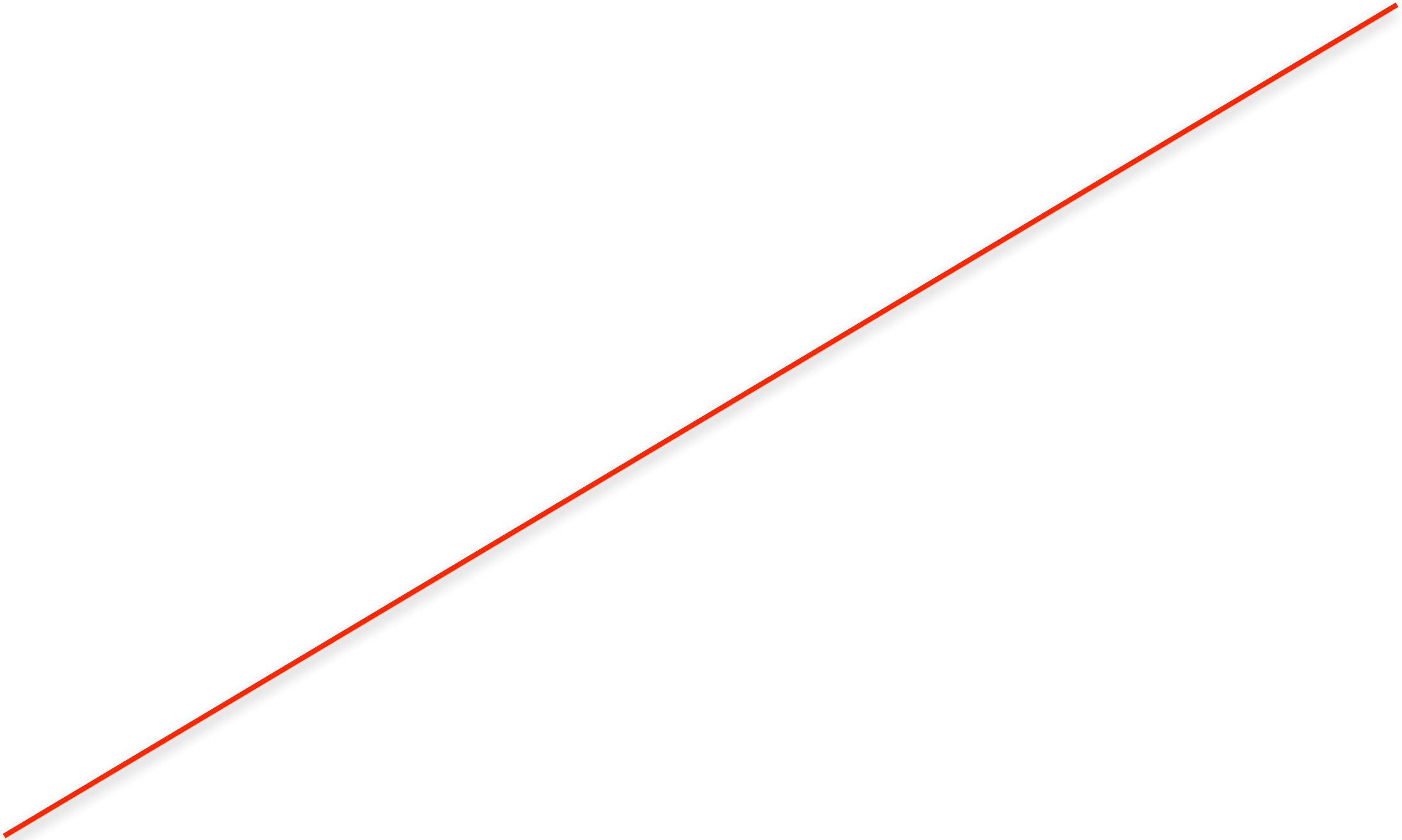
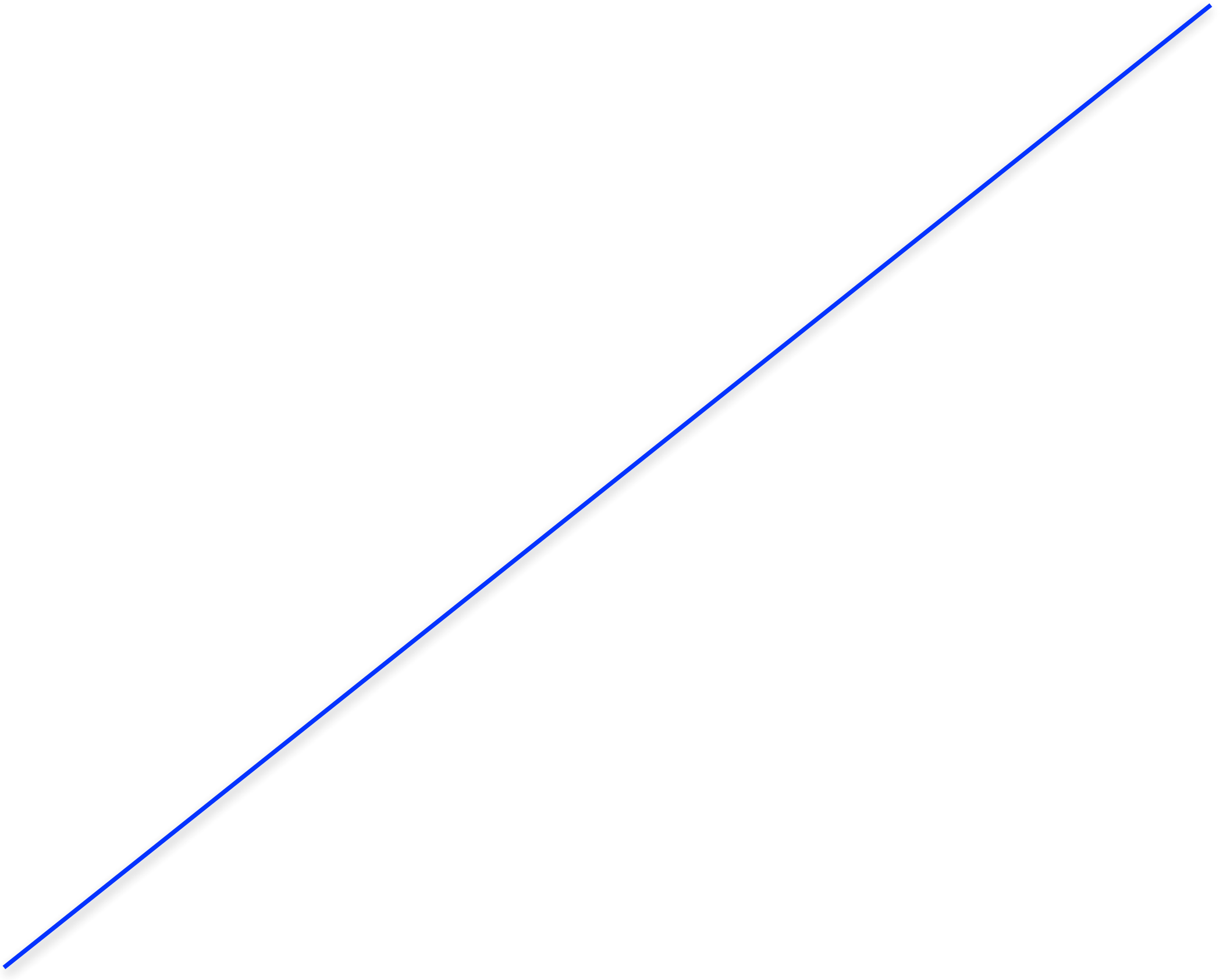
Real Income: Y

