15

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

$$C = a + MPCY$$

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

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

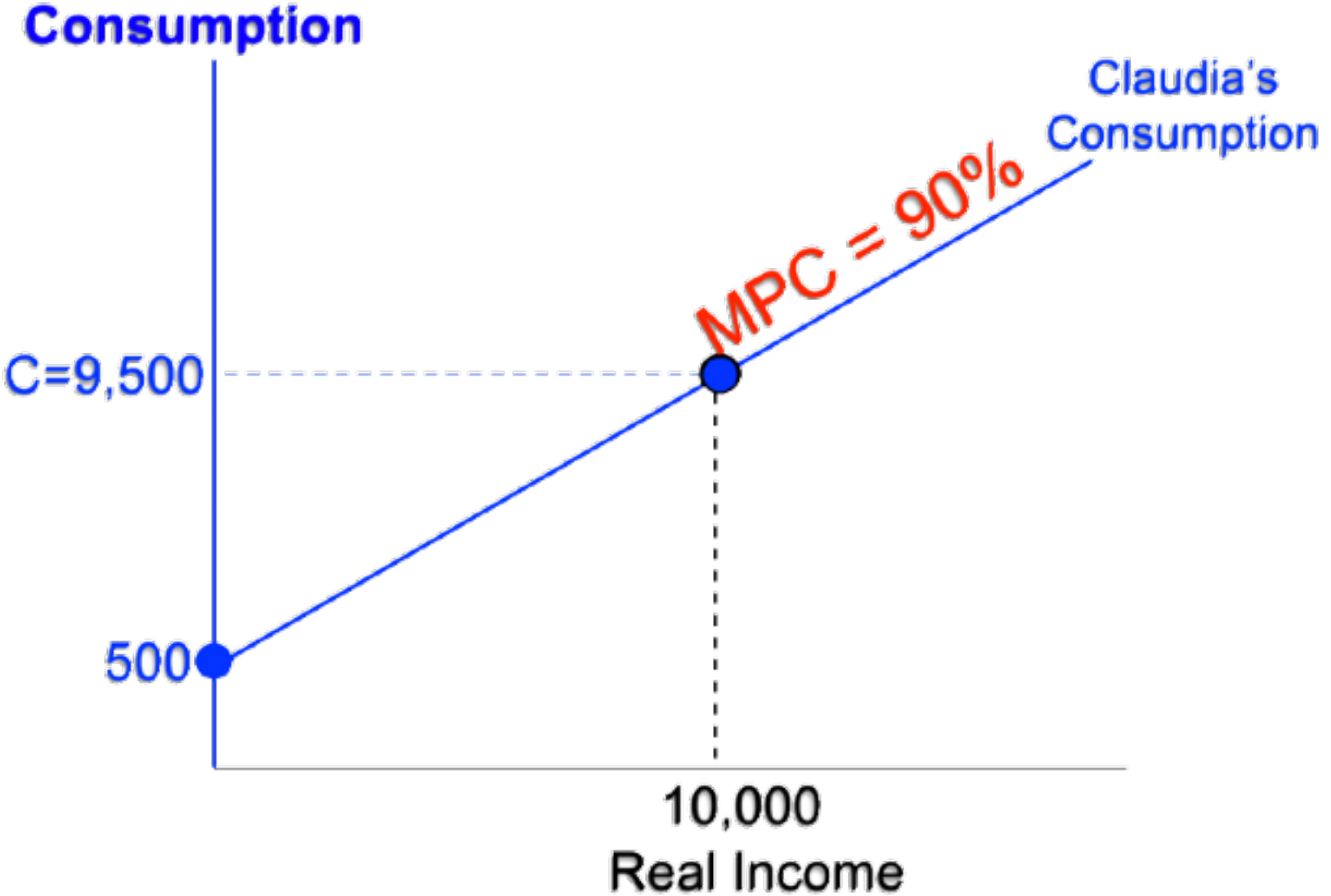
