



Real Income:  $Y$

Qeios ID: 3R010S · July 10, 2020

**Y = 10,000**





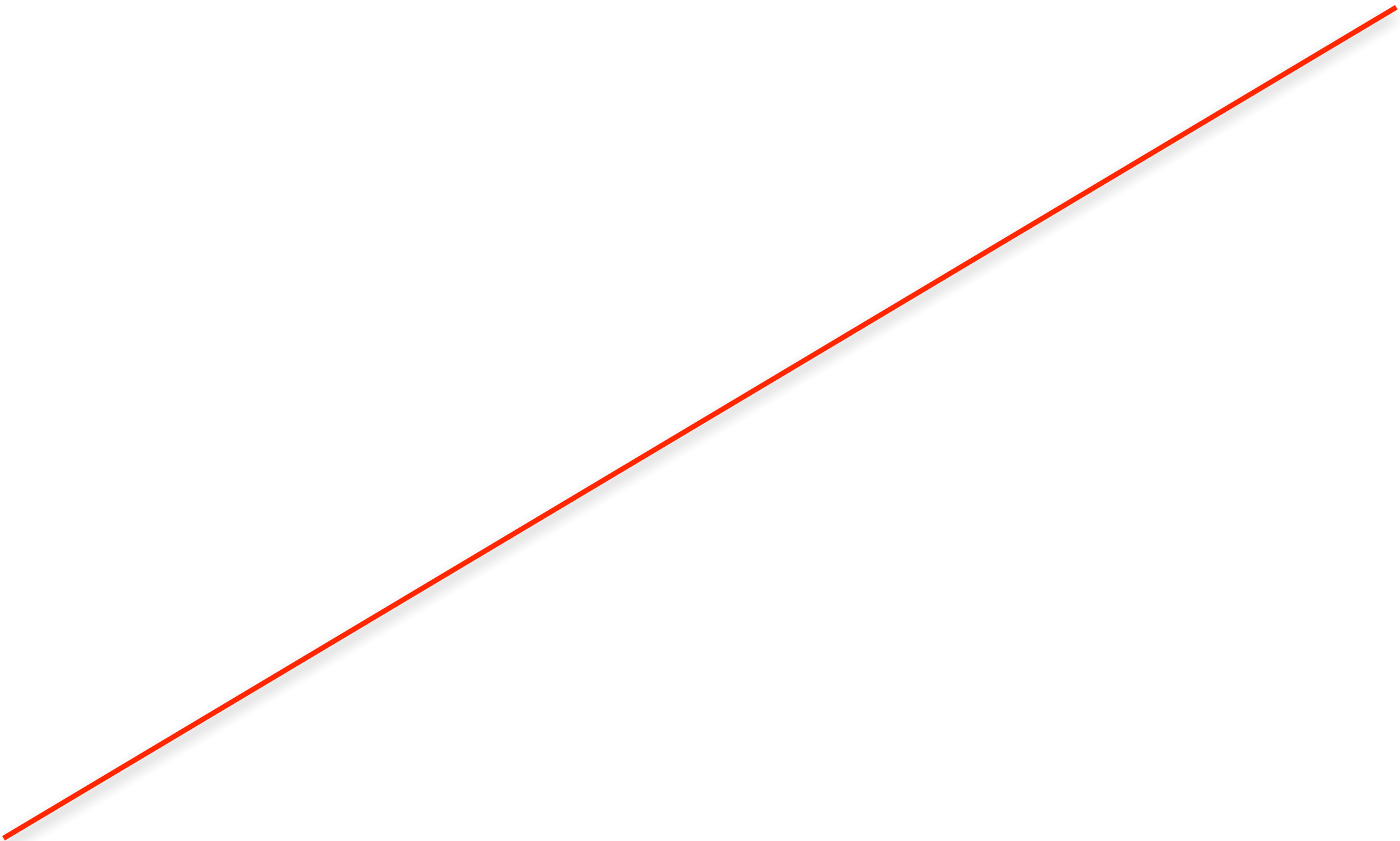


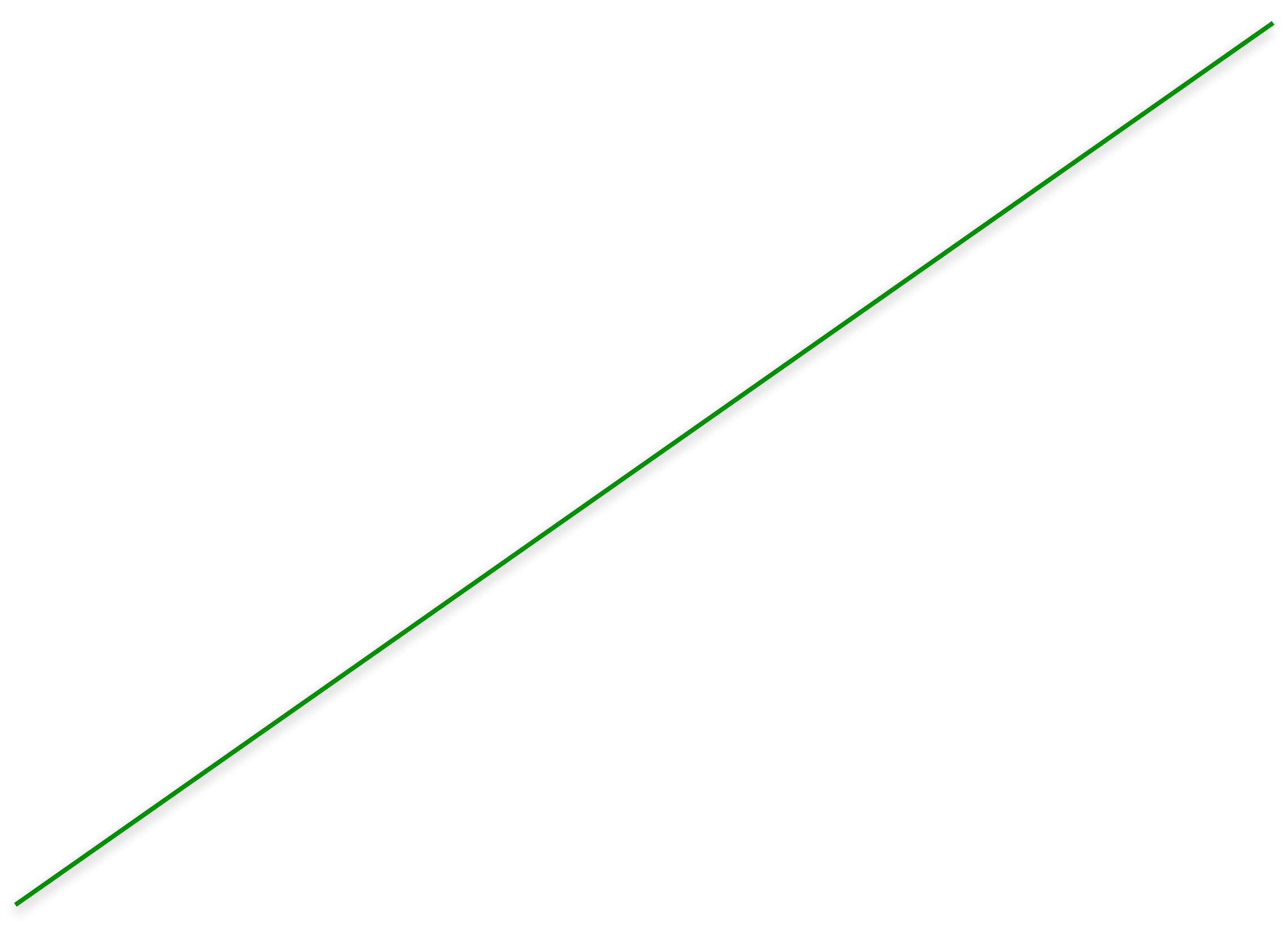


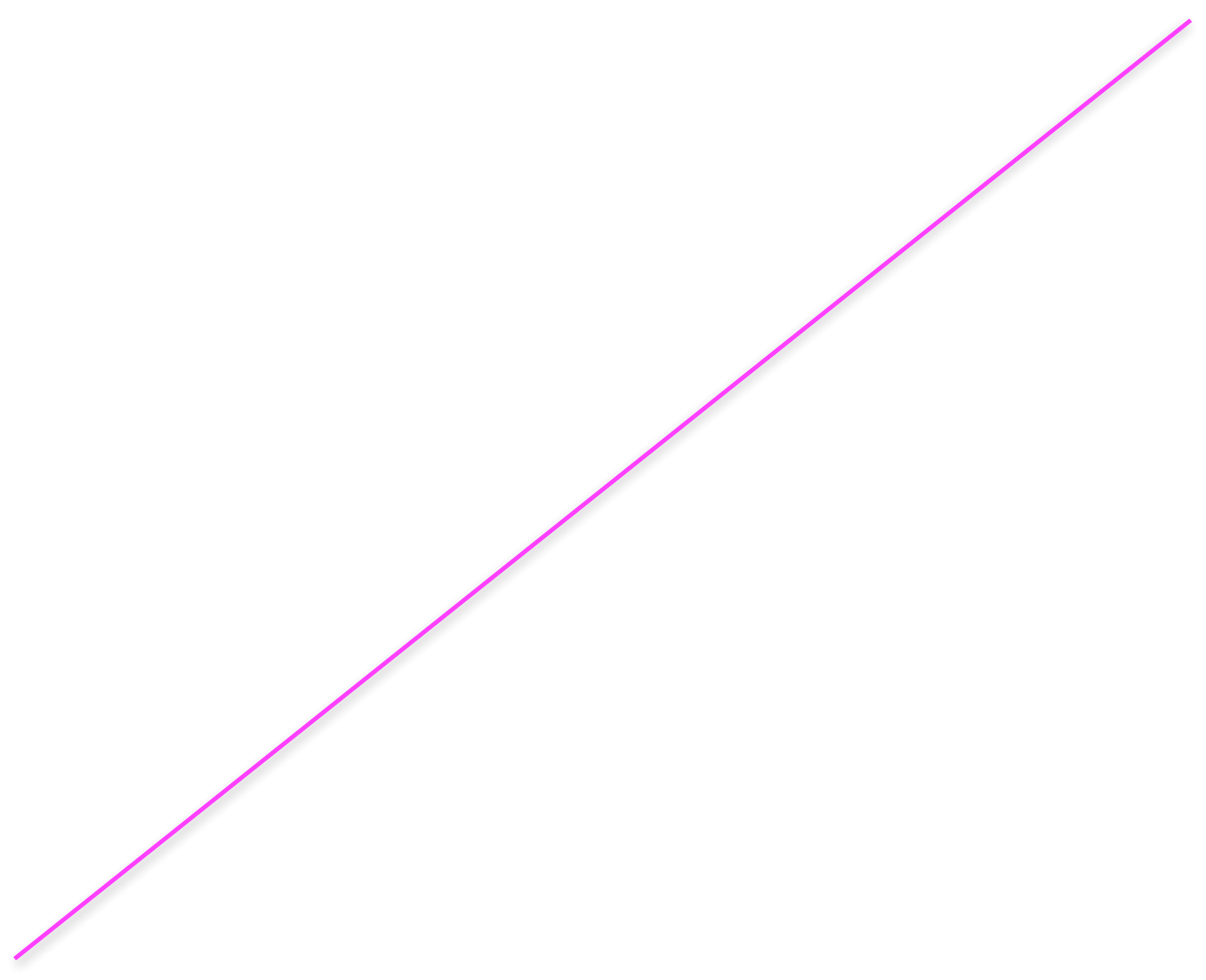




**Y = 20,000**













8,000

9,000

16,000

# Claudia's Consumption

# Mary's Consumption

# Bob's Consumption





18,000

6,000

7,000

8,000













h

e