Consumption Expenditures

$$Y=10,000$$

Y=20,000





8,000

9,000

16,000

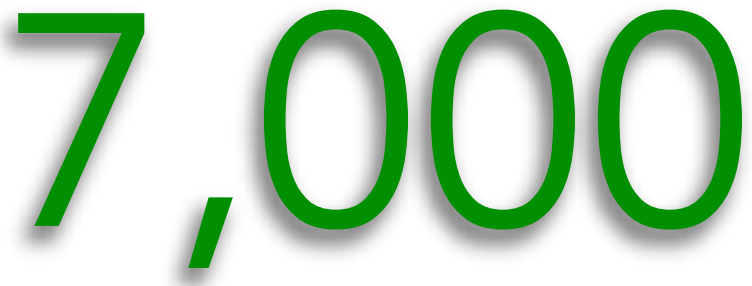
Claudia's Consumption

Mary's Consumption

Bob's Consumption

18,000

6,000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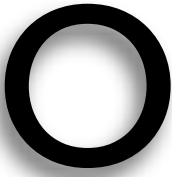
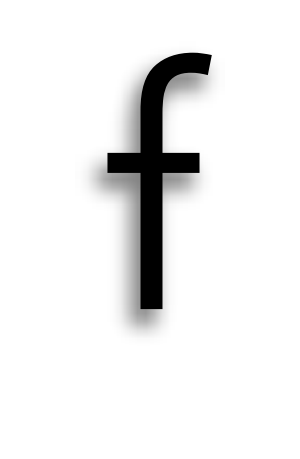
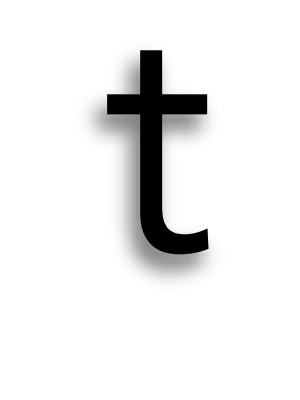
8,000



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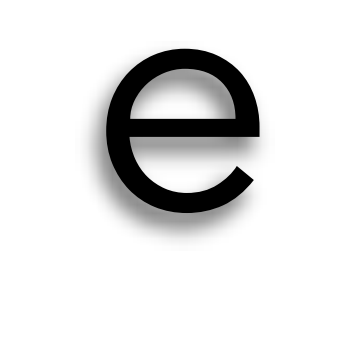

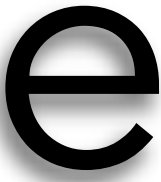

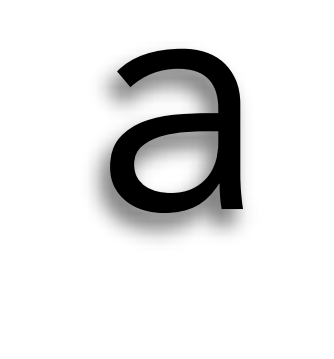
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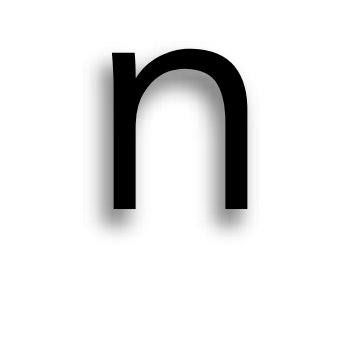
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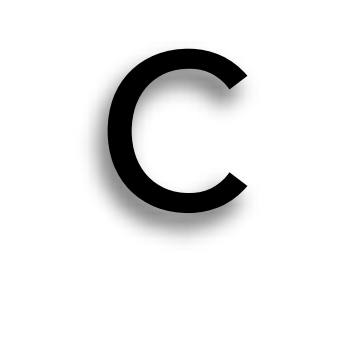
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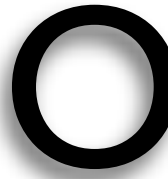

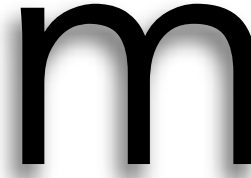

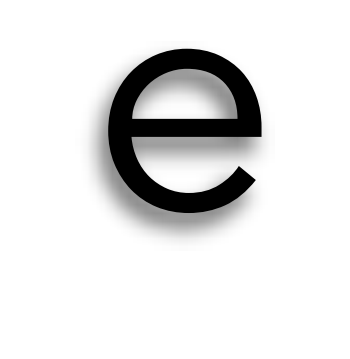

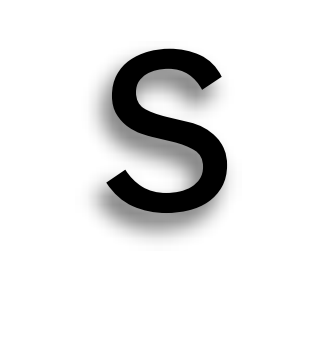
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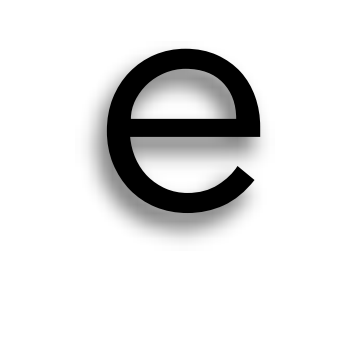

