

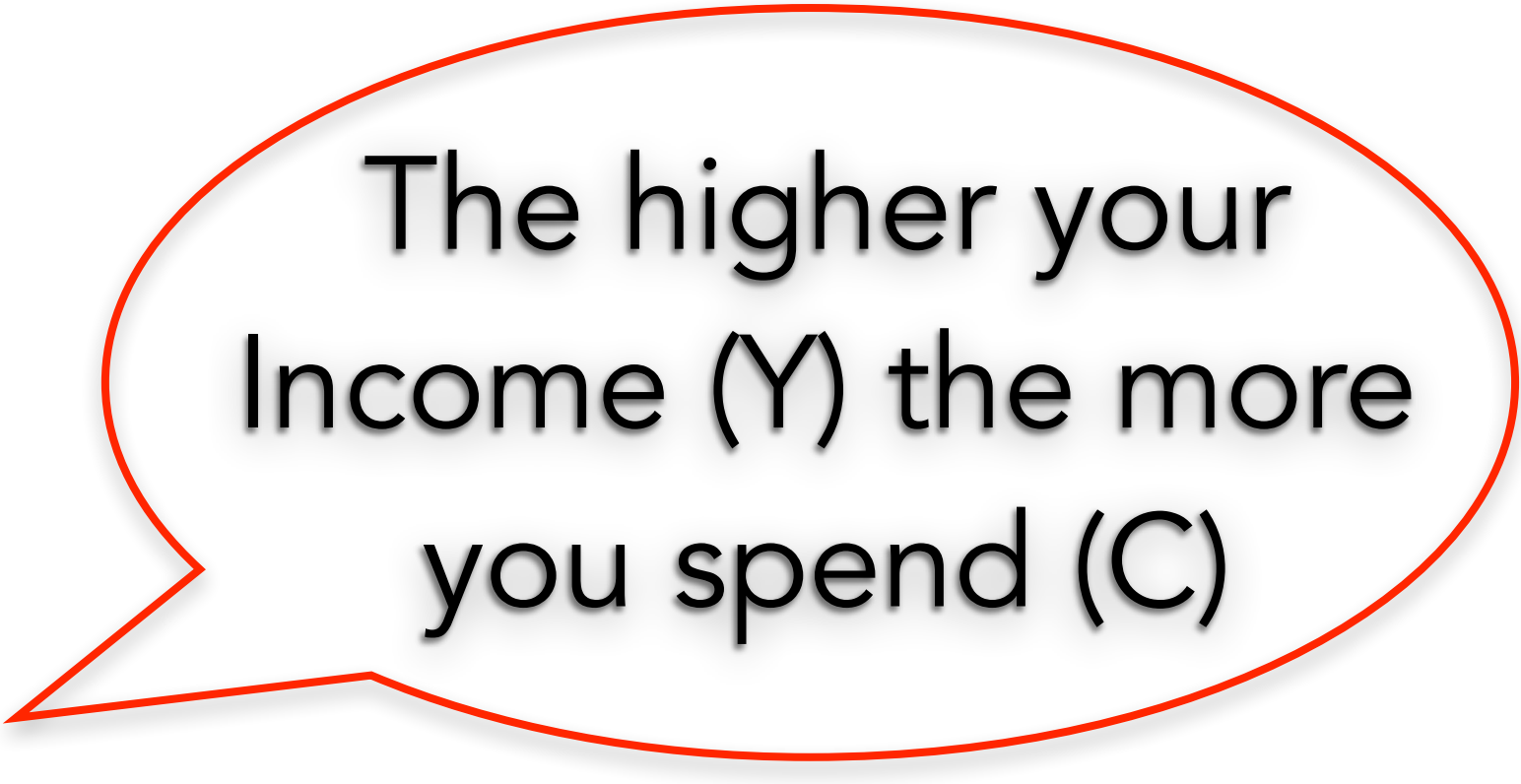
The Consumption Function

Real income

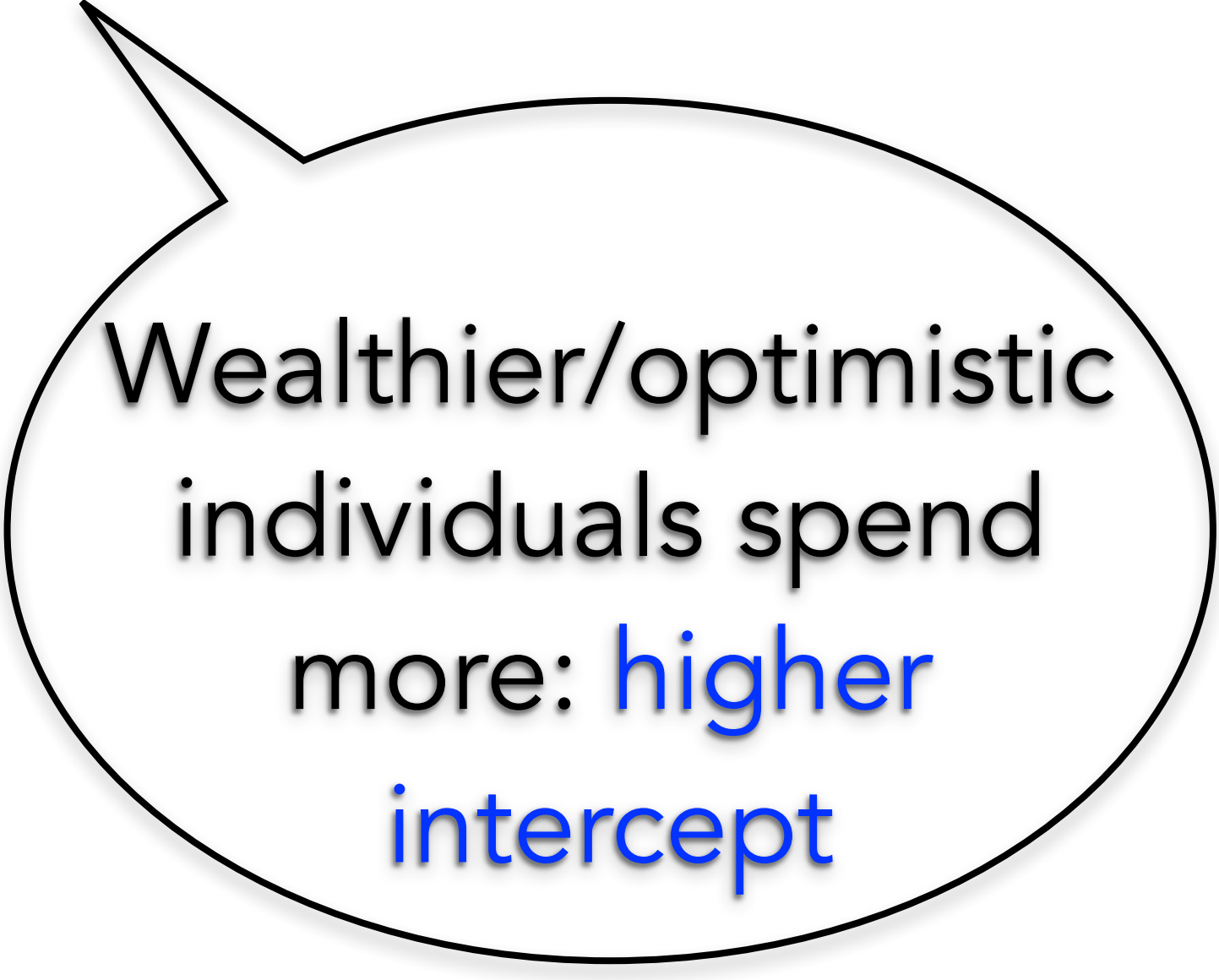


Real Wealth

Expectations

A red speech bubble with a white background and a subtle drop shadow. The bubble has a tail pointing towards the bottom-left corner. Inside the bubble, the text "The higher your Income (Y) the more you spend (C)" is written in a black, sans-serif font, centered and arranged in four lines.

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



Wealthier/optimistic
individuals spend
more: higher
intercept

C

[REDACTED]

[REDACTED]



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C

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p





M

P





Y



Portion of consumption
induced by income

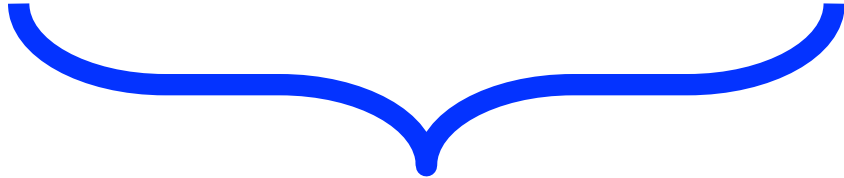


Portion of consumption
independent from income



induced

consumption



Autonomous
consumption

$C = a + MPC * Y$

C = **MPC** * **Y**

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

The Consumption Function

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

Real Income

Real Wealth

Expectations

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

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

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

$$C = a + MPCY$$