$$C = 100 + 9{,}000$$

$$C = 9{,}500$$

$$C = 9{,}100$$

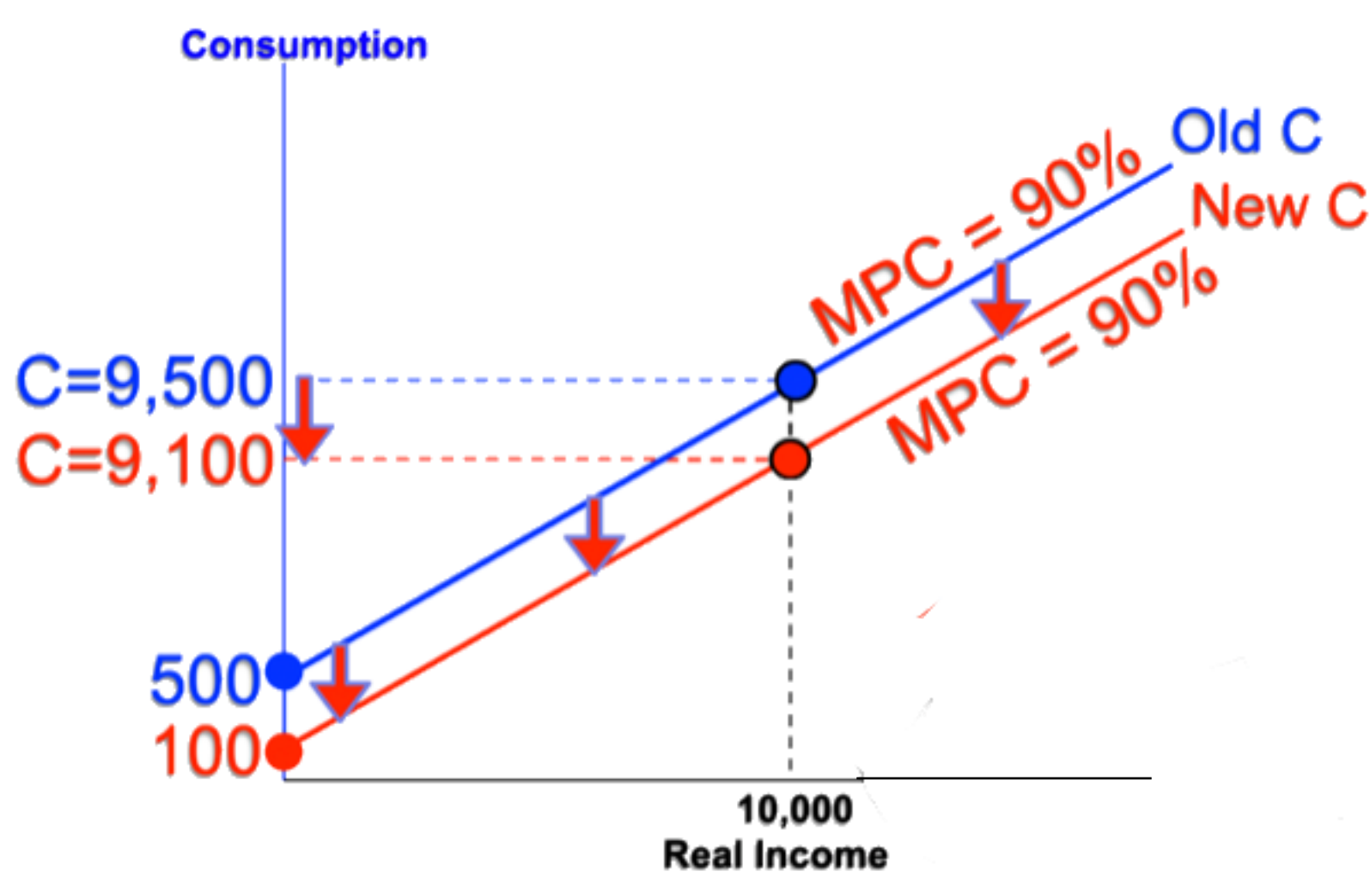
Claudia’s old consumption

Claudia's income is still $10,000/month, pessimistic expectations do not change her MPC but decrease the intercept:


