18

$$C = 500 + 0.9(10{,}000)$$

$$C = a + MPCY$$

$$C = 500 + 0.9(2{,}000)$$

$$C = 500 + 9{,}000$$

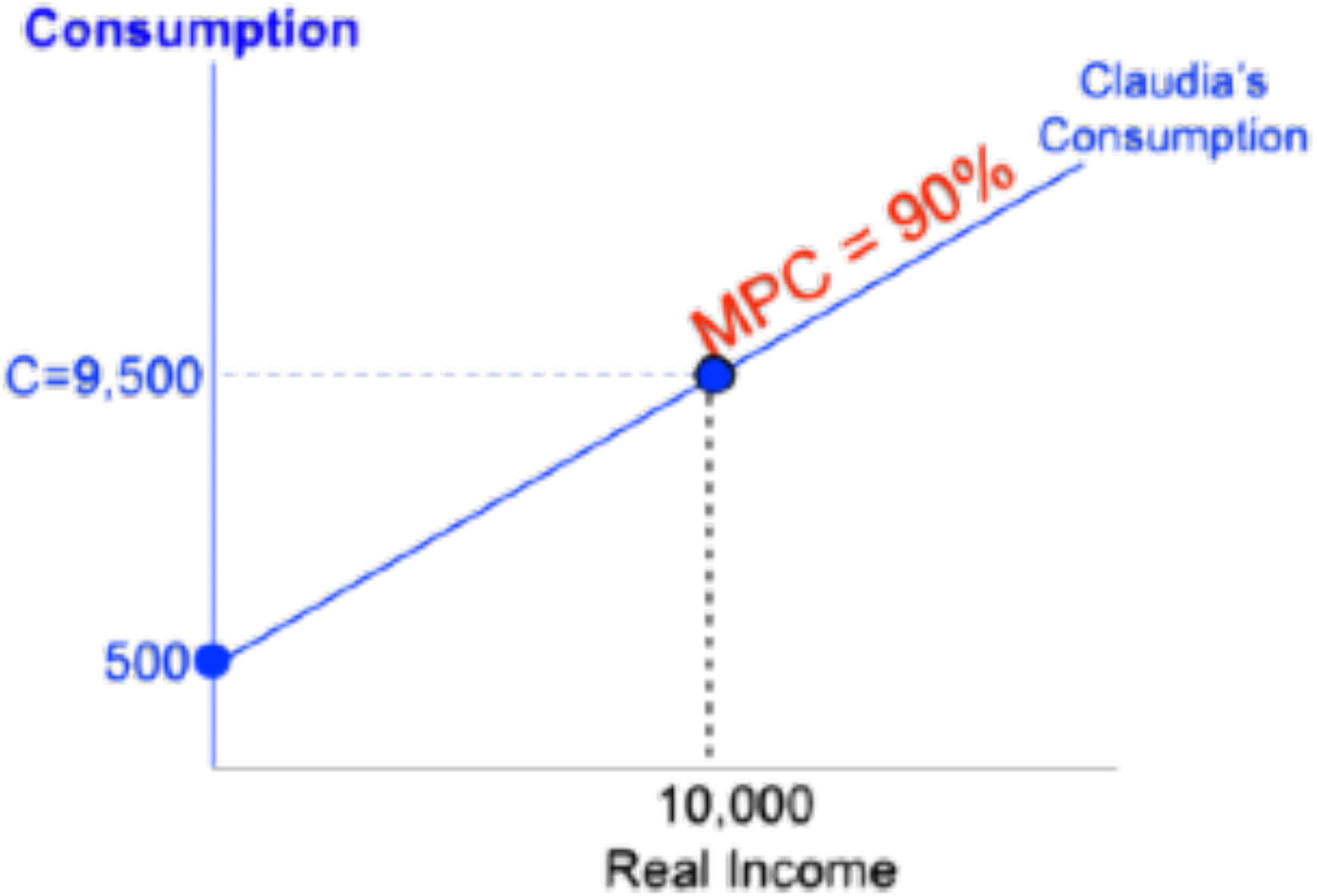
$$C = 500 + 1{,}800$$

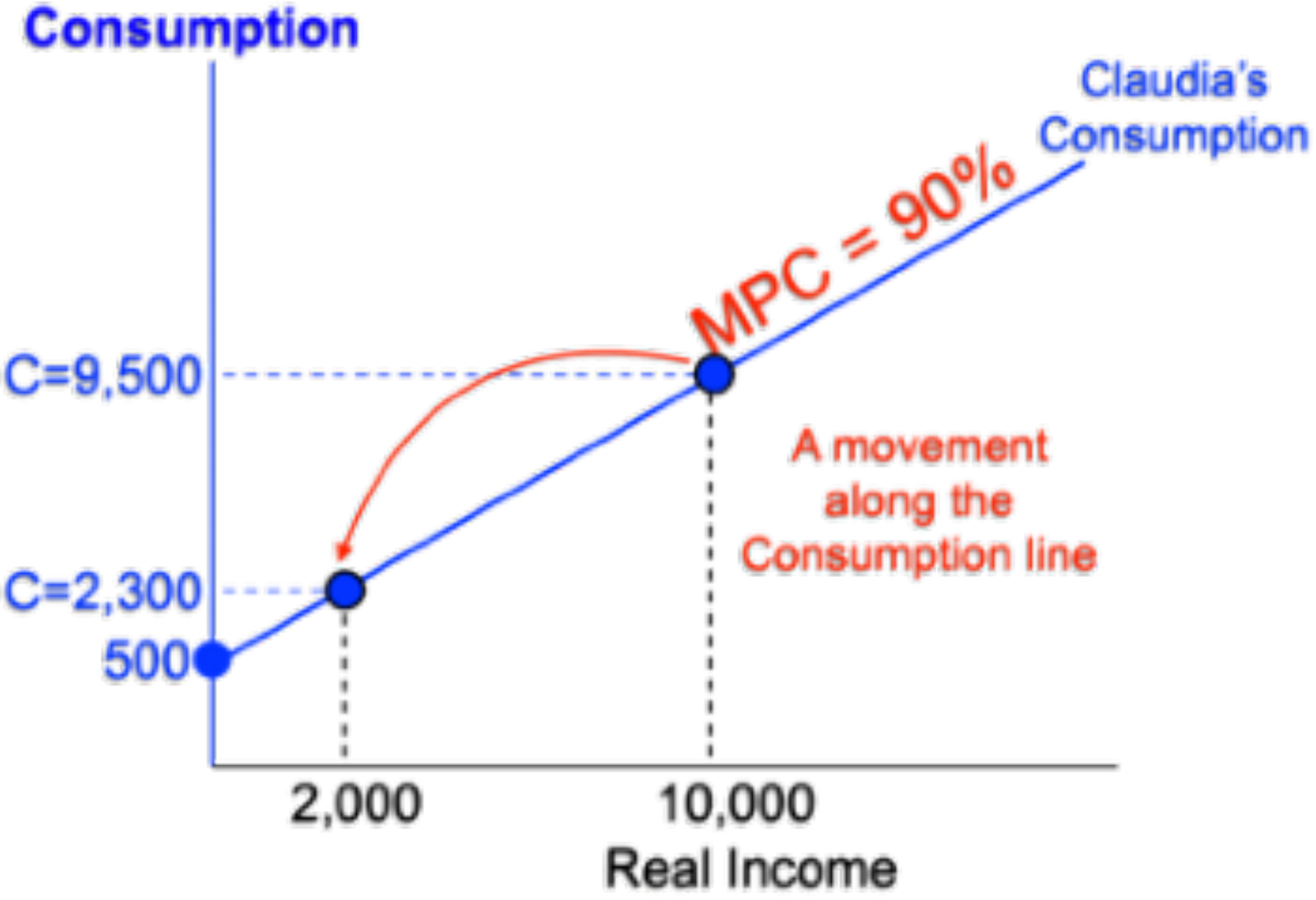
$$C = 9{,}500$$

$$C = 2{,}300$$

Claudia’s old consumption

Claudia’s income is now 2,000/month. Her income drops


Consumption
Claudia's Consumption
MPC = 90%
C=9,500
500
10,000
Real Income


Consumption
Claudia's Consumption
MPC = 90%
C=9,500
A movement along the Consumption line
C=2,300
500
2,000
10,000
Real Income