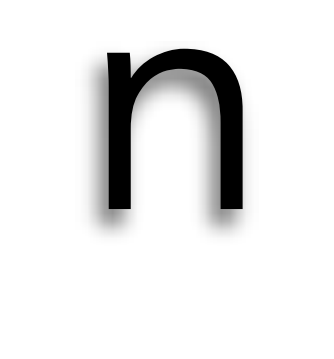
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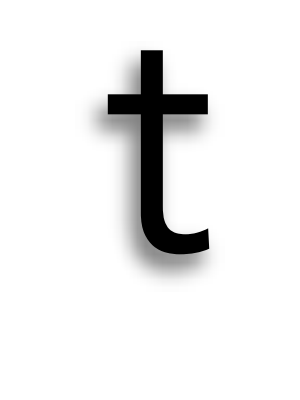
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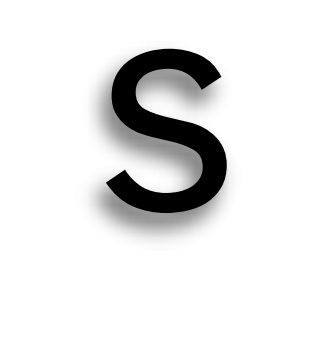
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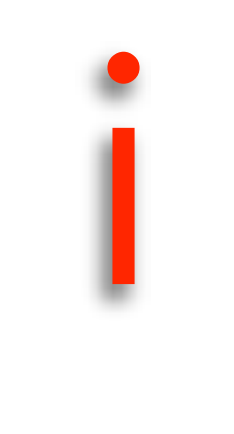

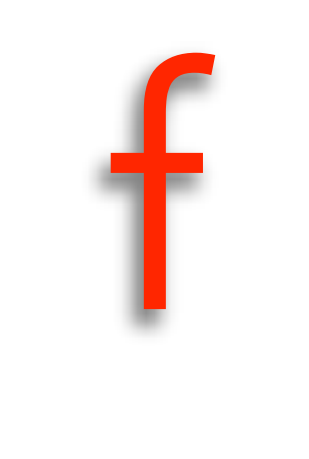

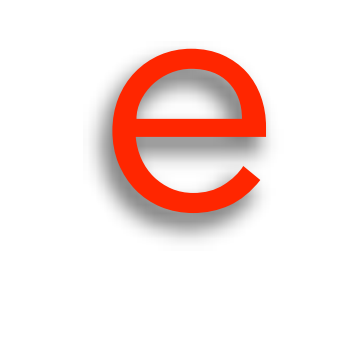

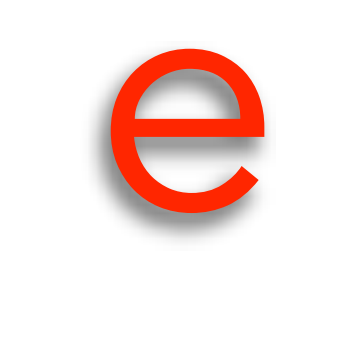

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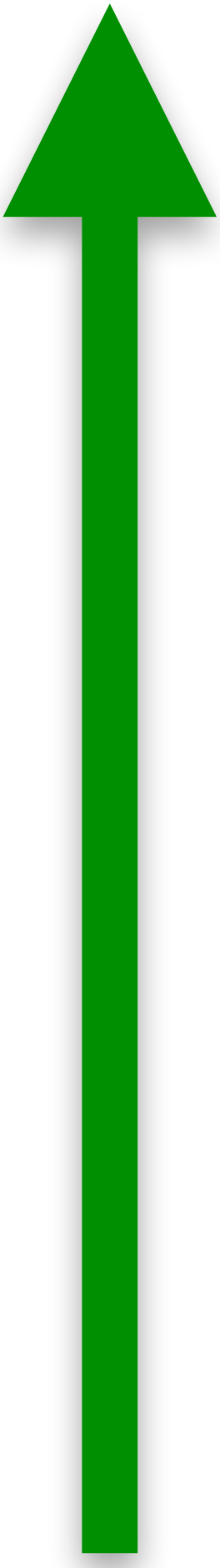

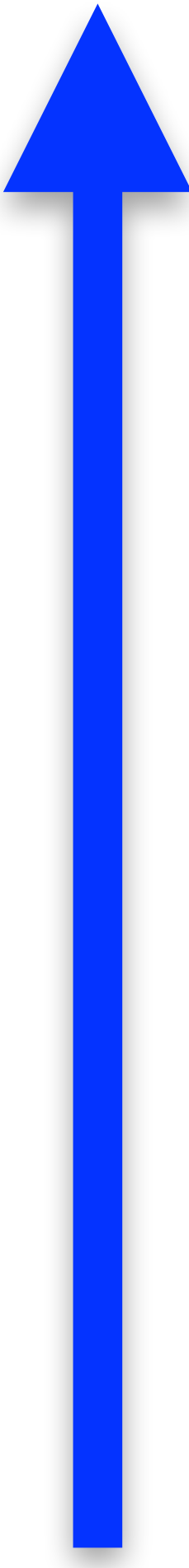

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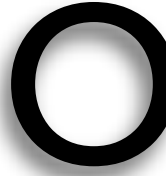

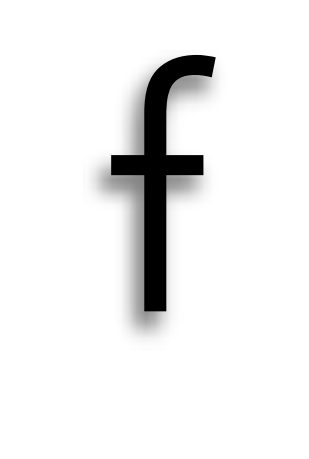

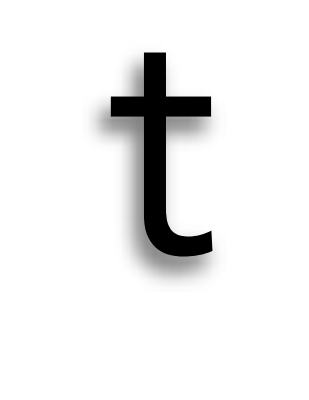
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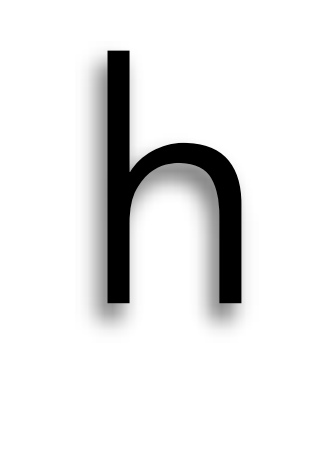

