

Smaller intercept



Higher intercept

C1

Co

S1

S

o

Intercept = 500

- Intercept = -500



Intercept = 400

-Intercept = -400



13,000

13,000







Consumables

Income did not change

Save more

Simultaneous
opposite shifts in
C and S

W

h

e

n



e

a



W

e

a





h

d



C





a

S









n



u

m



S

S

p



n

d



e

S

S

a

n

d



a





m





e







h

e



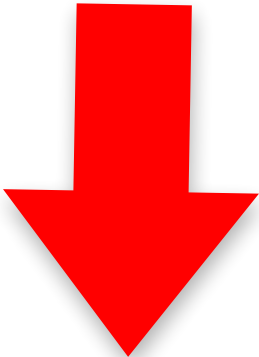






m

e



C

h

a

n

g

e



n

P

r



C

e

S



$$\text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI}}$$

When prices increase





decrease

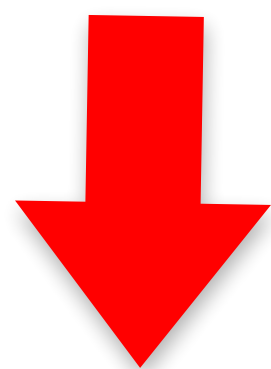
Change in Prices:

When **real** wealth
decrease, Consumers
spend less and **save**
more of their income

Change in Prices:

$\downarrow \text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI} \uparrow}$
decrease When prices increase