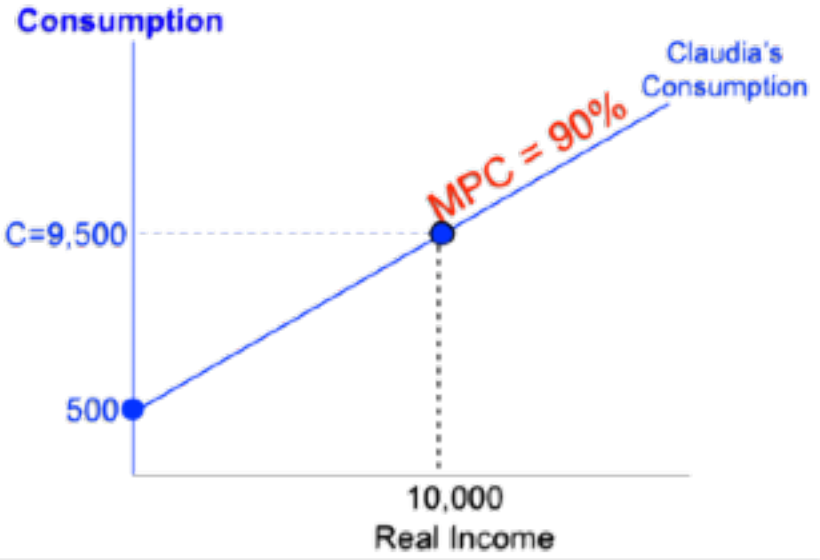
C = a + MPCY

Claudia's old consumption

C = 500 + 0.9(10,000)

C = 500 + 9,000

C = 9,500

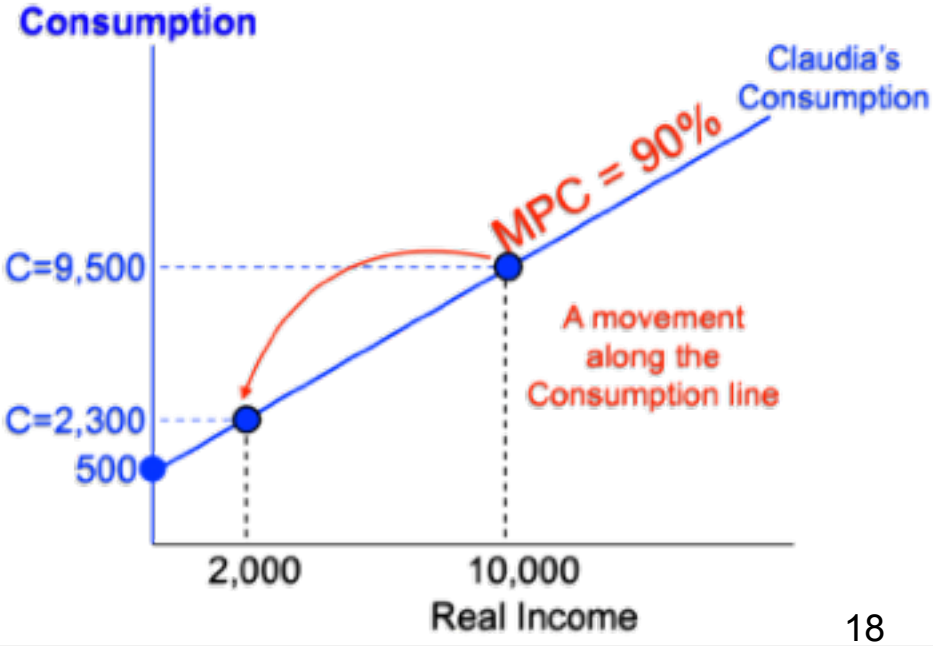


Claudia's income is now 2,000/month. Her income drops

C = 500 + 0.9(**2,000**)

C = 500 + 1,800

C = 2,300



C = a + MPCY

Claudia's income is $10,000/month autonomous consumption = $500 and her MPC = 90%

C = 500 + 0.9(10,000)

C = 500 + 9,000

C = 9,500