

Once we have the Consumption Function...

W

e

C

a



W







e



h

e

S

a







9

S



U











n



C = 500 + 0.75Y

$$\text{Savings} = Y - C$$

$$\text{Savings} = Y - (500 + 0.75Y)$$

$$\text{Savings} = Y - 500 - 0.75Y$$

$$\text{Savings} = -500 + Y - 0.75Y$$

$$\text{Savings} = -500 + (1 - 0.75)Y$$

$S = -500 + 0.25Y$



Intercept



Slope

$$\text{Savings} = -500 + (0.25)Y$$

C = 500 + 0.75Y

\$ = 500 + 0.25Y



Intercept



Slope

Same
intercept
but
negative




$$1 - 0.75 = 0.25$$

1 - MPC = MPS

We can write the Savings Function...

Once we have the Consumption Function...

$$\text{Savings} = Y - C$$

$$C = 500 + 0.75Y$$

$$\text{Savings} = Y - (500 + 0.75Y)$$

$$\text{Savings} = Y - 500 - 0.75Y$$

$$\text{Savings} = -500 + Y - 0.75Y$$

$$\text{Savings} = -500 + (1 - 0.75)Y$$

$$\text{Savings} = -500 + (0.25)Y$$

$$S = \underbrace{-500}_{\text{Intercept}} + \underbrace{0.25}_{\text{Slope}}Y$$

$$C = 500 + 0.75Y$$

Same
intercept
but
negative

$$1 - 0.75 = 0.25$$
$$1 - \text{MPC} = \text{MPS}$$

$$S = \underbrace{-500}_{\text{Intercept}} + \underbrace{0.25}_{\text{Slope}}Y$$

We can write the Savings Function...

