

2

3

Consumption

$$C = 500 + 0.9Y$$

$$C = 100 + 0.9Y$$

MPC = 90%

MPC = 90%

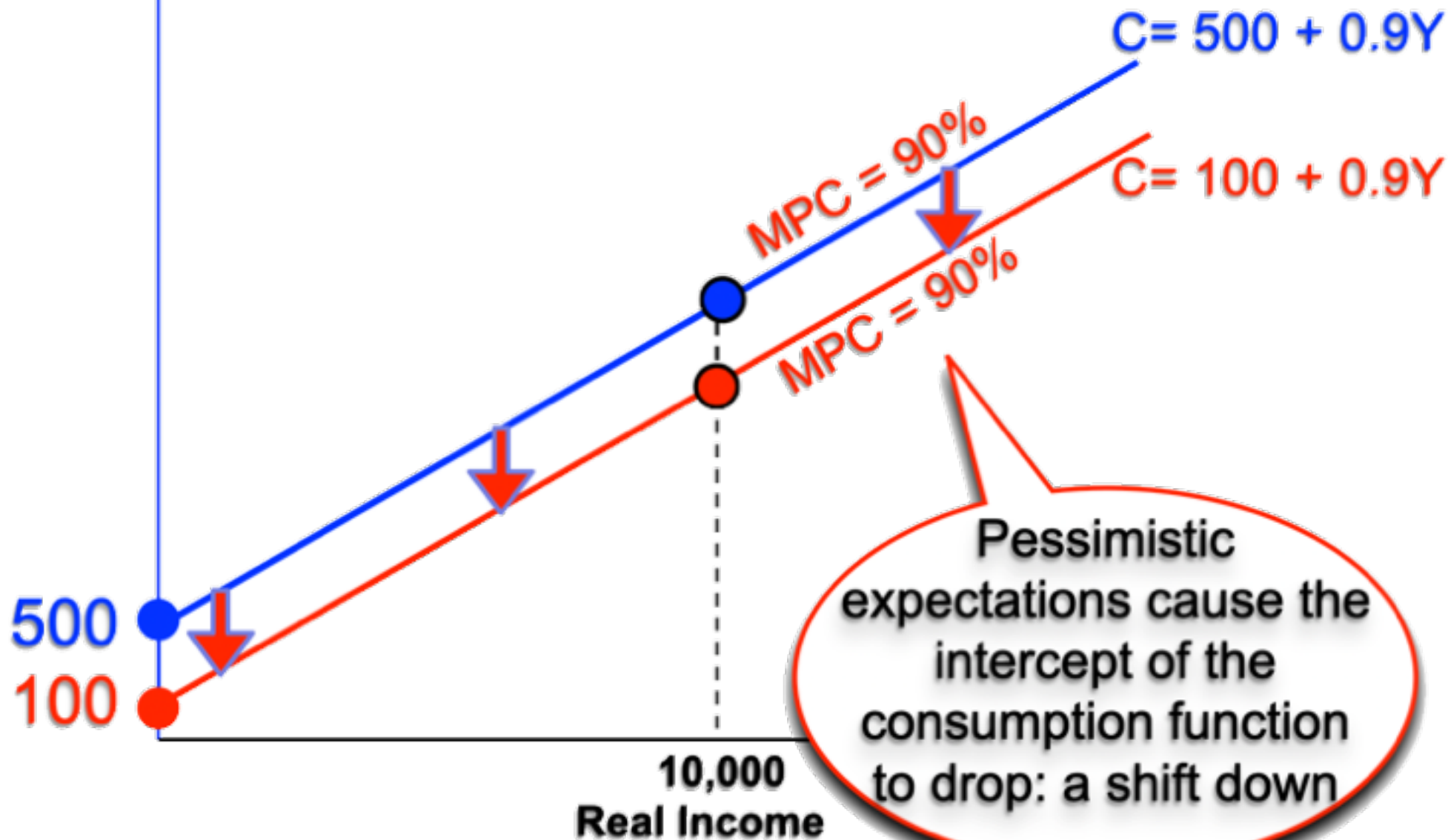
500

100

10,000

Real Income

Pessimistic expectations cause the intercept of the consumption function to drop: a shift down



