



# The Consumption Function



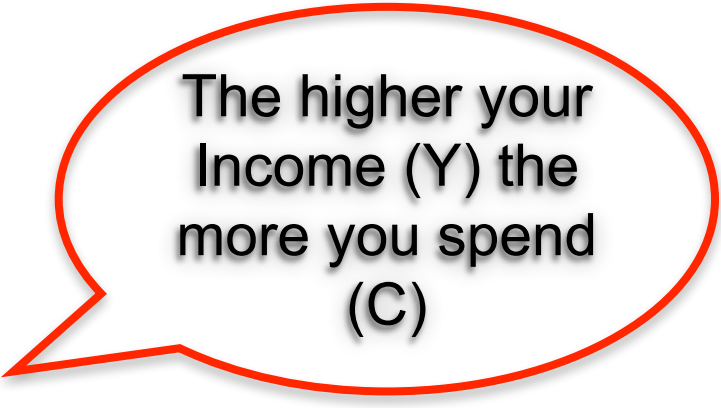


Expectations

**Pri  
ces**



Higher prices,  
buy less: **lower**  
**intercept**

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

# The Consumption Function

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

$$C = \underbrace{MPC}_{\text{induced}} * Y$$

Real Income

Real Wealth

Expectations

Prices

Wealthier/optimistic individuals spend more: higher intercept

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

Higher prices, buy less: lower intercept



# INTRODUCING THE GOVERNMENT