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

Income increase by: 10,000

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

14,000

10,000

60%

70%

80%

MPC = 60%

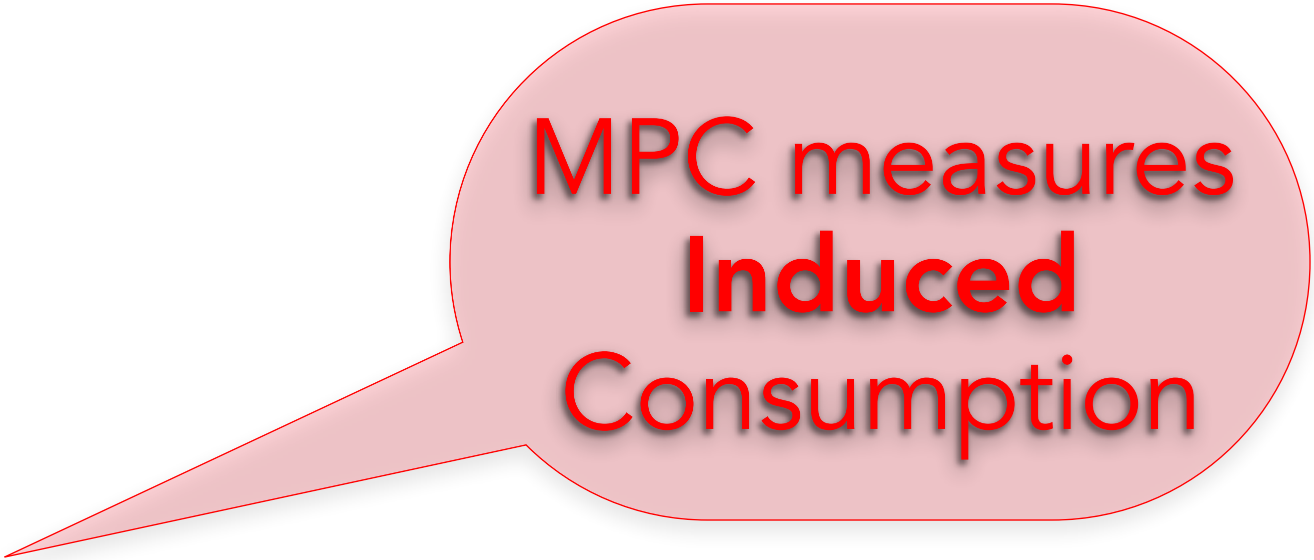
MPC = 70%

MPC = 80%

Consumers react differently when their income increase

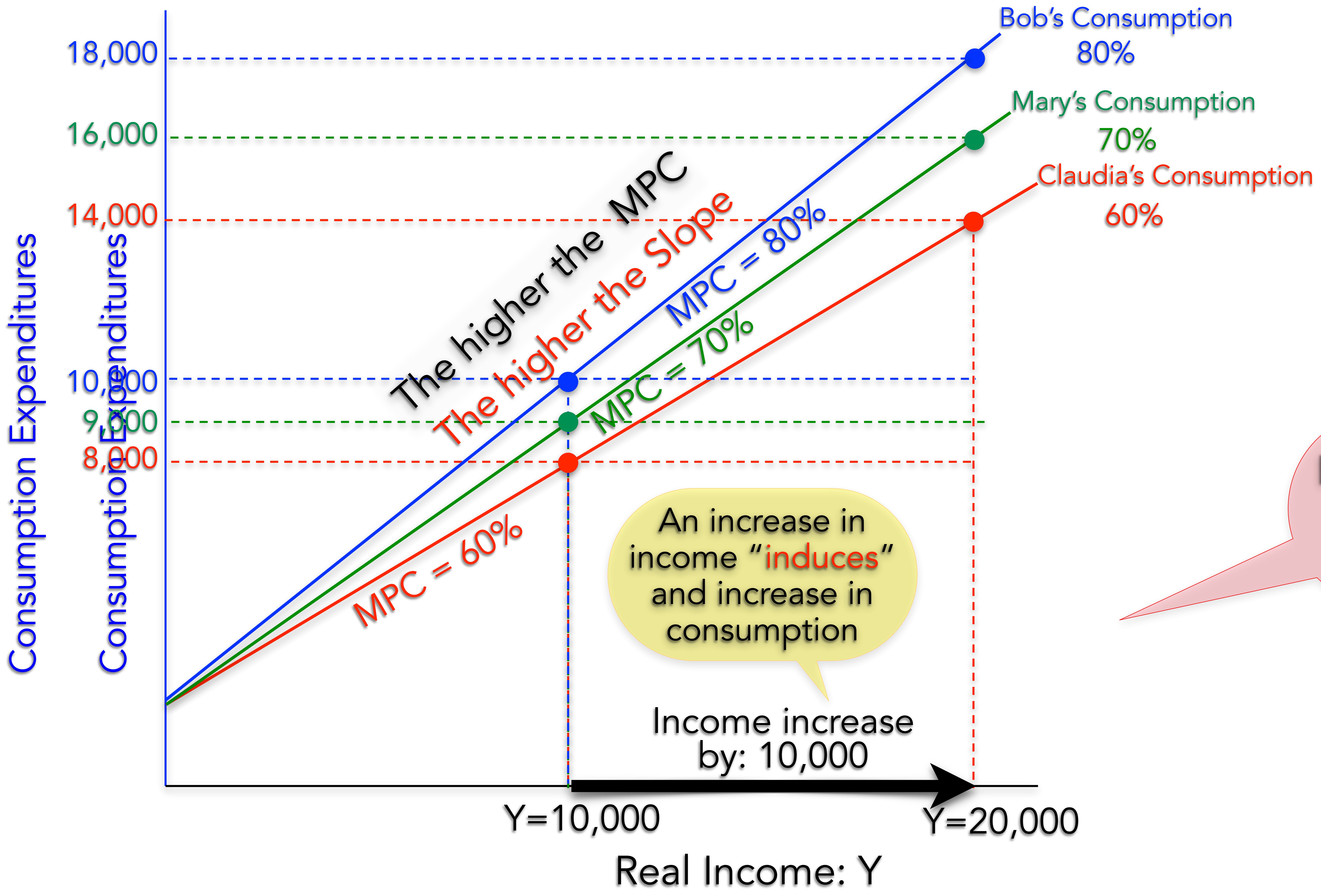
Consumption Expenditures

An increase in
income "induces"
and increase in
consumption


MPC measures
Induced
Consumption

The higher the Slope

The higher the MPC



Consumers react differently when their income increase

MPC measures **Induced** Consumption

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

Wealth