e







a





**n**

C



m



**S**

**p**



e

n





**S**

d









e





n









Income increase  
by: 10,000









h

e

e









a



n

C





m

e

S

**P**

e

n







**S**

C

a





e

d





h

e

M

a



9



n



a



P





**p**

**n**

**S**







**Y**







n

**S**



u

m

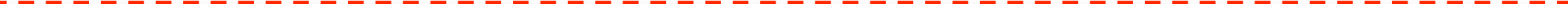
e



M

P







14,000









10,000







MPC = 60%



P







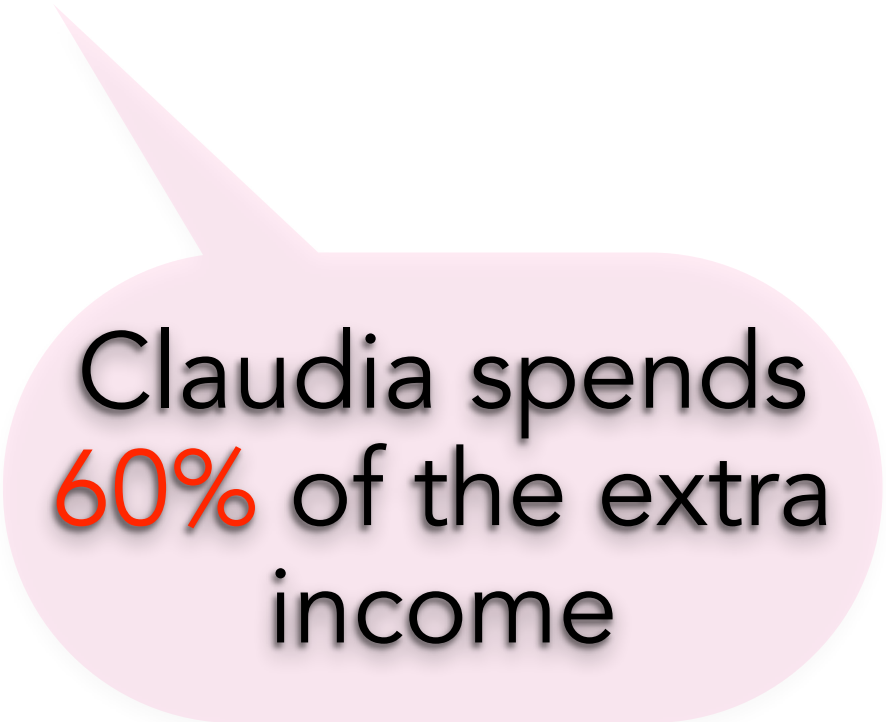




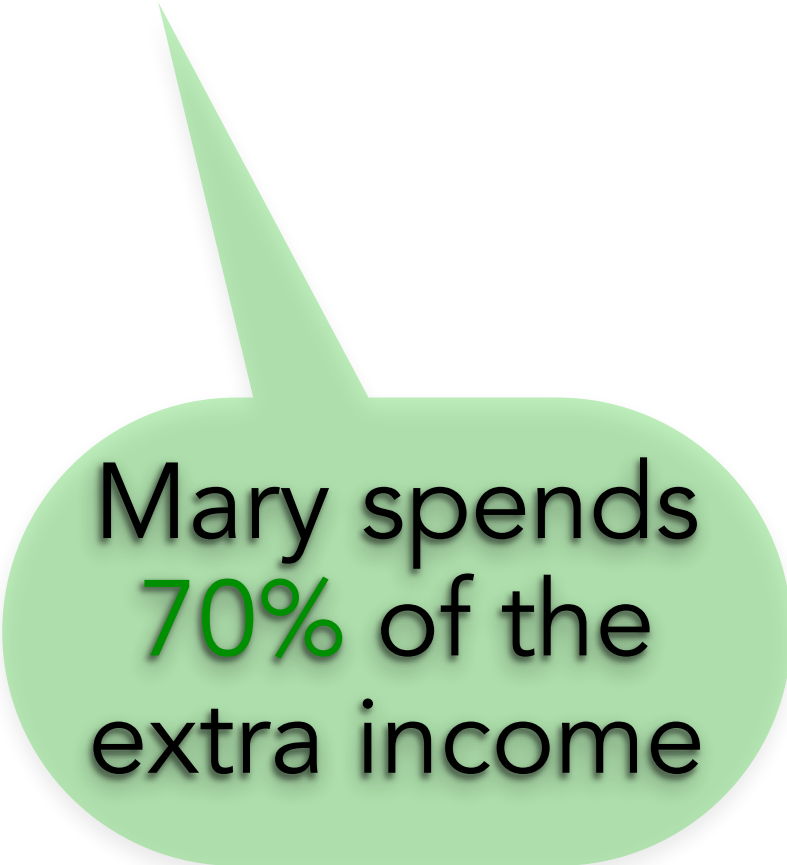




MPC = 80%



Claudia spends  
60% of the extra  
income



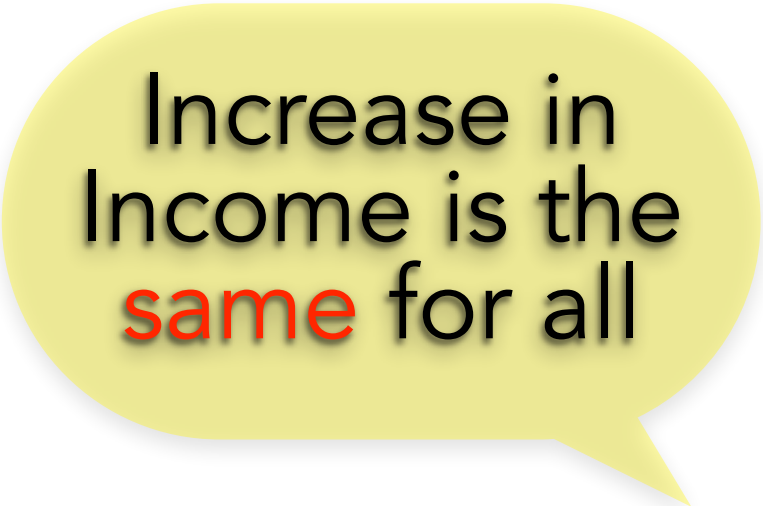
Mary spends  
70% of the  
extra income



Bob spends  
80% of the extra  
income







Increase in  
Income is the  
**same** for all



Consumers react  