Changes in the value of
Wealth

Changes in Expectations

Consumption

$$C = 500 + 0.9Y$$

$$C = 100 + 0.9Y$$

$MPC = 90\%$

$MPC = 90\%$

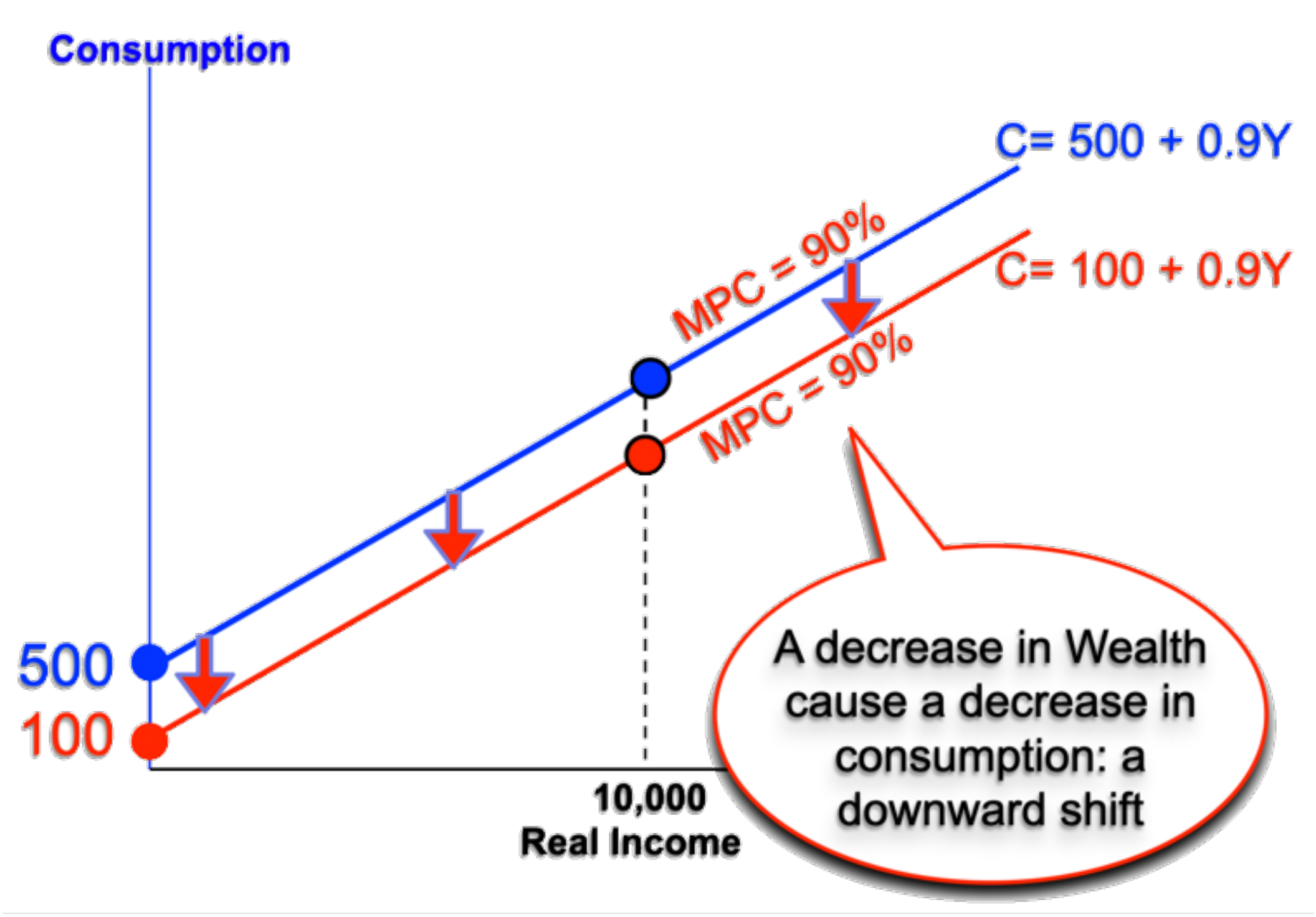
500

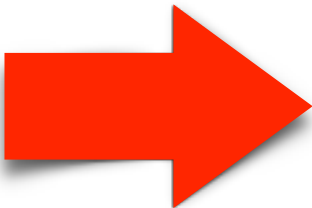