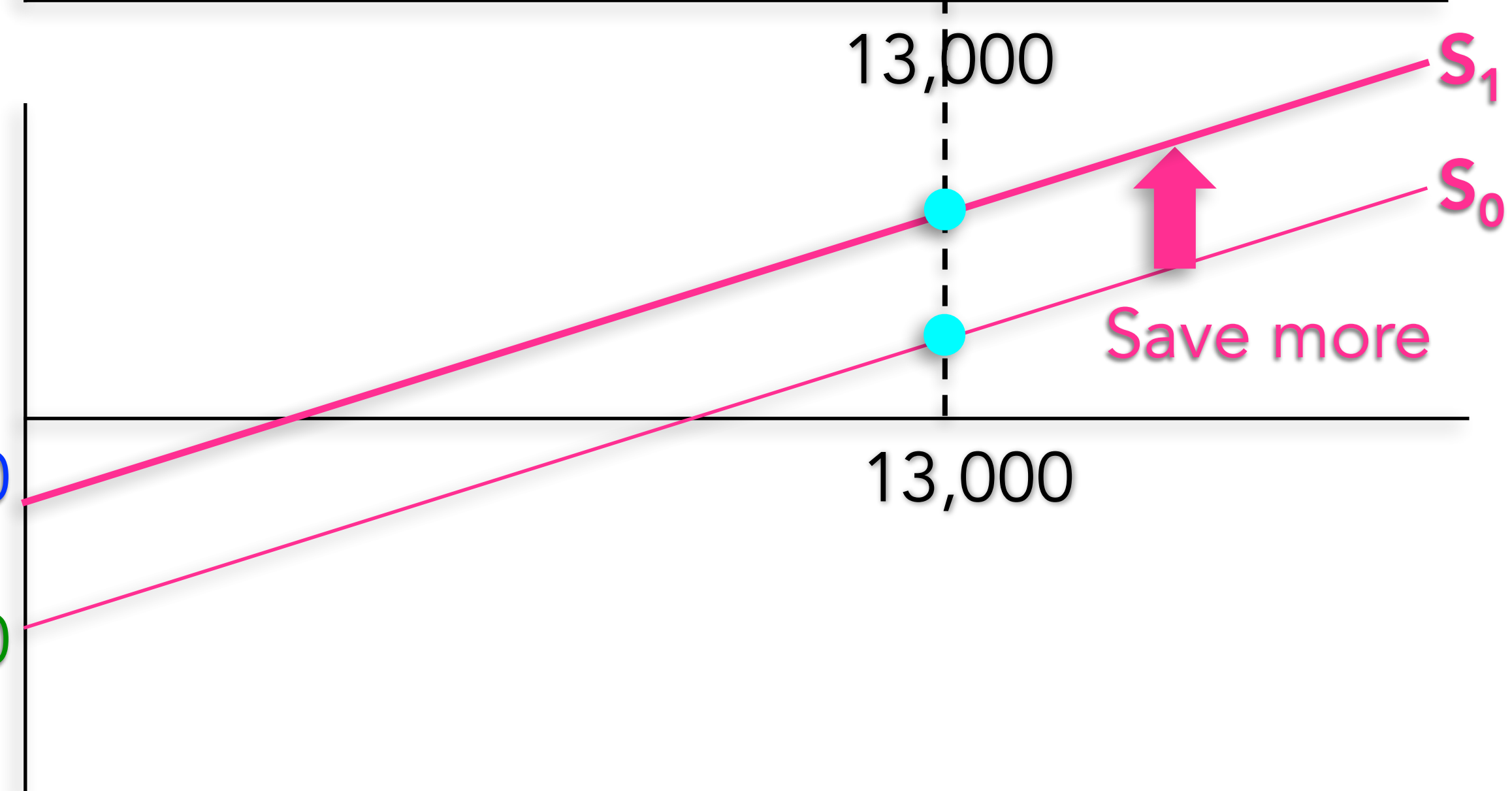
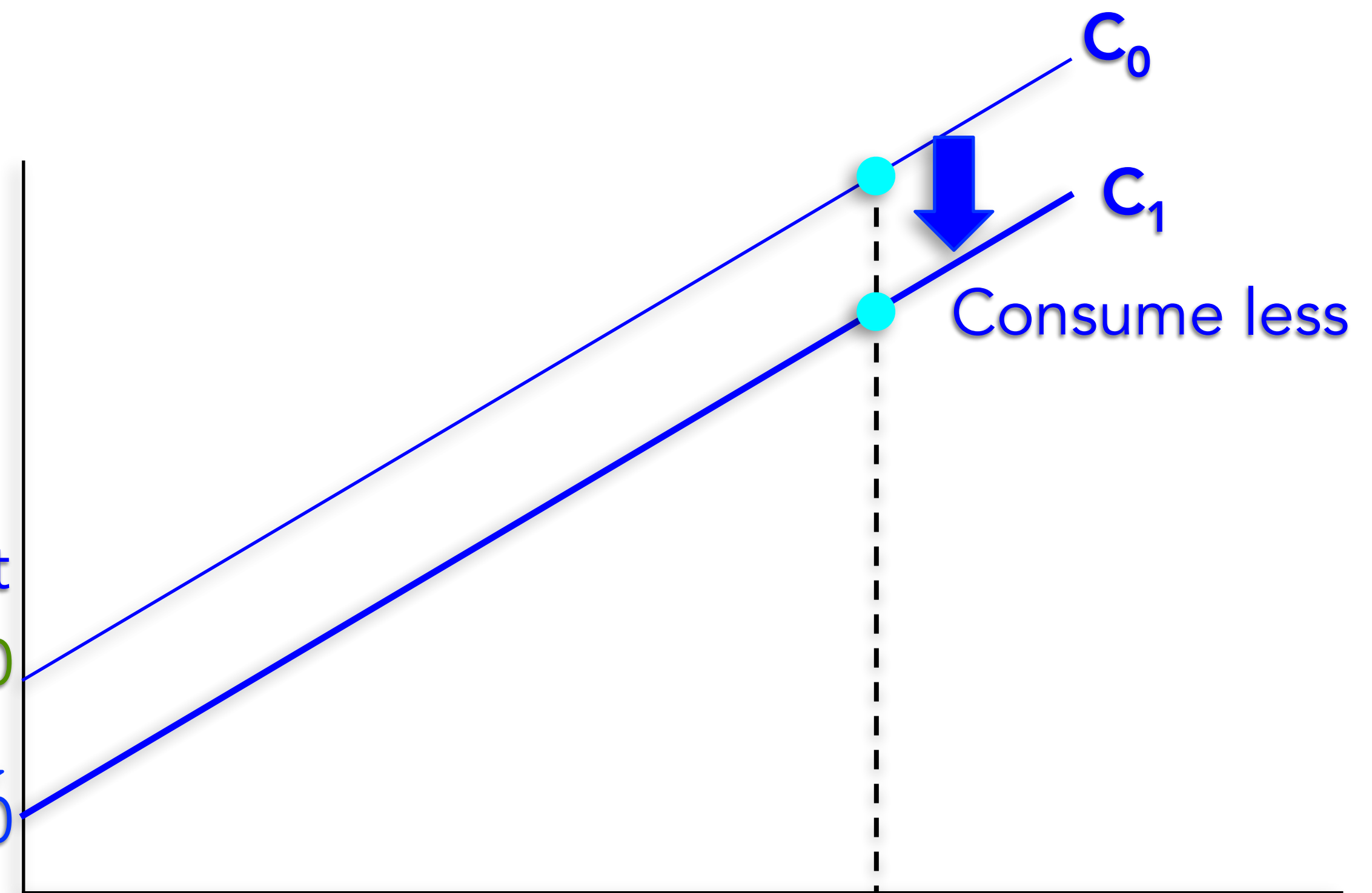
When **real** wealth decrease, Consumers spend **less** and **save more** of their income



Simultaneous **opposite** shifts in **C** and **S**

Smaller intercept
Intercept = 500
Intercept = 400

Higher intercept
-Intercept = -400
-Intercept = -500



What determines Consumer Spending?