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

100

Claudia buys less


Consumption
Old C
New C
MPC = 90%
MPC = 90%
C=9,500
C=9,100
500
100
10,000
Real Income

Pessimistic expectations cause the intercept of the Consumption Function to drop

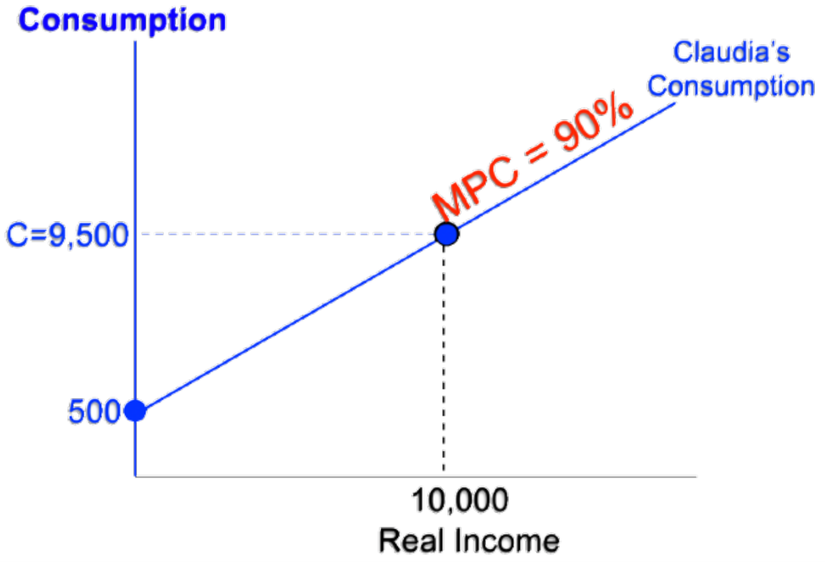
$$C = a + MPCY$$

Claudia's old consumption

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

$C = 500 + 9{,}000$

$C = 9{,}500$



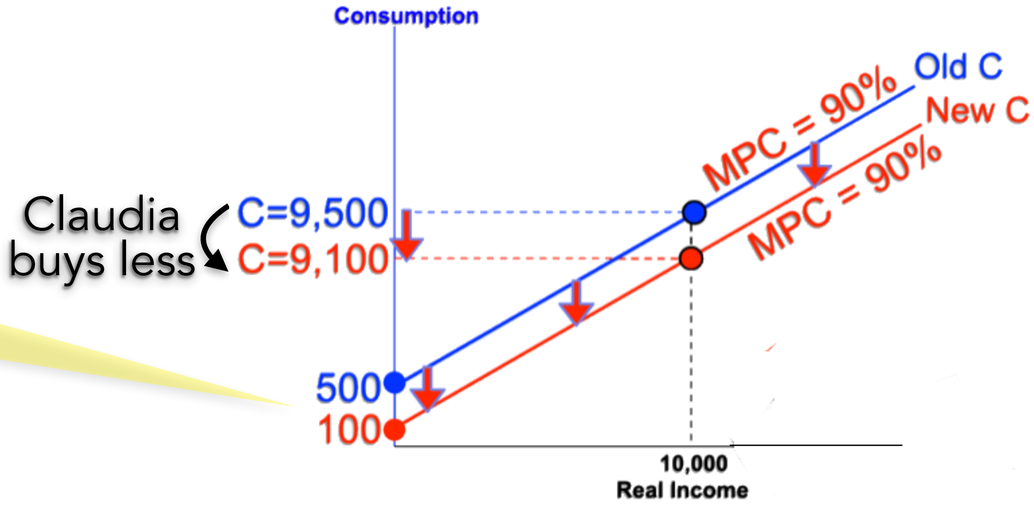
Claudia's income is still $10,000/month, pessimistic expectations do not change her MPC but decrease the intercept:

$C = 100 + 0.9(10{,}000)$

$C = 100 + 9{,}000$

$C = 9{,}100$

Pessimistic expectations cause the intercept of the Consumption Function to drop



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