21

$$C = 500 + 0.9(10{,}000)$$

$$C = a + MPCY$$

$$C = 500 + 0.9(10{,}000)$$

$$C = 500 + 9{,}000$$

$$C = 100 + 9{,}000$$

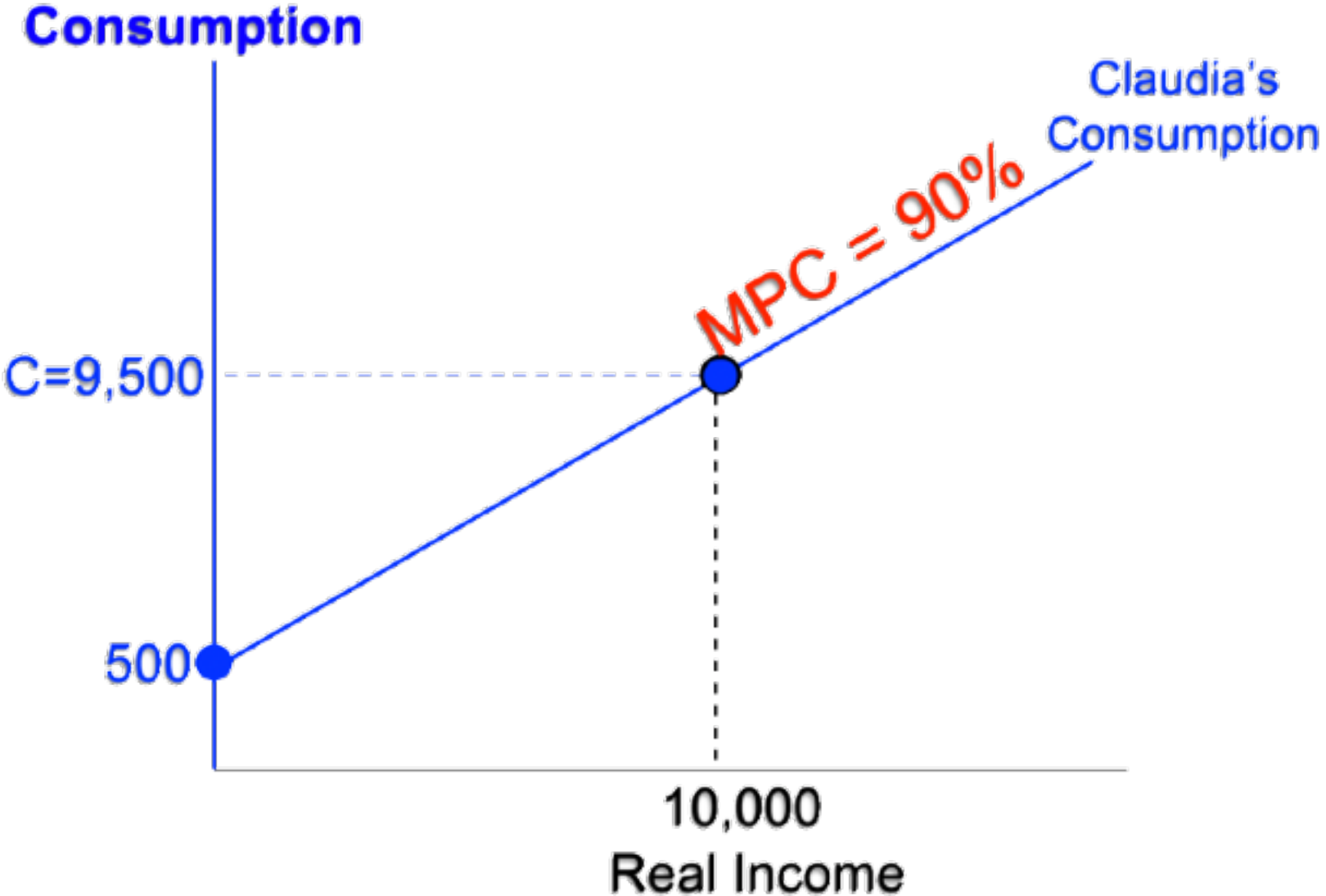
$$C = 9{,}500$$

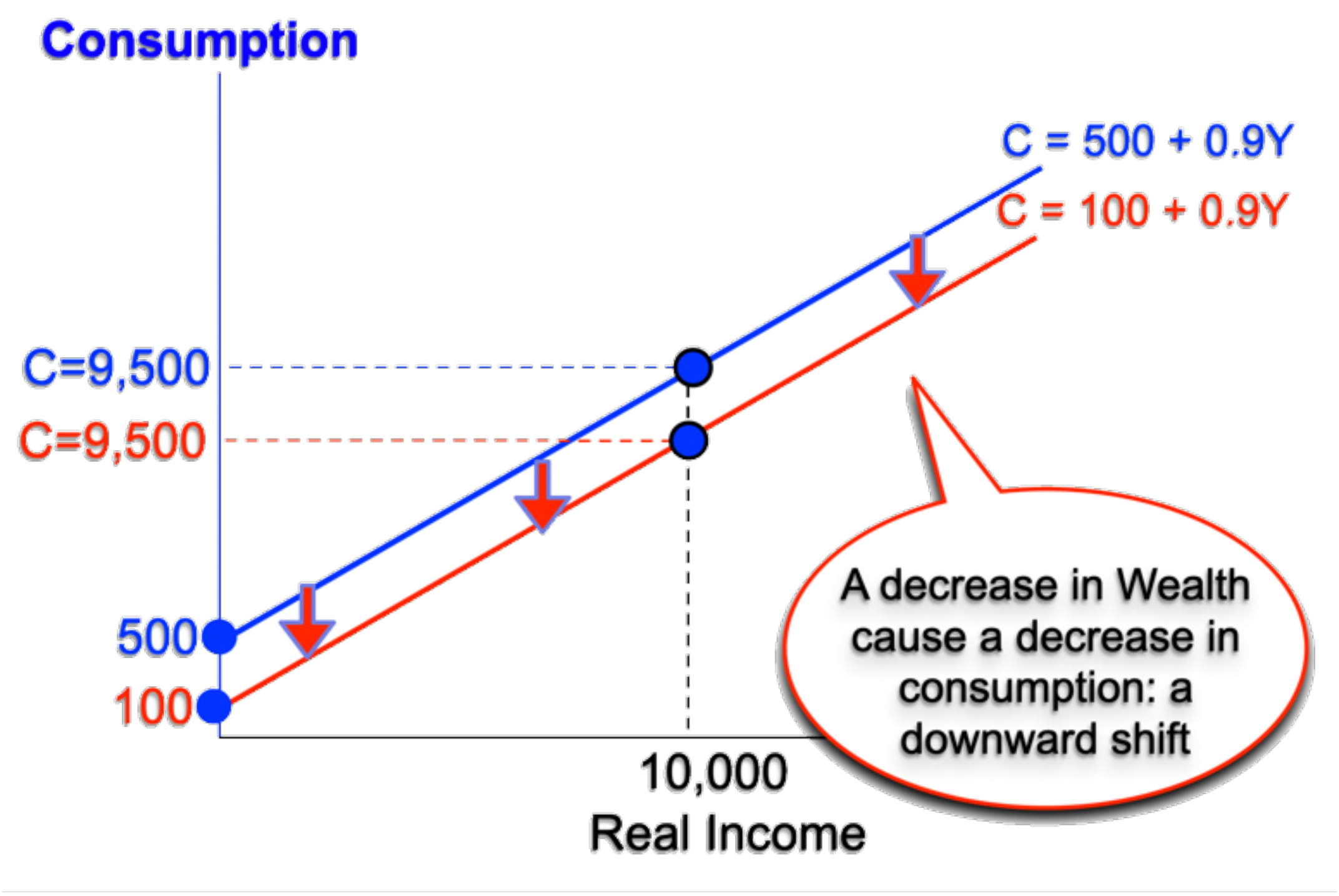
$$C = 9{,}100$$

Claudia’s old consumption

Claudia's income is still $10,000/month, a decrease in wealth

decreases the intercept: her consumption drops


Consumption
Claudia's Consumption
MPC = 90%
C=9,500
500
10,000
Real Income


Consumption
