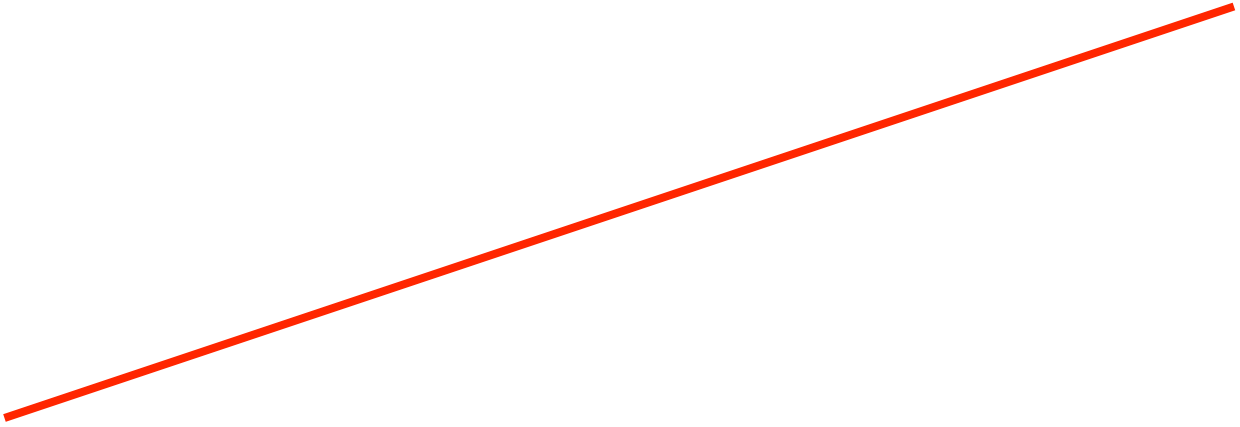
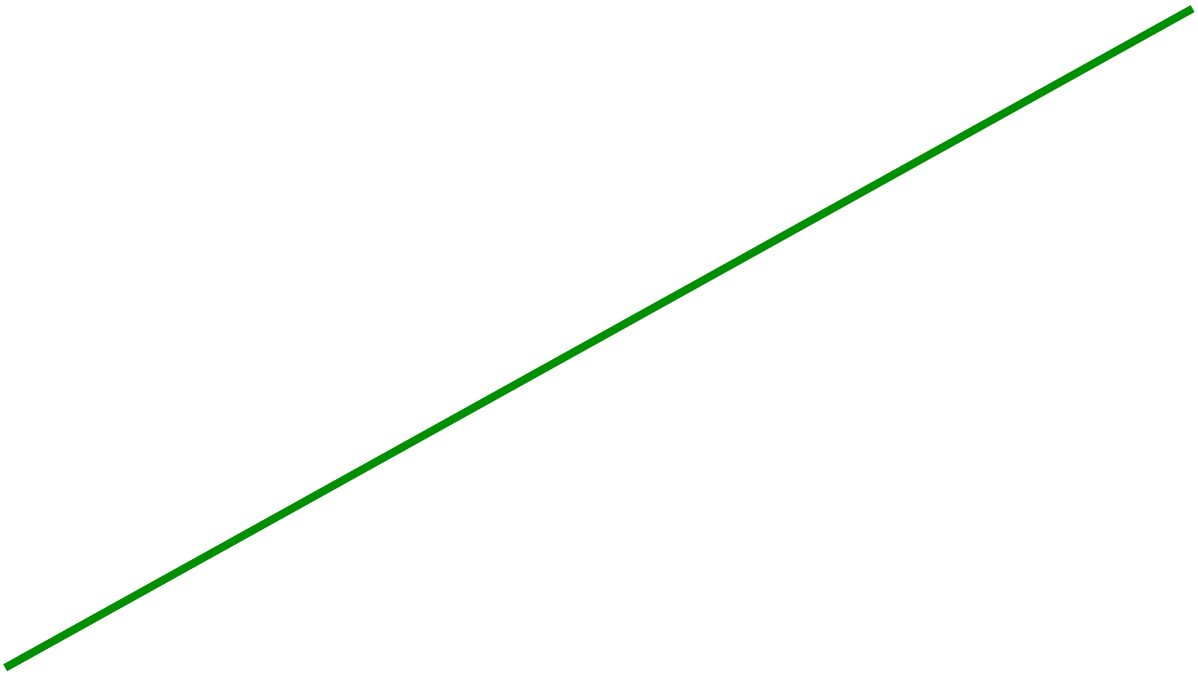
Real Income: Y