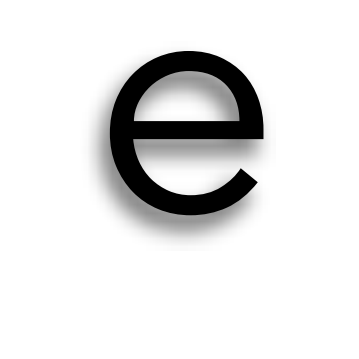

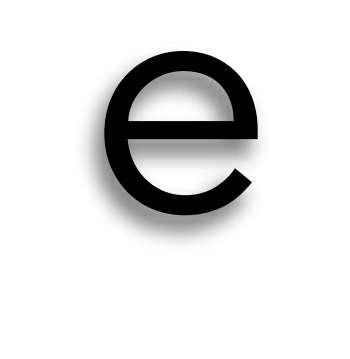

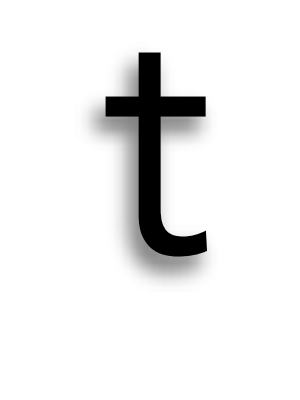
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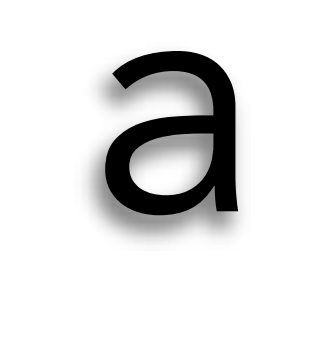
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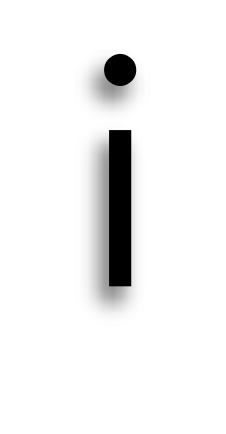

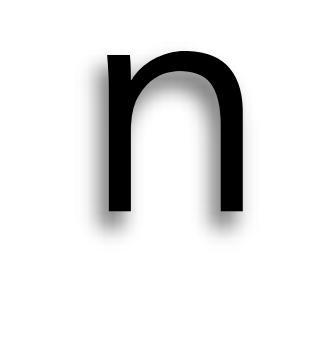
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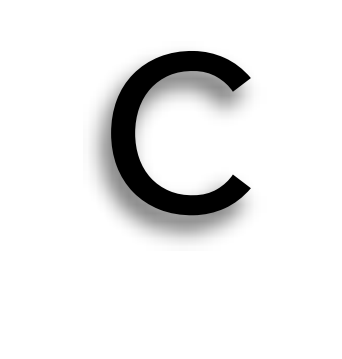
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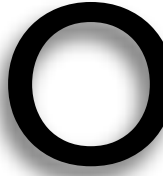

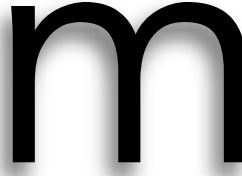
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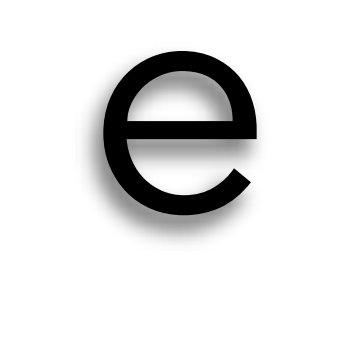

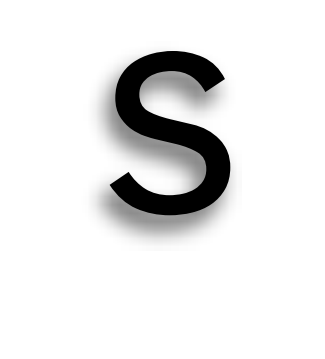
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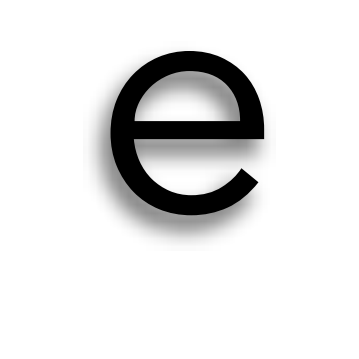

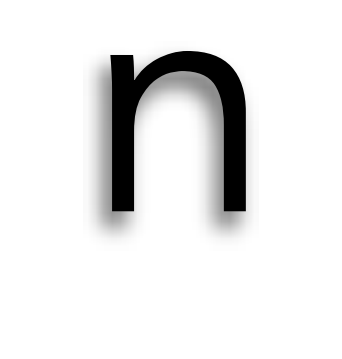
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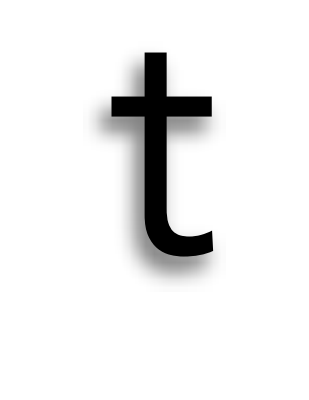
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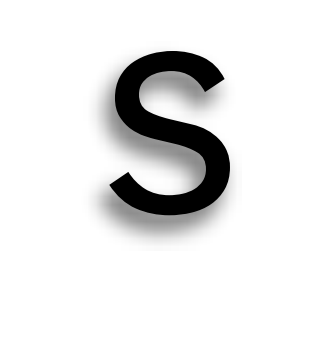
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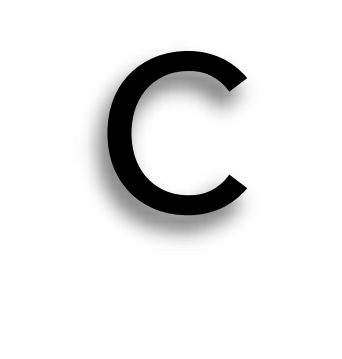
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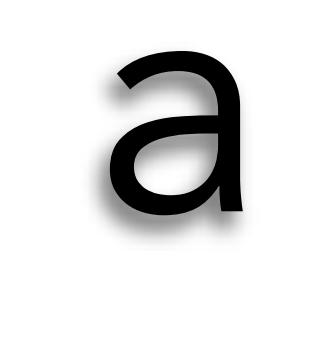
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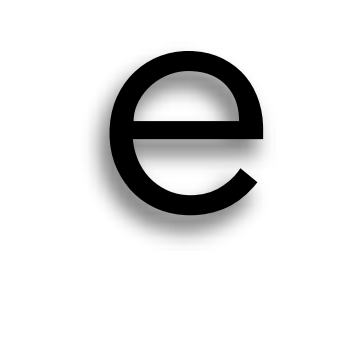