differently to changes in  
income



Qeios ID: 3R0S0S · <https://doi.org/10.32388/3R0S0S>

**MPC =**

$\Delta C$



$\Delta Y$











h

e

e







a





n





**m**

e



a





e

d



**S**

c

a







e

d



h

e

M

a





9



n

a



P







**p**

e

n

**S**





**Y**







S

a

**V**

e



M



P

S

$$\text{MPS} = \frac{\Delta S}{\Delta Y}$$

↑ 60%

↑70%



80%




Claudia **saves**  
**40%** of the  
extra income



Mary **saves**  
**30%** of the  
extra income





Bob **saves**  
**20%** of the  
extra income

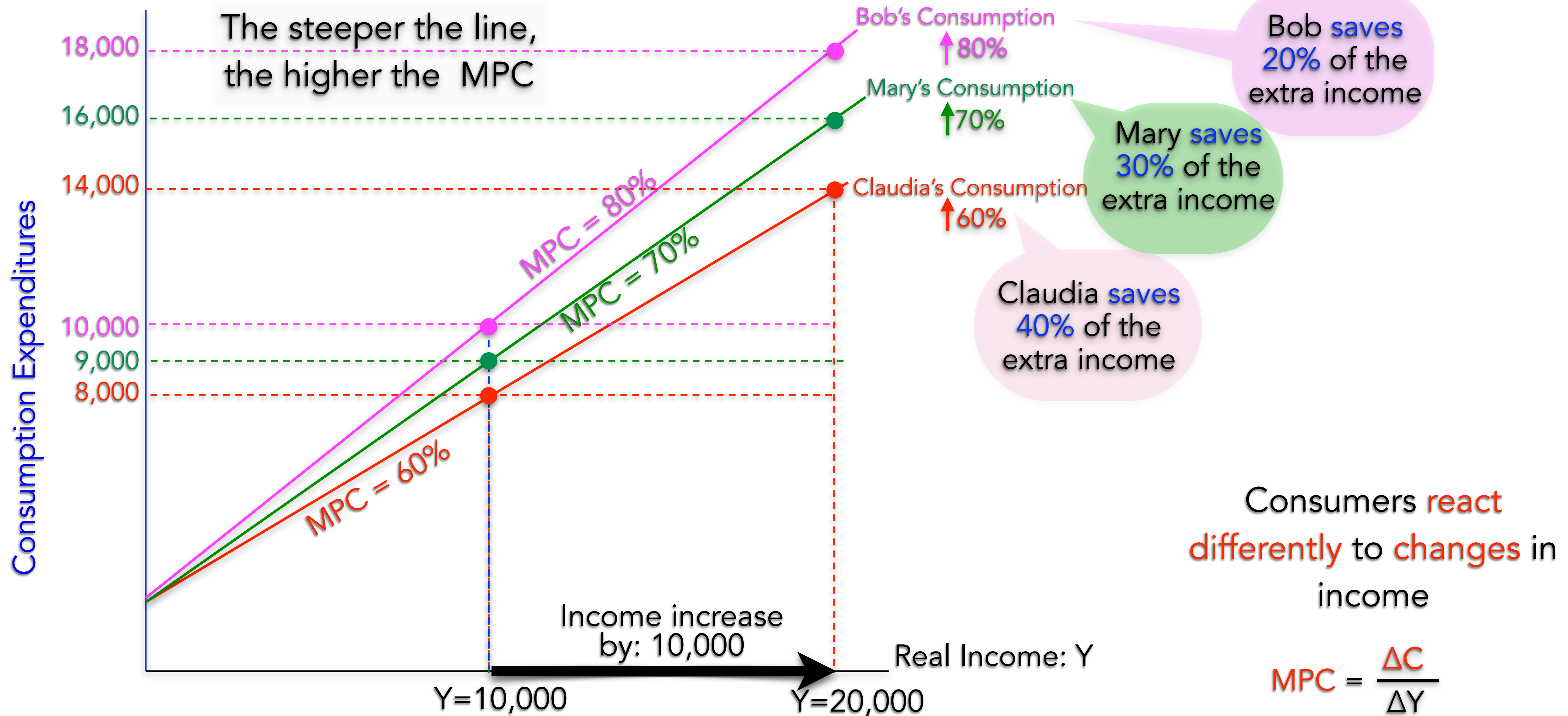
The steeper the line,  
the higher the MPC

% of the extra income spent is different

% of the extra income **spent** is called the **M**arginal **P**ropensity to **C**onsume: **MPC**

MPC = 70%

% of the extra income **saved** is called the **M**arginal **P**ropensity to **S**ave: **MPS**



% of the extra income **spent** is called the **M**arginal **P**ropensity to **C**onsume: **MPC**  
 % of the extra income **saved** is called the **M**arginal **P**ropensity to **S**ave: **MPS**

What determines **consumer** spending?