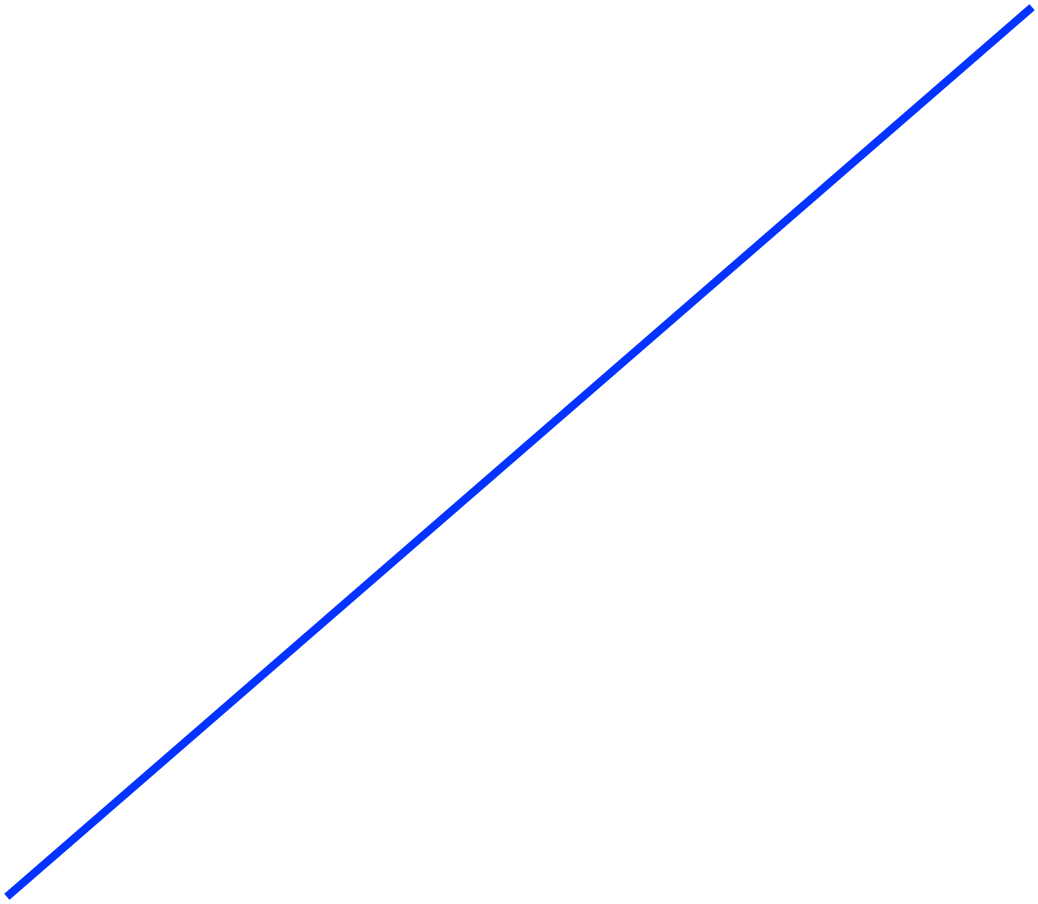
Consumption Expenditures

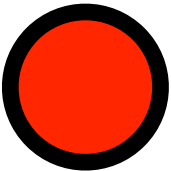
Y=10000

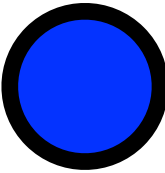
Y=11000












7,500


8,700

9,470

Claudia's Consumption

Mary's Consumption

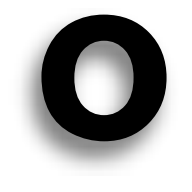
Bob's Consumption


10,300


600


770


800

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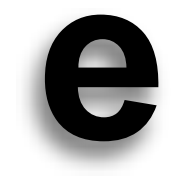
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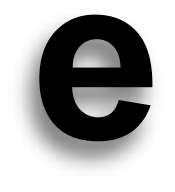
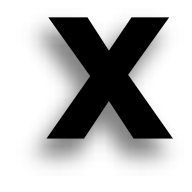
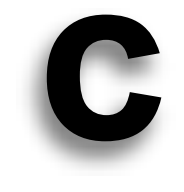





