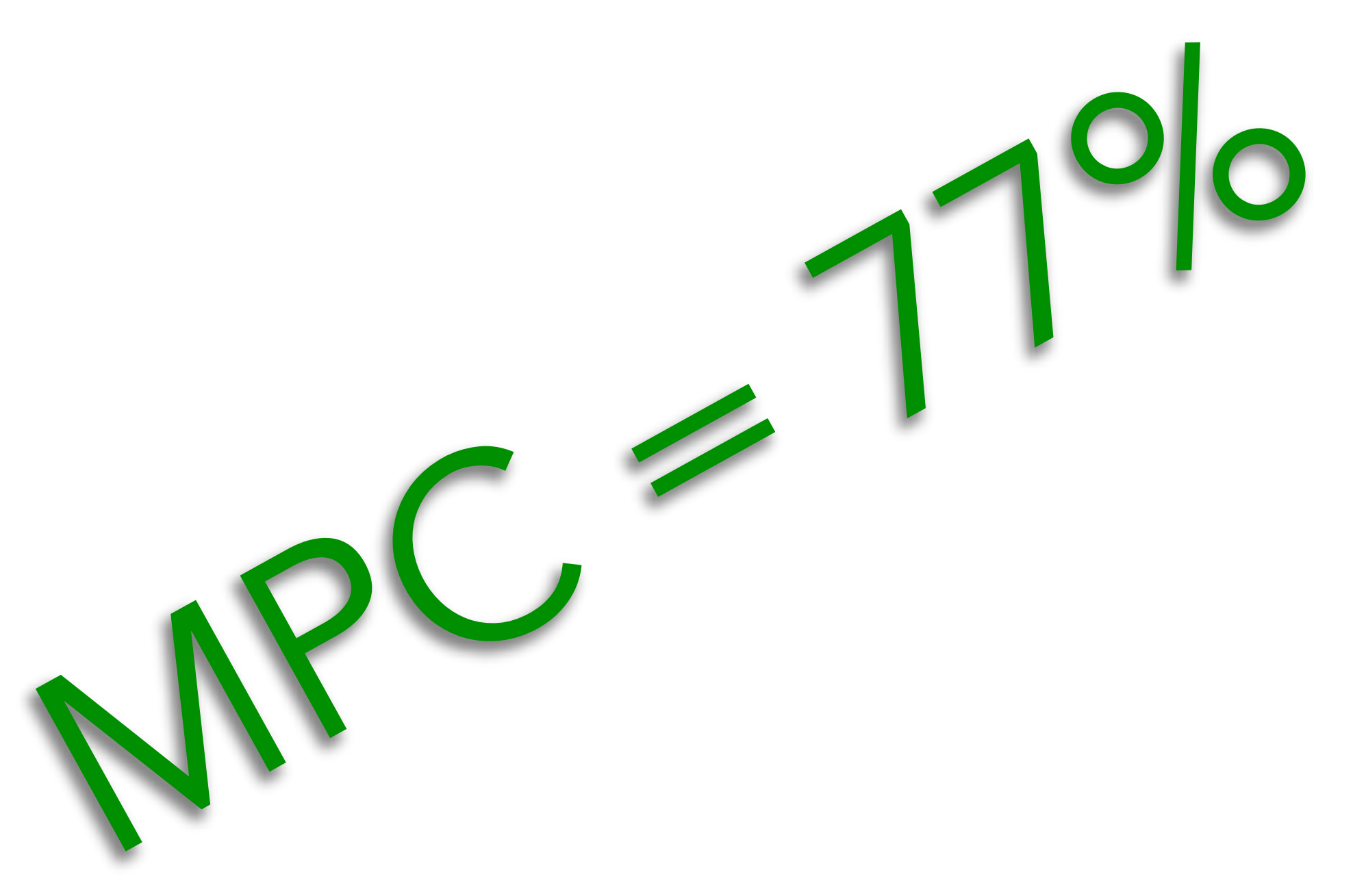
8,600

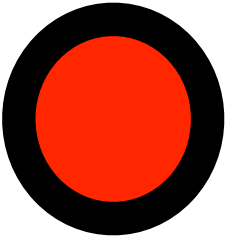


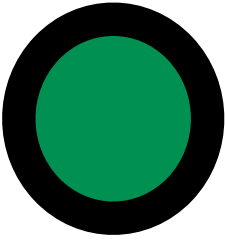
9,500



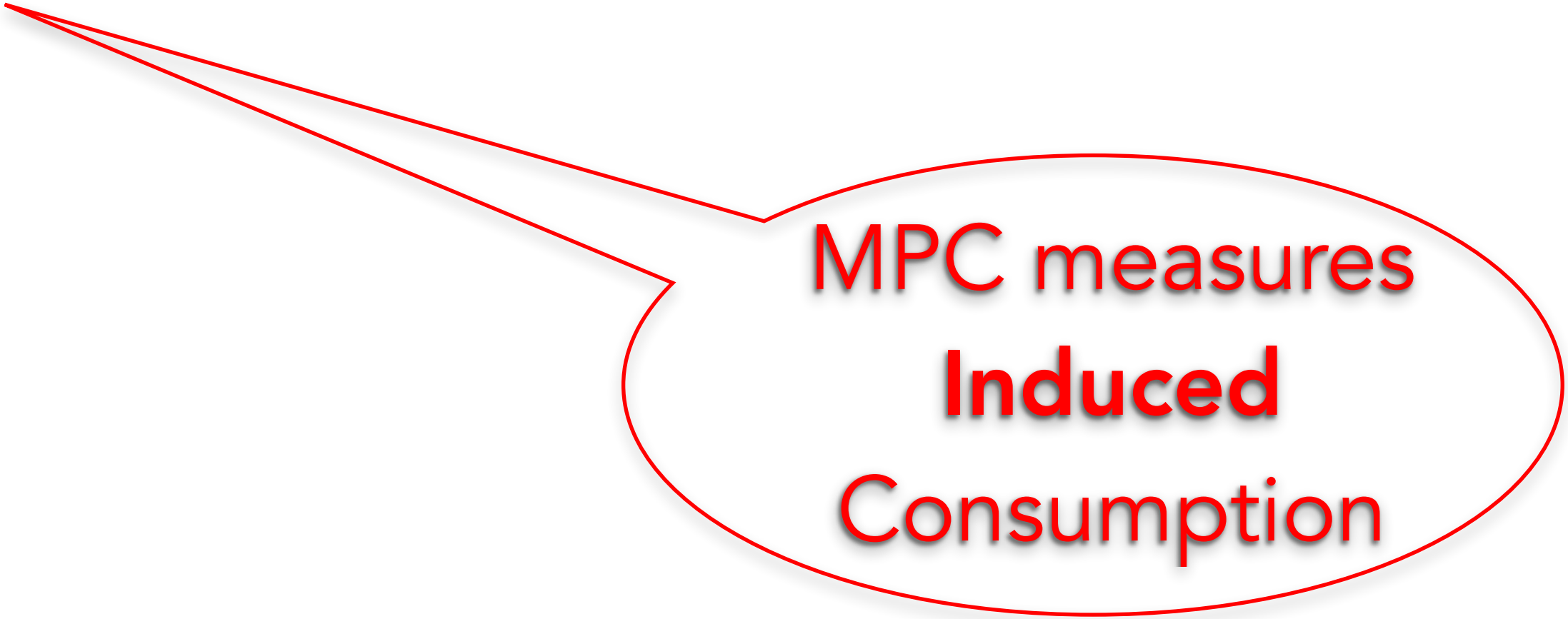
MPC = 60%

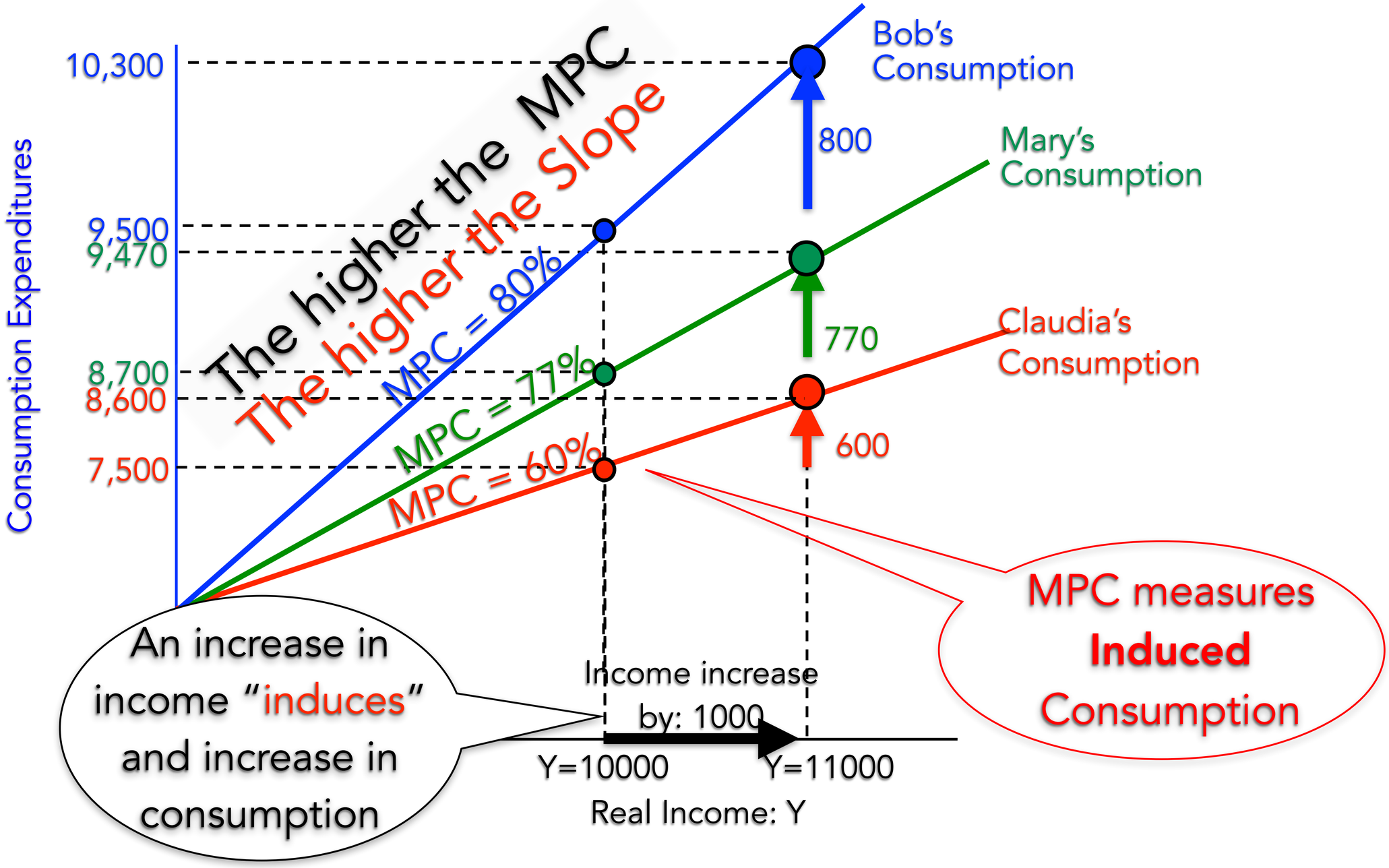

MPC = 77%





An increase in
income "induces"
and increase in
consumption


MPC measures
Induced
Consumption


Consumption Expenditures
10,300
9,500
9,470
8,700
8,600
7,500
Bob's Consumption
Mary's Consumption
Claudia's Consumption
800
770
600
The higher the MPC
The higher the Slope
MPC = 80%
MPC = 77%
MPC = 60%
An increase in income "induces" and increase in consumption
Income increase by: 1000
Y=10000
Y=11000
Real Income: Y
MPC measures Induced Consumption

Wealth