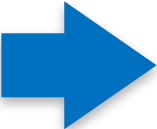


Shifts in Consumption

3. Changes in Prices of goods and services

Principles

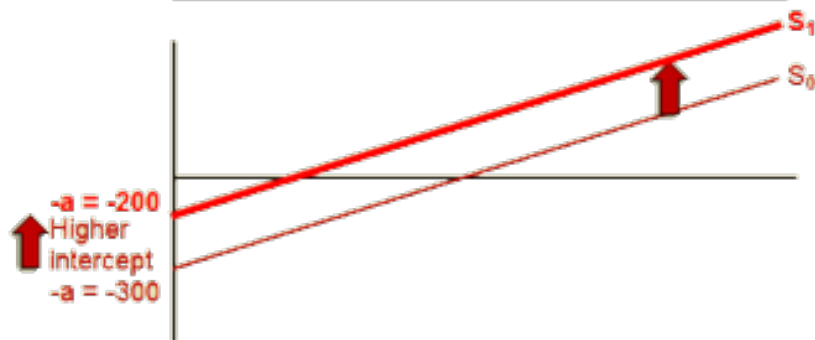
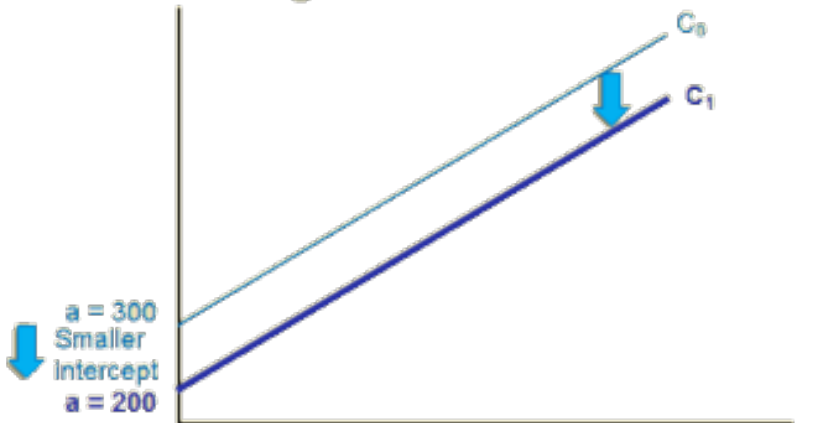


A downward shift in the
Consumption Line: a
smaller intercept



An upward shift in the Savings Line: a larger intercept

Consumers buy less and save more



$$\text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI}}$$

When prices **increase**, the real
(buying power) of **wealth drops**:
consumers are poorer



Real Wealth Decrease

Shifts in Consumption

3. Changes in Prices of goods and services

CPI increase

Real Wealth Decrease Nominal Wealth

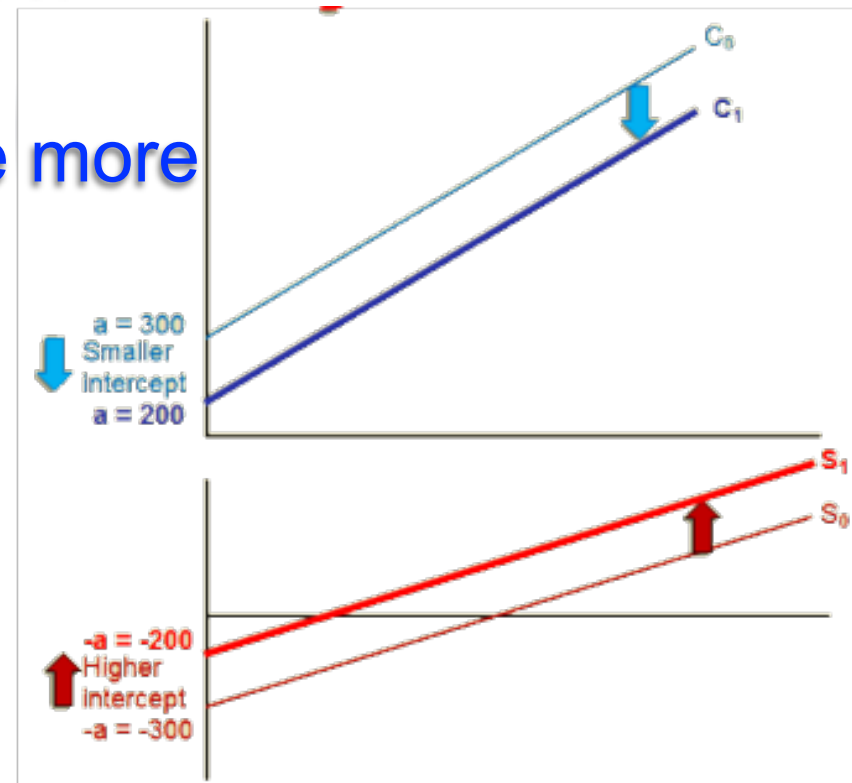
CPI ↑

When prices increase, the real (buying power) of wealth drops: consumers are poorer

Consumers buy less and save more

➡ A downward shift in the Consumption Line: a smaller intercept

➡ An upward shift in the Savings Line: a larger intercept



What determines Consumer Spending?