

Consumption Depends on:

The higher
your Income
(Y) the more
you spend (C)



Wealthier/
optimistic
individuals spend
more: higher
intercept



[REDACTED]

[REDACTED]















Р





M

P







Portion of
consumption
induced by
income



Portion of
consumption
independent
from income

induced
consumption

Autonomous
consumption

C = MPRCXY

Real Income

Real Wealth

Expectations

The Consumption Function

C = intercept + MPRCY

Consumption Depends on:

Real Income

Real Wealth

Expectations

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The Consumption Function

$$C = \text{MPC} \times Y$$

$$C = \underbrace{\text{intercept}}_{\substack{\text{Portion of} \\ \text{consumption} \\ \text{independent} \\ \text{from income} \\ \text{Autonomous} \\ \text{consumption}}} + \underbrace{\text{MPC}Y}_{\substack{\text{Portion of} \\ \text{consumption} \\ \text{induced by} \\ \text{income} \\ \text{induced} \\ \text{consumption}}}$$

The Consumption Function: $C = a + MPCY$