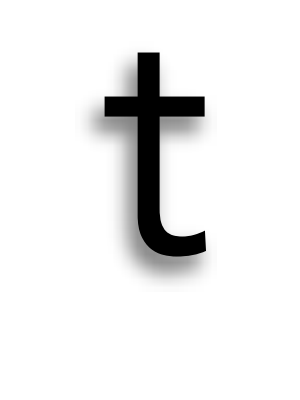
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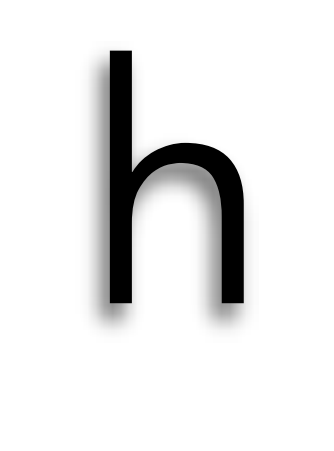

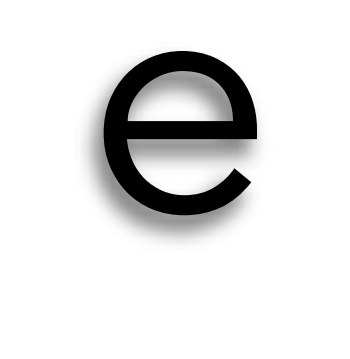

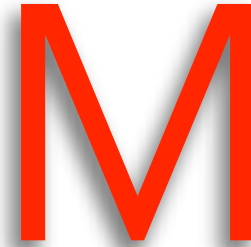

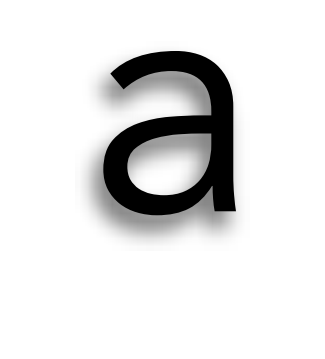
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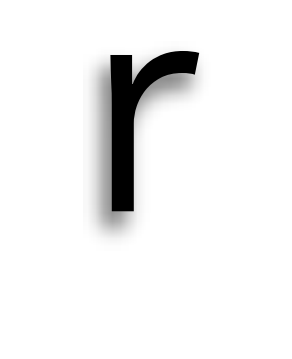
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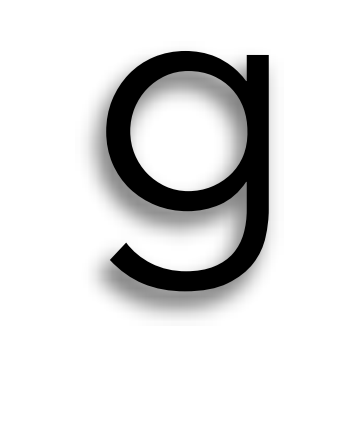

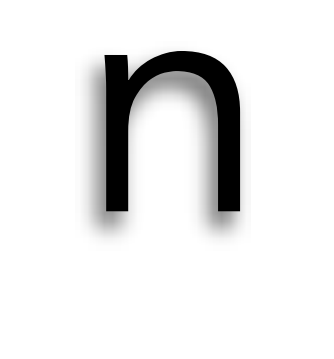
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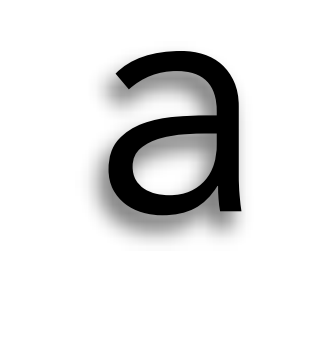
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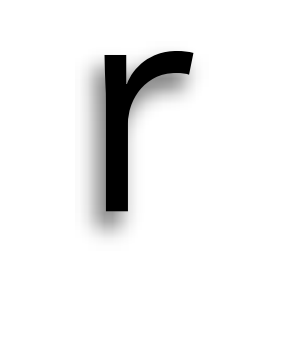
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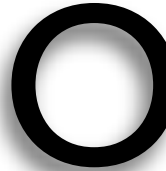

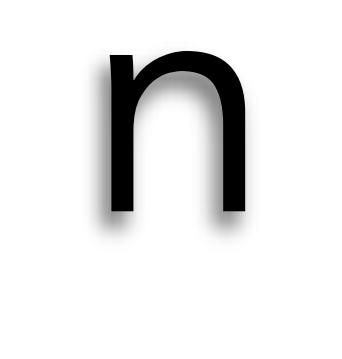
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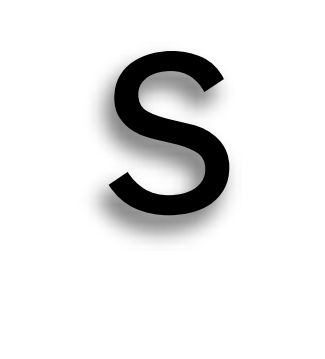
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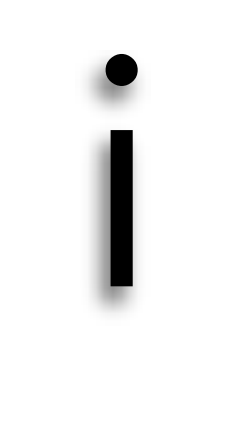