t


a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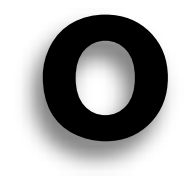
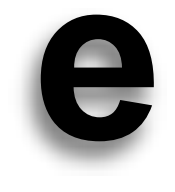
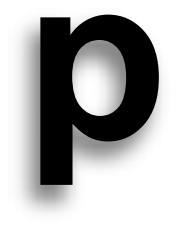
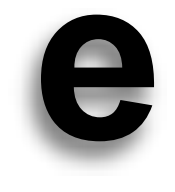





S



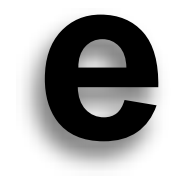



n


t


S


d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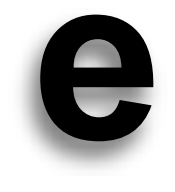
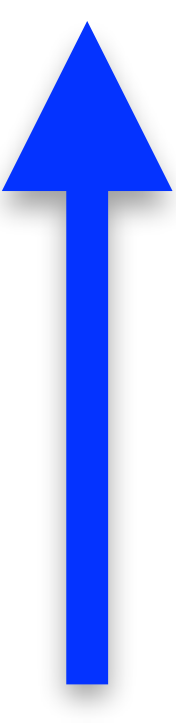
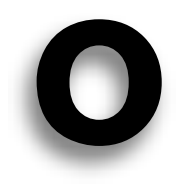
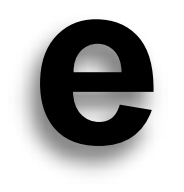


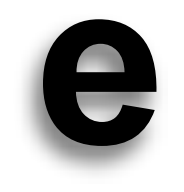

t



Income increase by: 1000

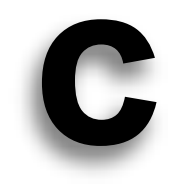







r


a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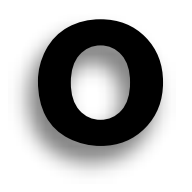
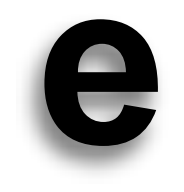
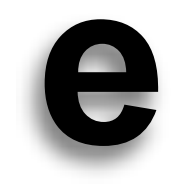


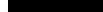


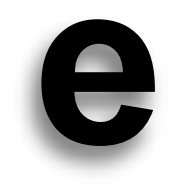

p




C


a



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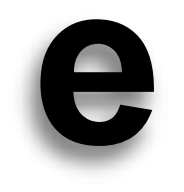
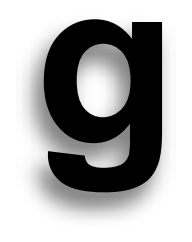
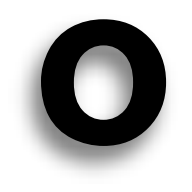


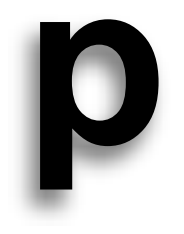

M

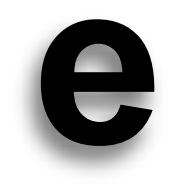

a


g

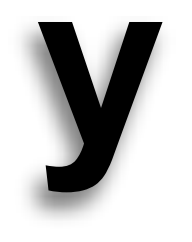

a








t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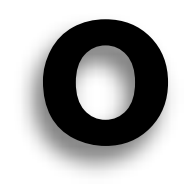
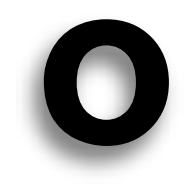
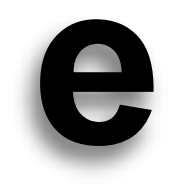



