

The Consumption Function (C)

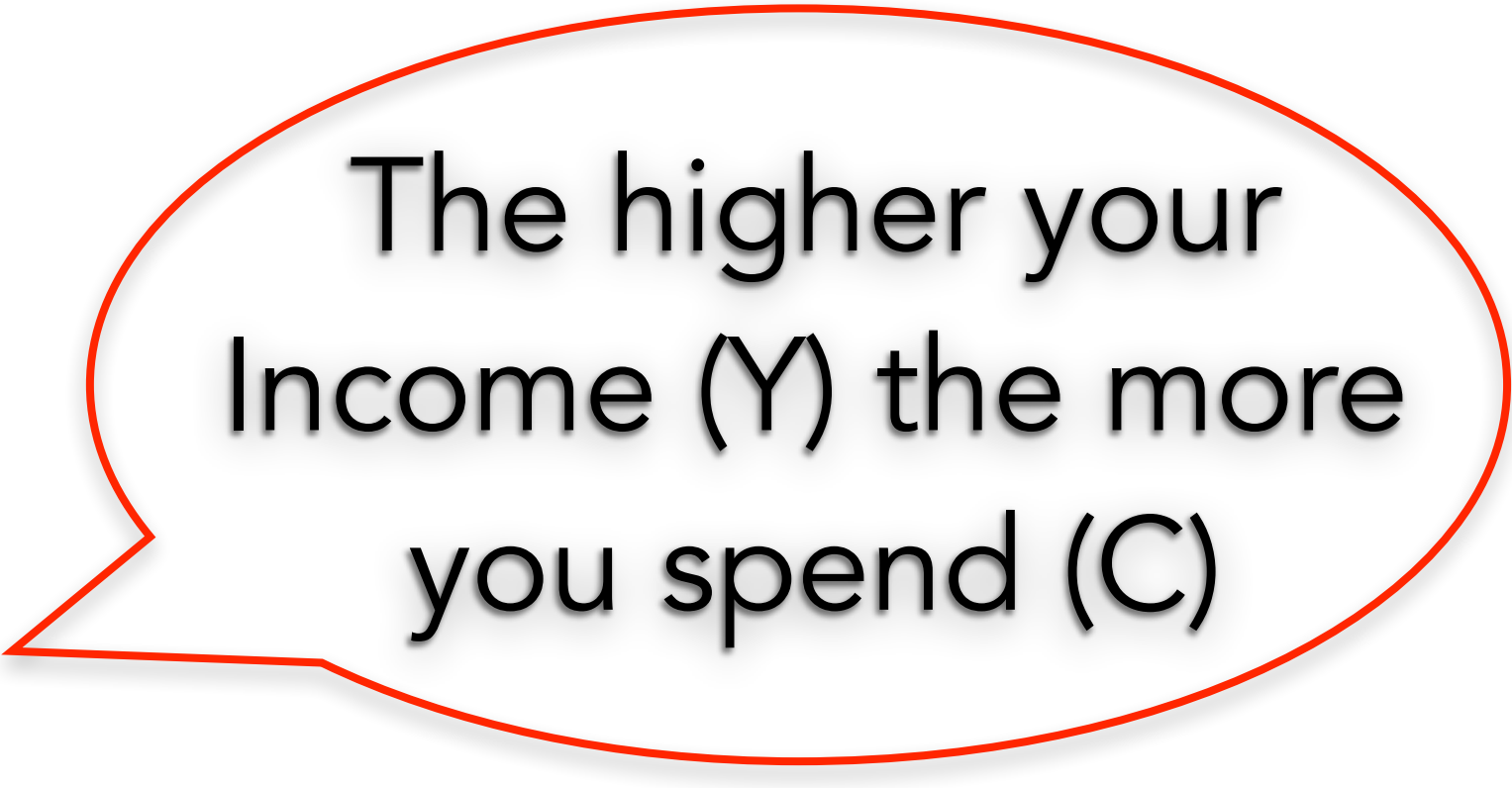




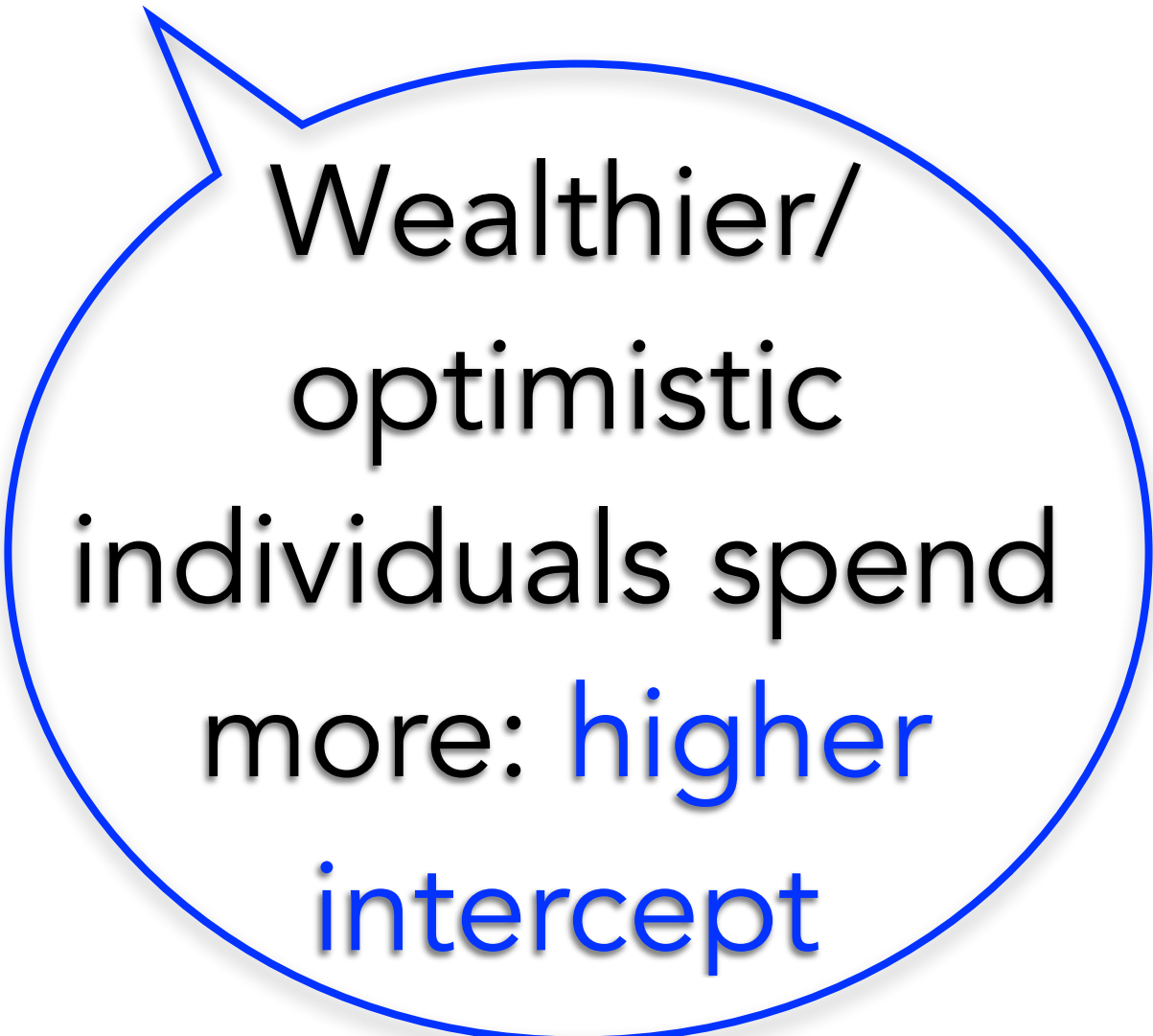
Real Wealth

Expectations

Prices

A red speech bubble with a white background and a subtle drop shadow. The text inside is in a black, sans-serif font with a slight drop shadow.

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



Wealthier/
optimistic
individuals spend
more: higher
intercept

C

[REDACTED]

[REDACTED]



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Y



Portion of consumption
induced by income

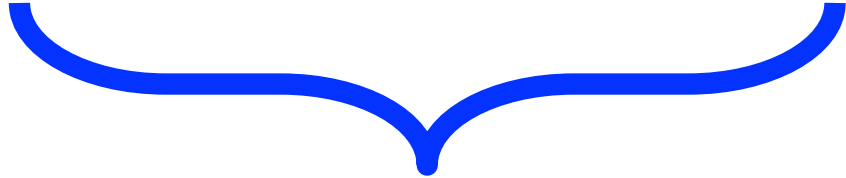


Portion of consumption
independent from income



induced


consumption



Autonomous
consumption

C = a + MPC * Y

C = MPC * Y



Higher prices
decrease real
wealth: lower
intercept

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

The Consumption Function (C)

Real Income

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

Real Wealth

Expectations

Prices

$$C = \underbrace{\text{intercept}}_{\text{Autonomous consumption}} + \underbrace{\text{MPC} * Y}_{\text{induced consumption}}$$

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

Higher prices
decrease real
wealth: **lower
intercept**

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

INTRODUCING THE GOVERNMENT