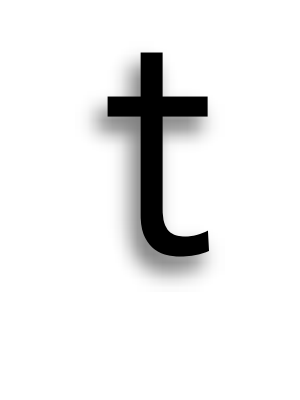
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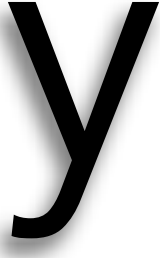

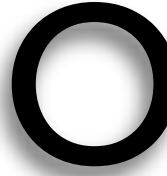

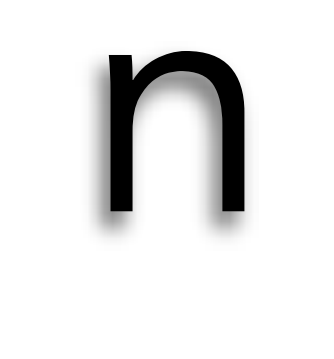
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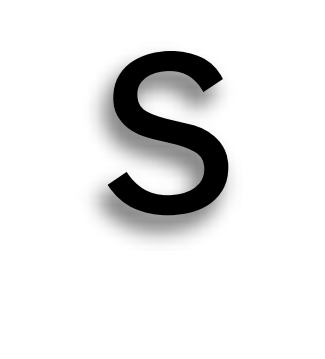
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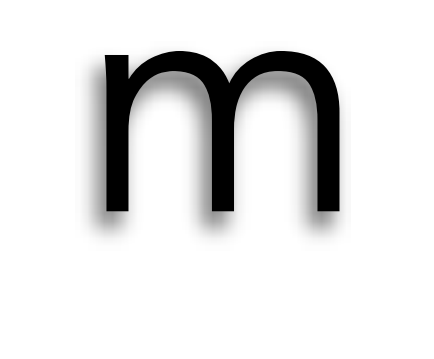

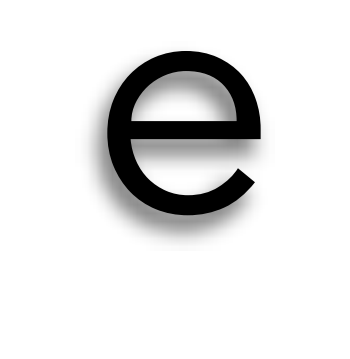

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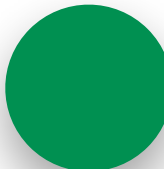

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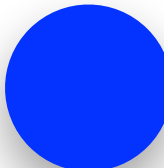
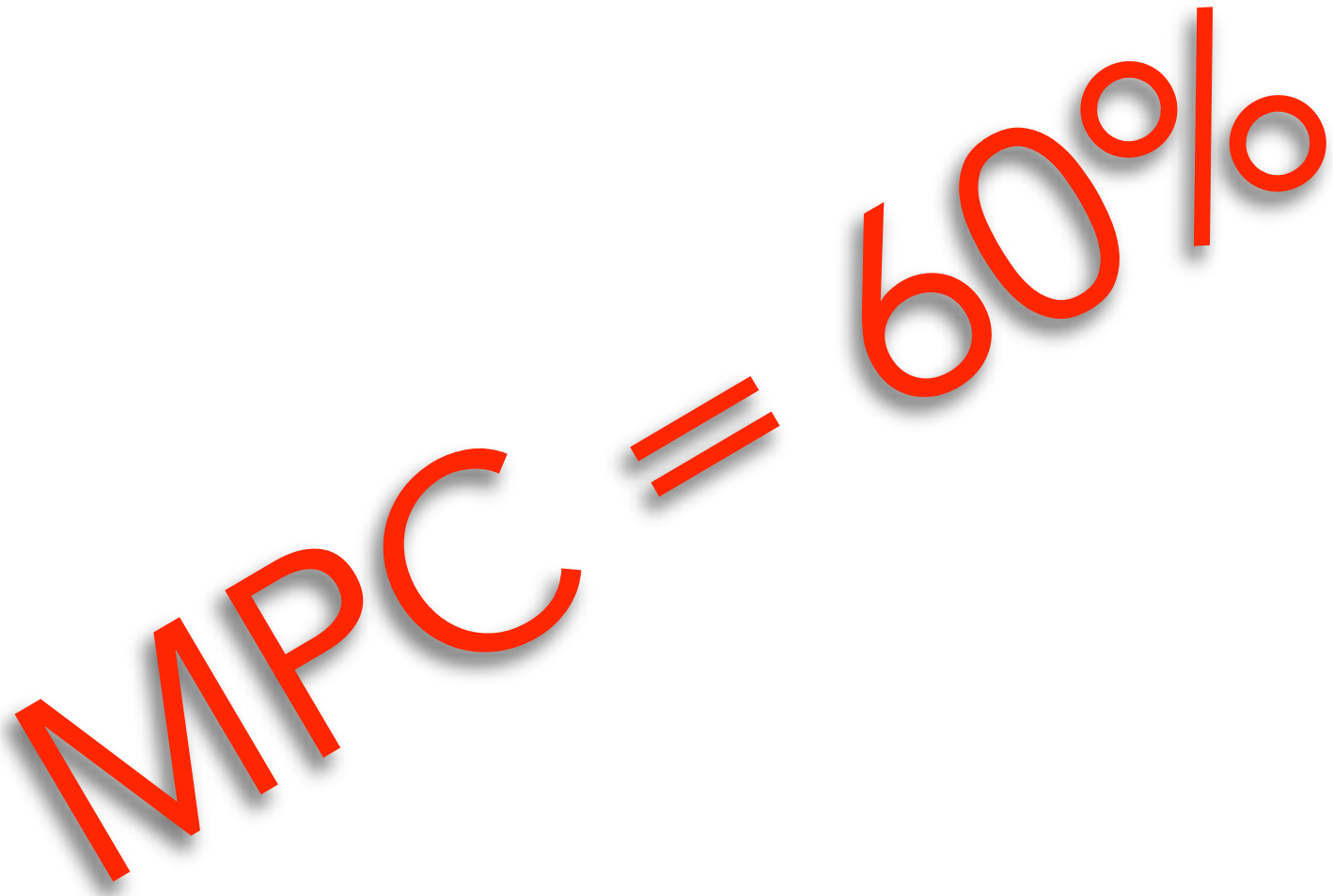
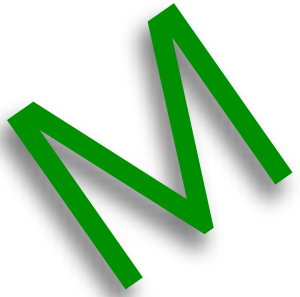