C

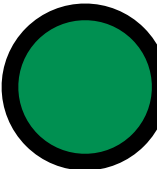



m

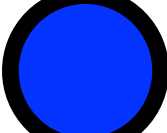



C


8,600



9,500

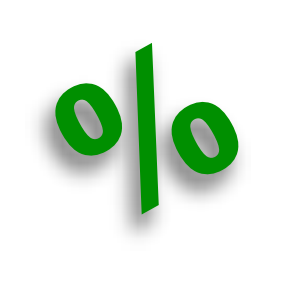



60%

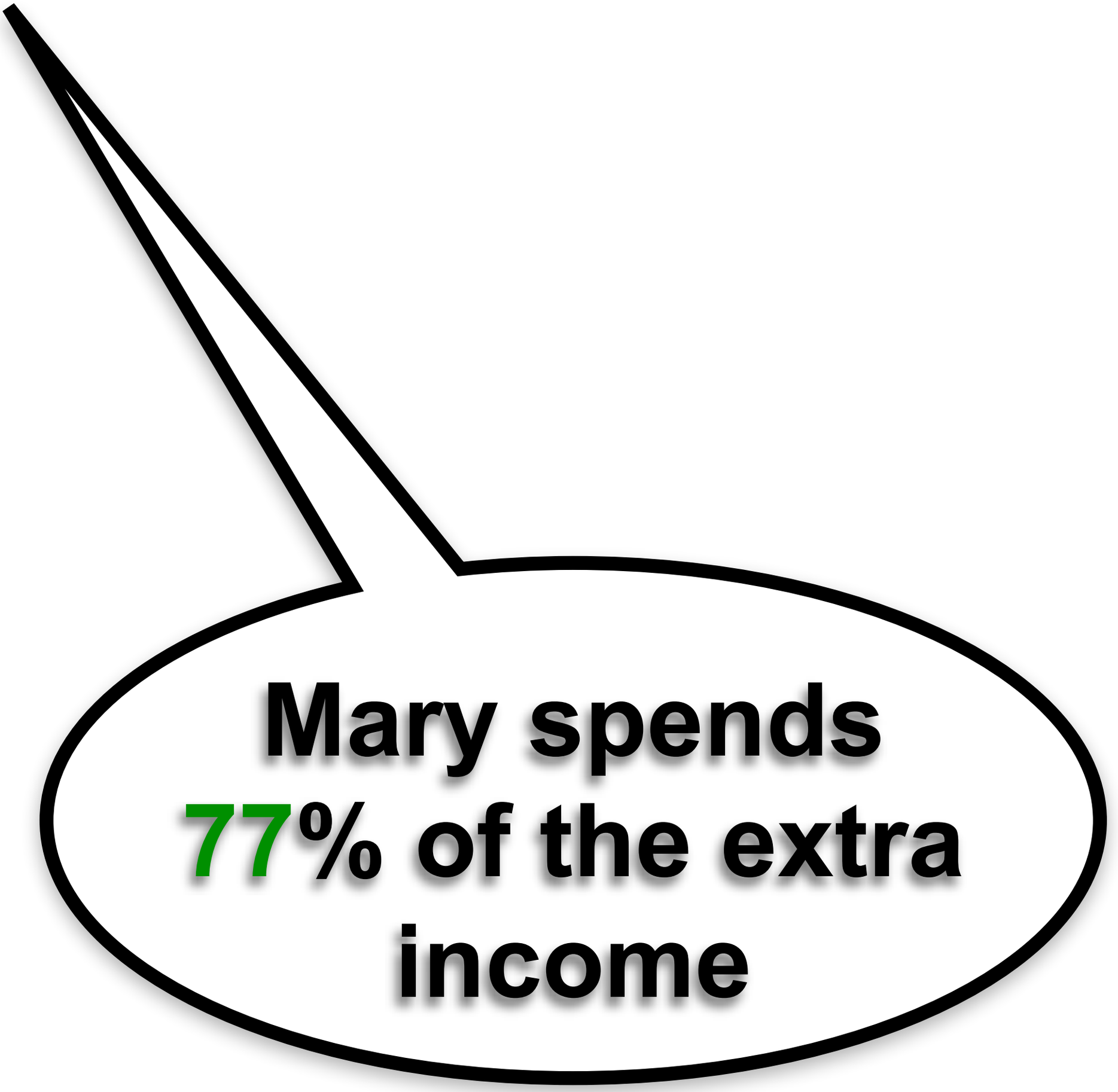

77%

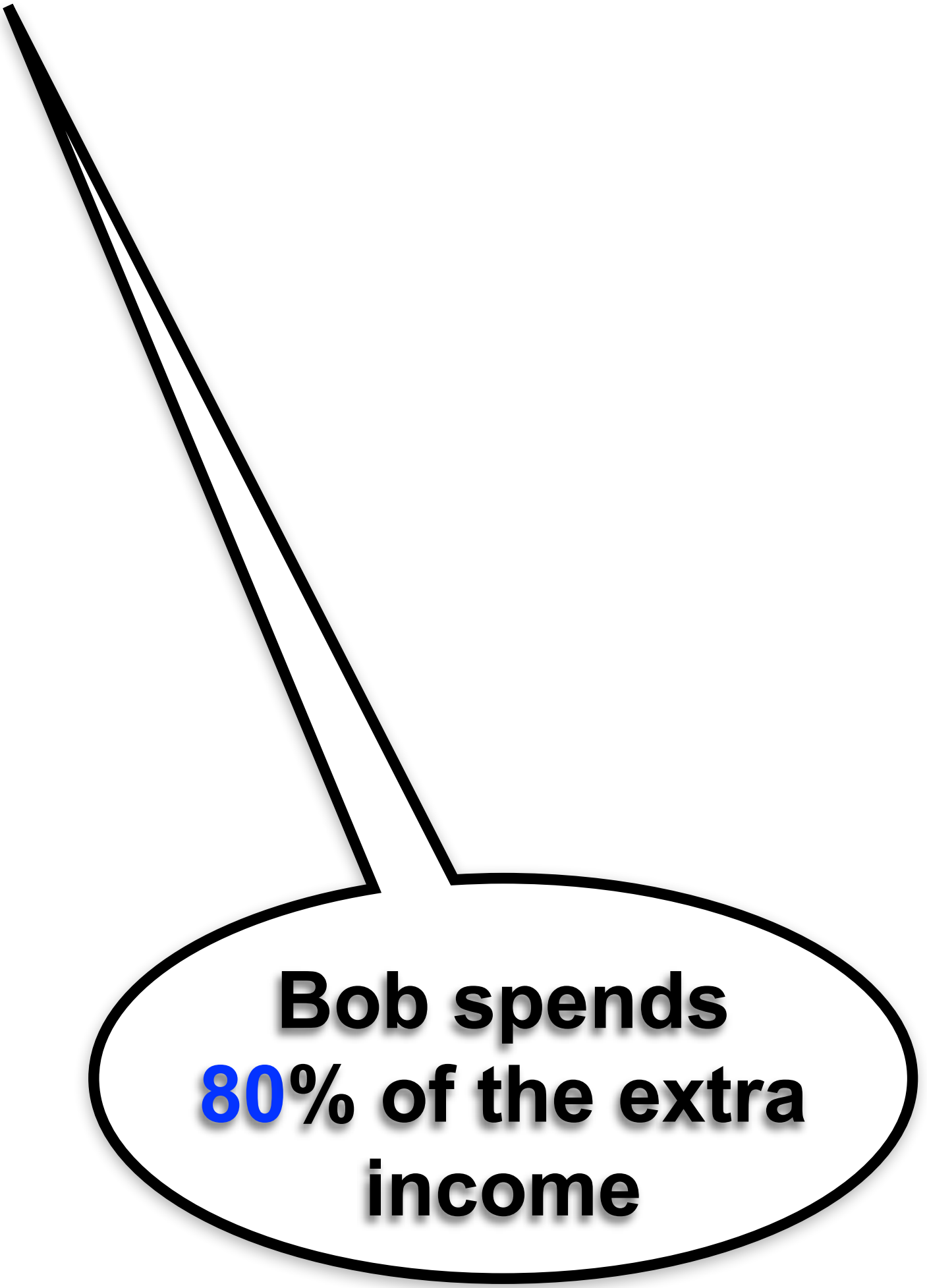

80%

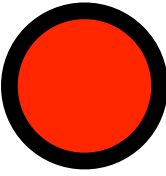
MPC = 60%

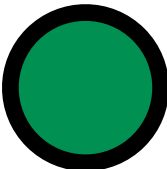

0/0