C = 500 + 0.9Y
C = 100 + 0.9Y
C=9,500
C=9,500
500
100
10,000
Real Income
A decrease in Wealth cause a decrease in consumption: a downward shift

100

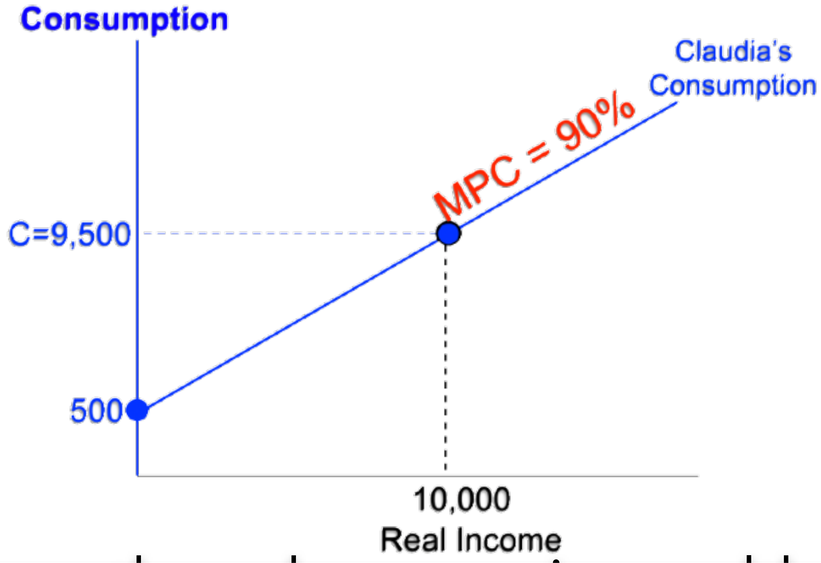
$$C = a + MPCY$$

Claudia's old consumption

$C = 500 + 0.9(10{,}000)$

$C = 500 + 9{,}000$

$C = 9{,}500$



Claudia's income is still $10,000/month, a decrease in wealth decreases the intercept: her consumption drops

$C = 100 + 0.9(10{,}000)$

$C = 100 + 9{,}000$

$C = 9{,}100$