60%

70%

80%


MPC = 60%



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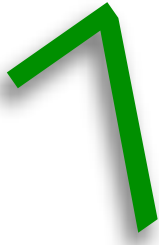
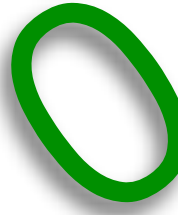
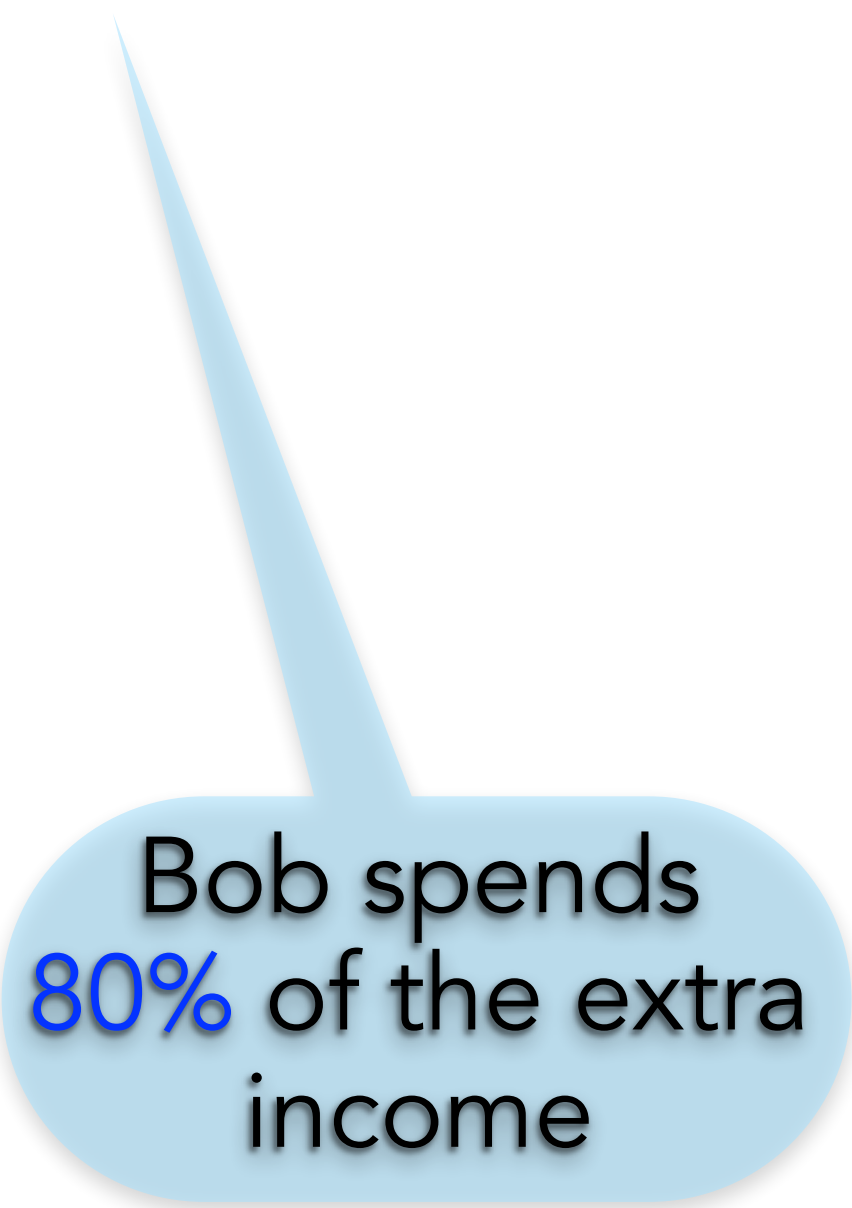
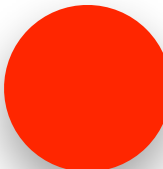


