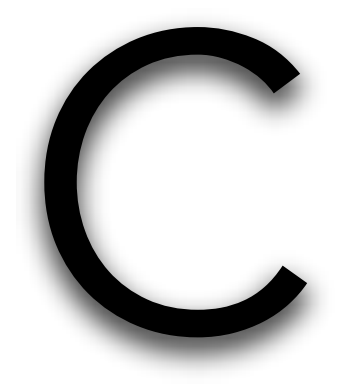
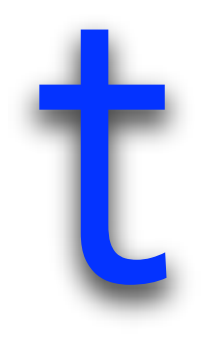
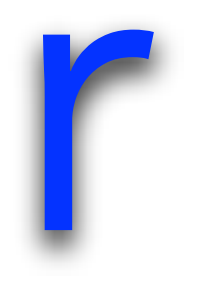
Consumption Depends on:

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

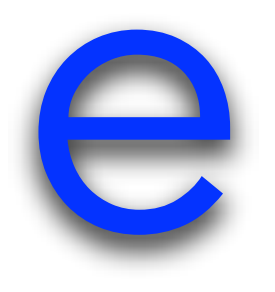
Wealthier/ optimistic individuals spend more: higher intercept

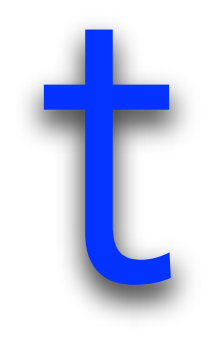






C

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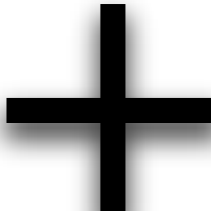
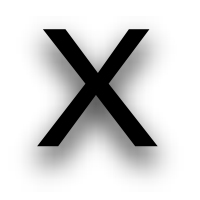
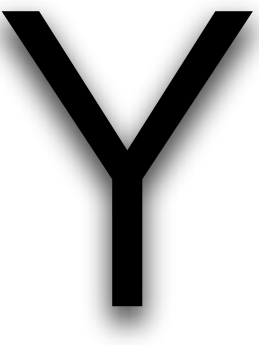
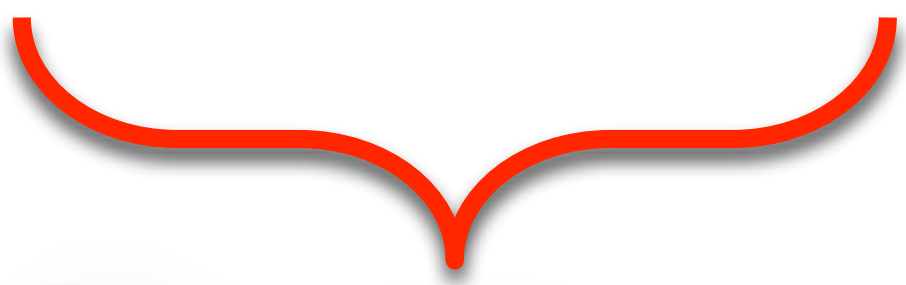
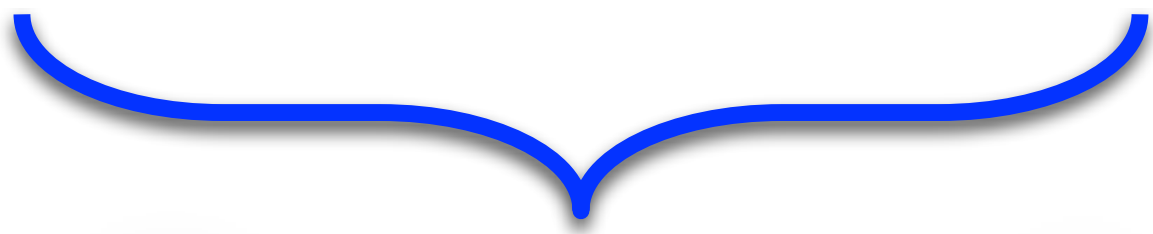








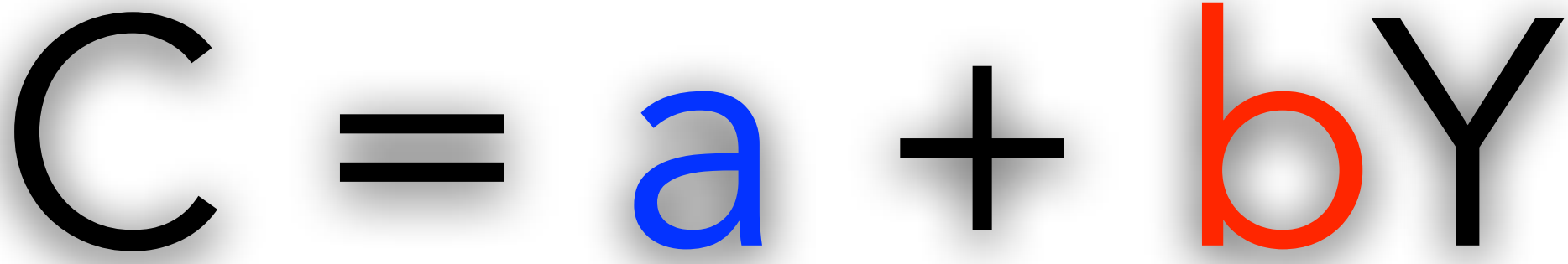
Portion of consumption induced by income



Portion of consumption independent from income

induced
consumption

Autonomous consumption


C = a + bY

$$C = MPC_x Y$$

Real Income

Real Wealth

Expectations

The Consumption Function

$$C = \text{intercept} + MPC_x Y$$

Consumption Depends on:

Real Income

Real Wealth

Expectations

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

Wealthier/ optimistic individuals spend more: higher intercept

The Consumption Function

$C = MPC_x Y$

$C = a + bY$

$C = \underbrace{\text{intercept}}_{a} + \underbrace{MPC_x Y}_{b}$

Portion of consumption independent from income

Autonomous consumption

Portion of consumption induced by income

induced consumption

The Consumption Function: C = a + MPCY