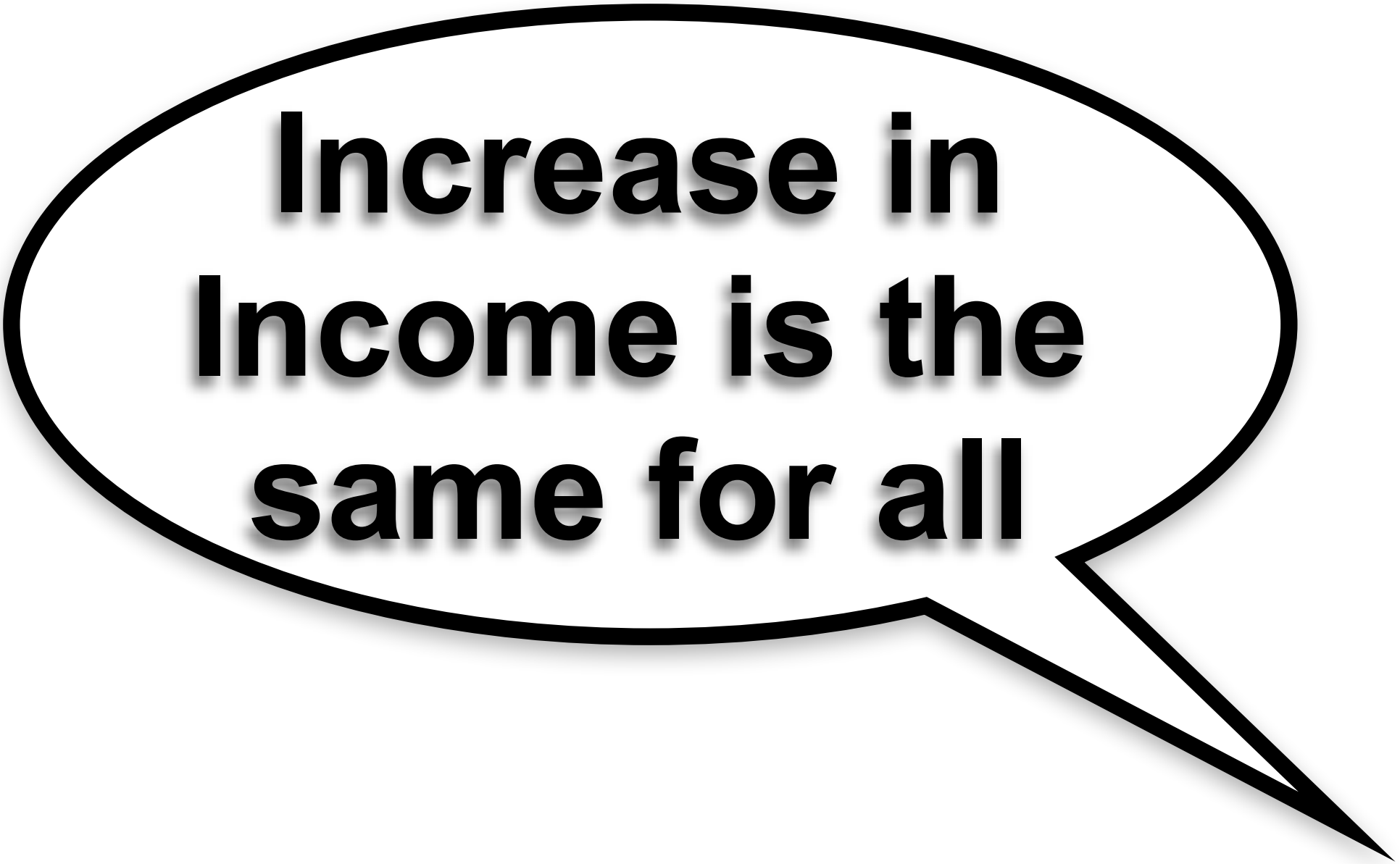

Claudia spends
60% of the extra
income


Mary spends
77% of the extra
income


Bob spends
80% of the extra
income





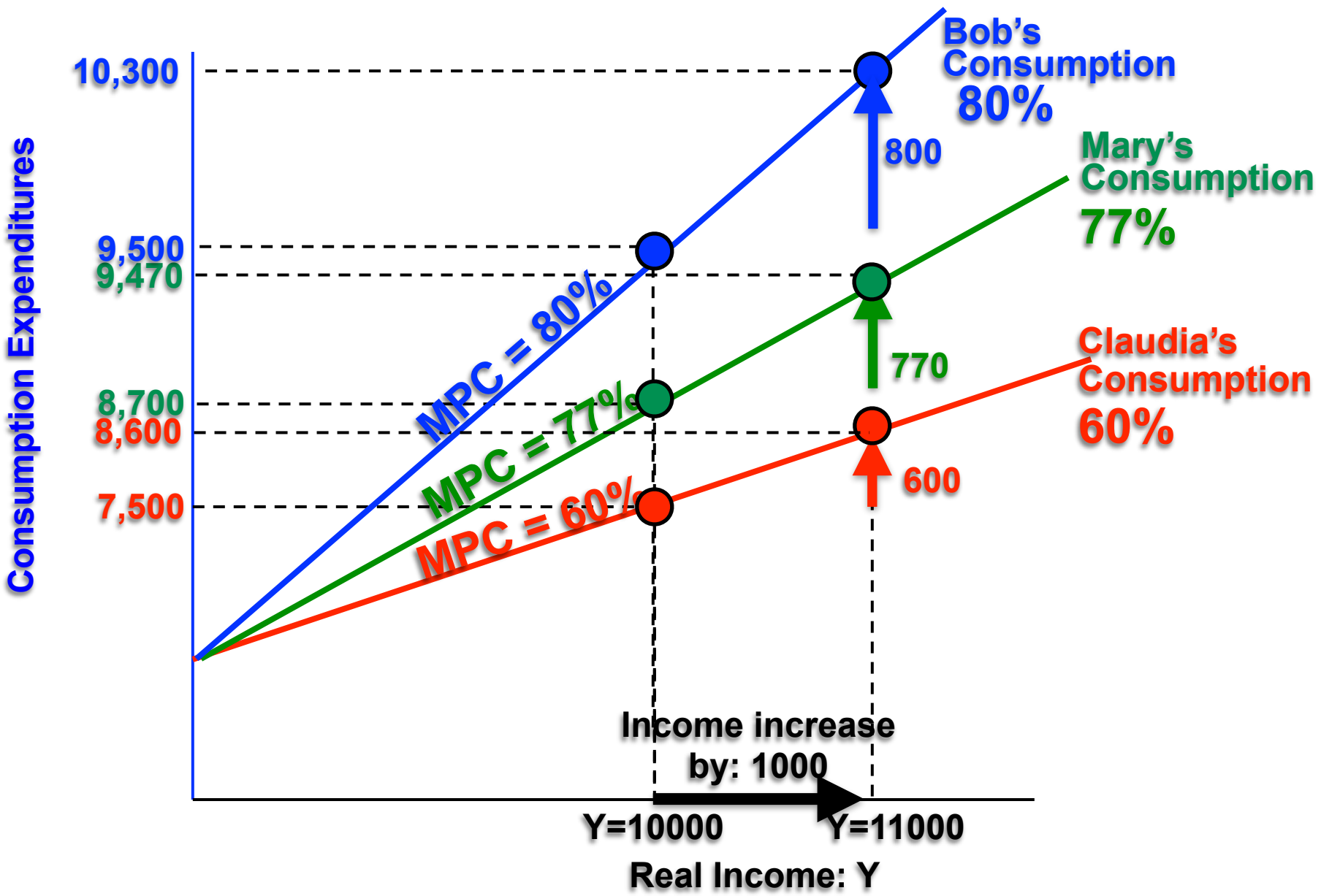