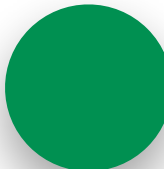


Claudia spends 60% of the extra income

Mary spends 70% of the extra income

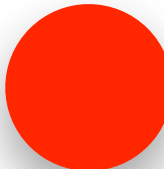

Bob spends
80% of the extra
income





Increase in Income is the same for all

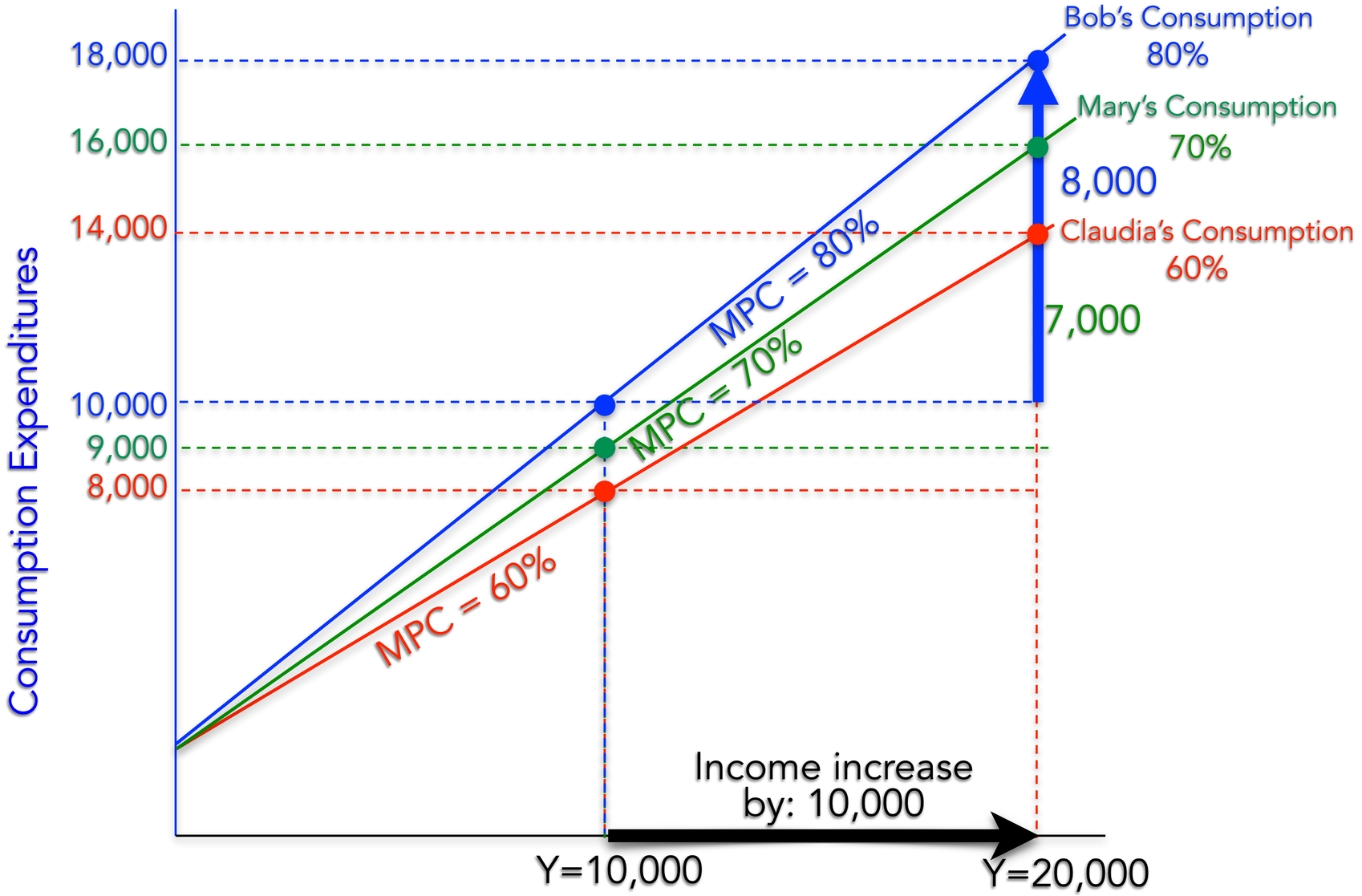
Consumers react differently when their income increase



Consumption Expenditures

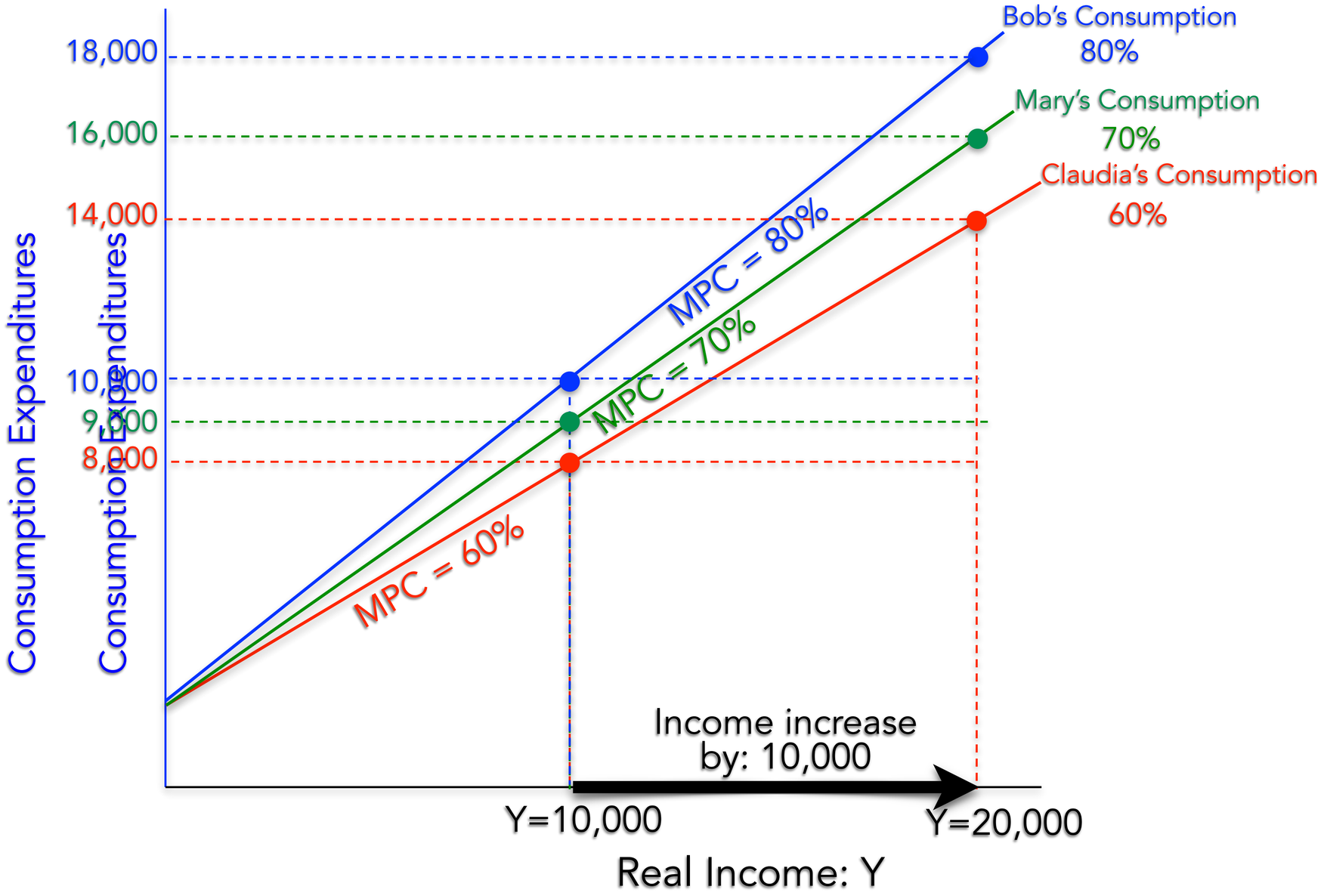
% of the extra income spent is different

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



Consumers react differently when their income increase

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



Consumers react differently when their income increase

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