100

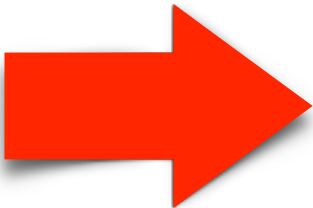
10,000

Real Income

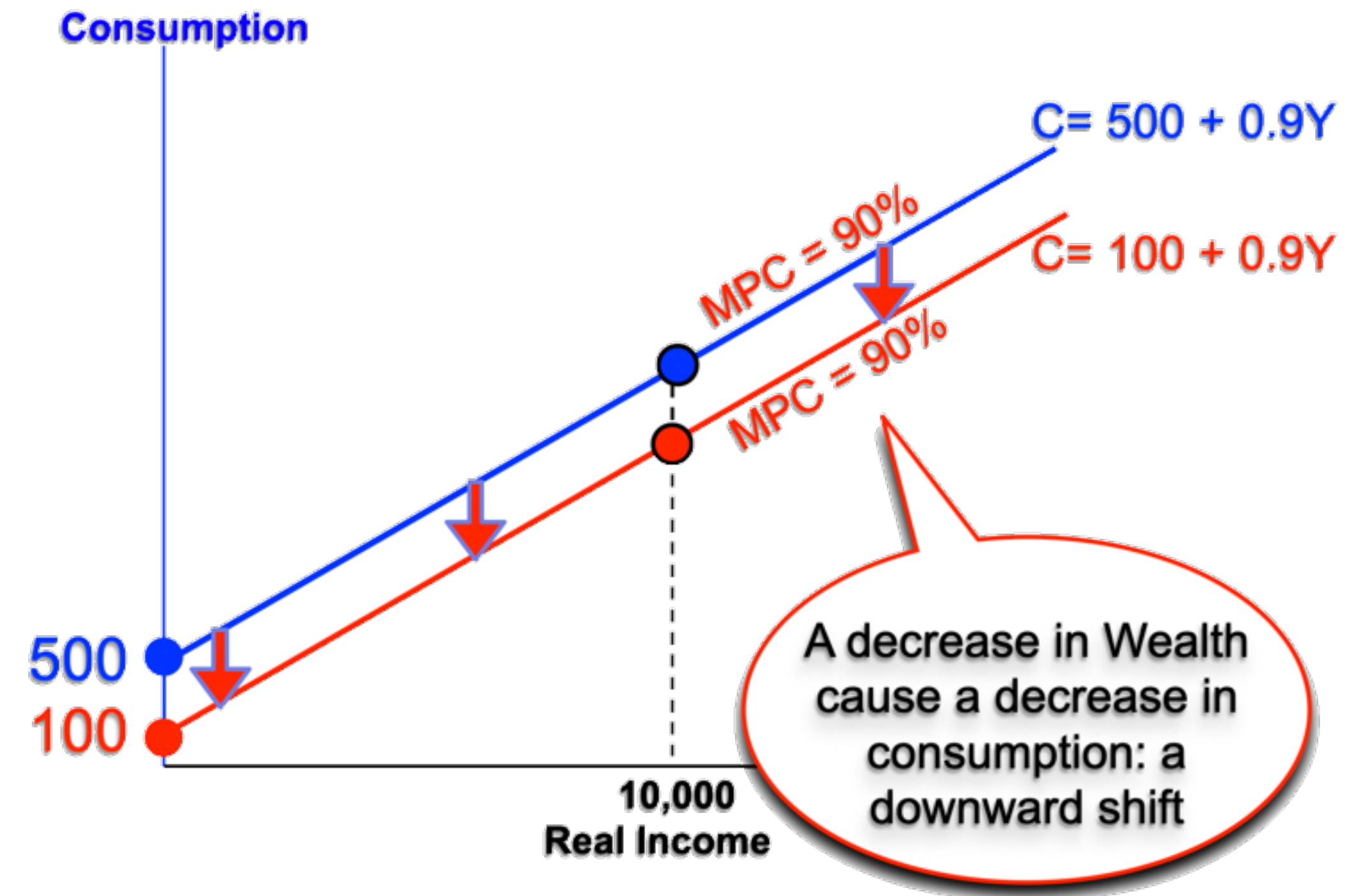
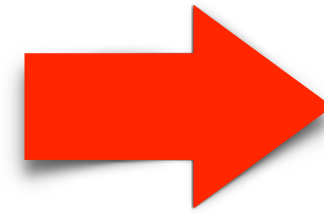
A decrease in Wealth
cause a decrease in
consumption: a
downward shift