Increase in
Income is the
same for all

Consumers react differently to increases in income

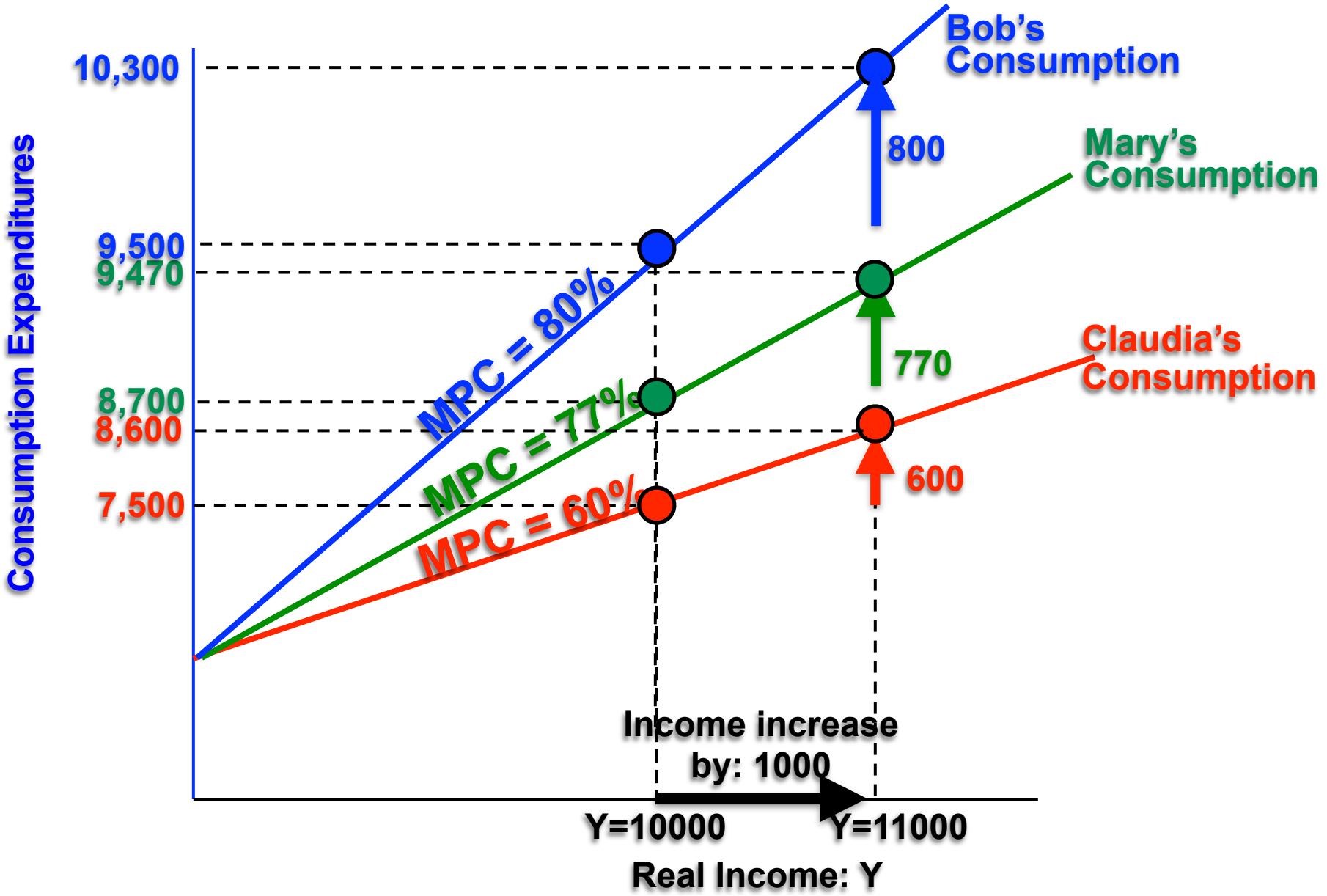
% of the extra income spent is different

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


MPC = 77%



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



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