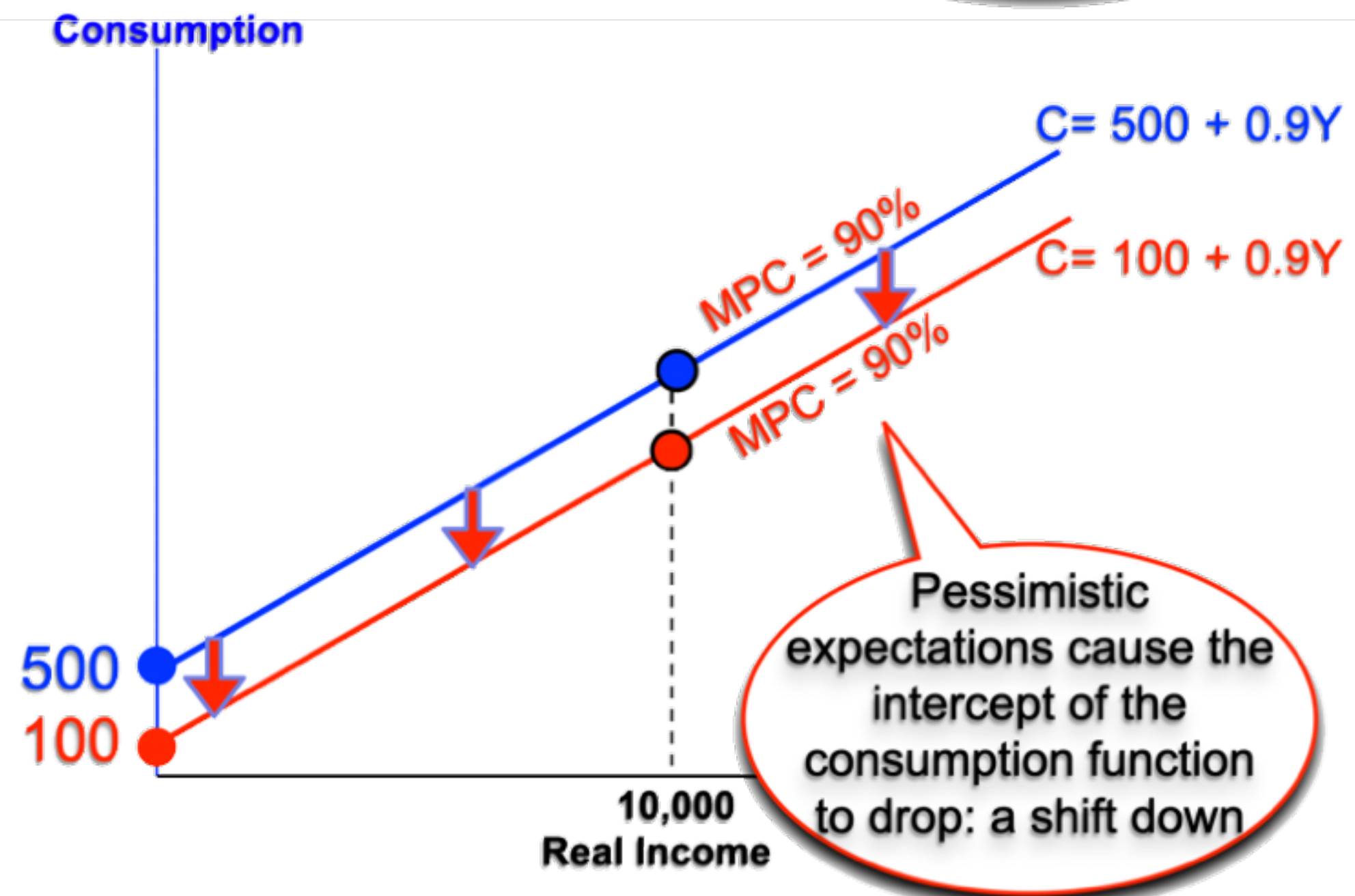
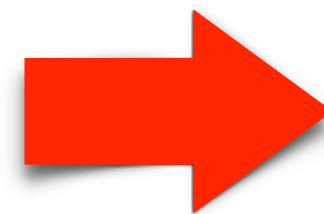




Changes in the value of
Wealth



Changes in Expectations



In this exercise, you are given a set of observations collected on
consumption expenditures for different income values

