What determines Consumer Spending?

Real Income

Real Wealth

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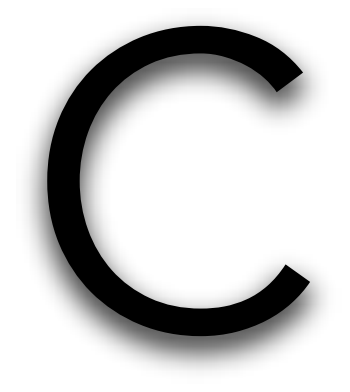
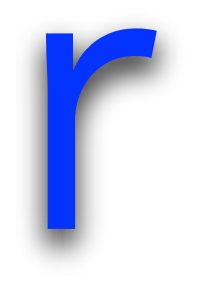
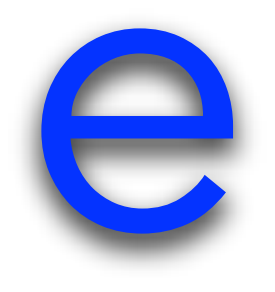
Optimistic consumers spend more: higher intercept

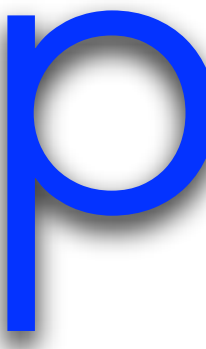
Higher prices, decrease the real value of wealth consumers spend less: lower intercept

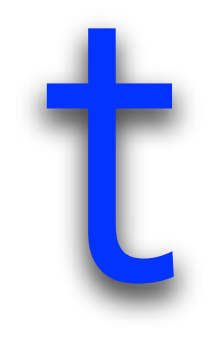
Wealthier individuals spend more: higher intercept

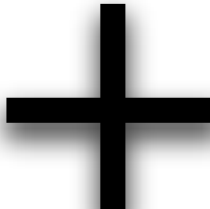


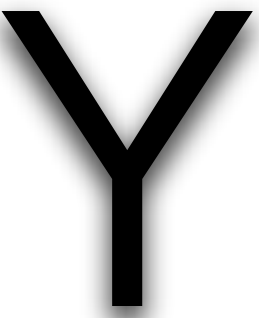


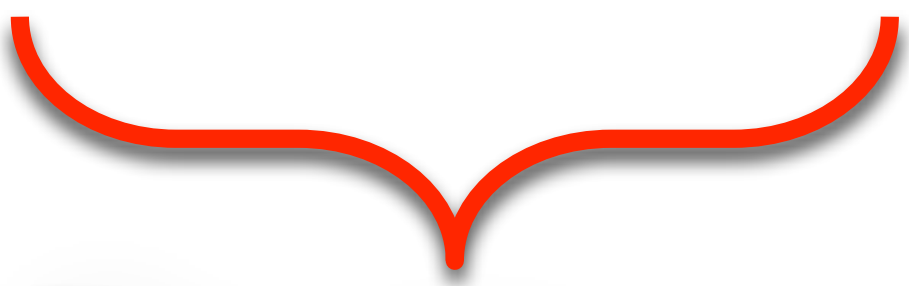




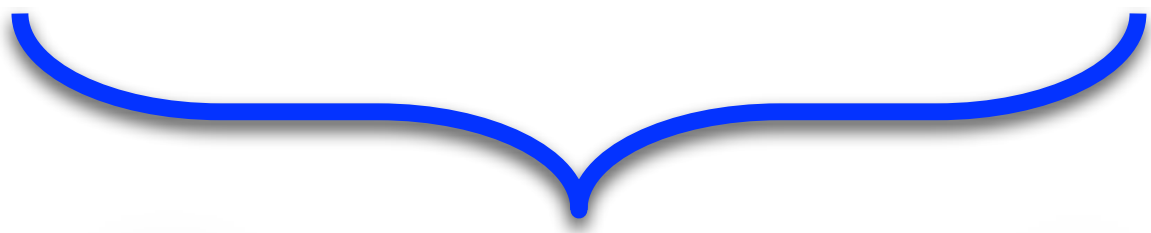








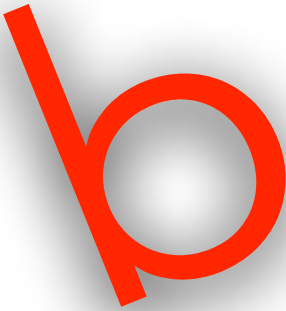
Portion of consumption induced by income



Portion of consumption independent from income

induced
consumption

Autonomous consumption



$$C = MPC \times Y$$

$$C = \text{intercept} + MPC_x Y$$

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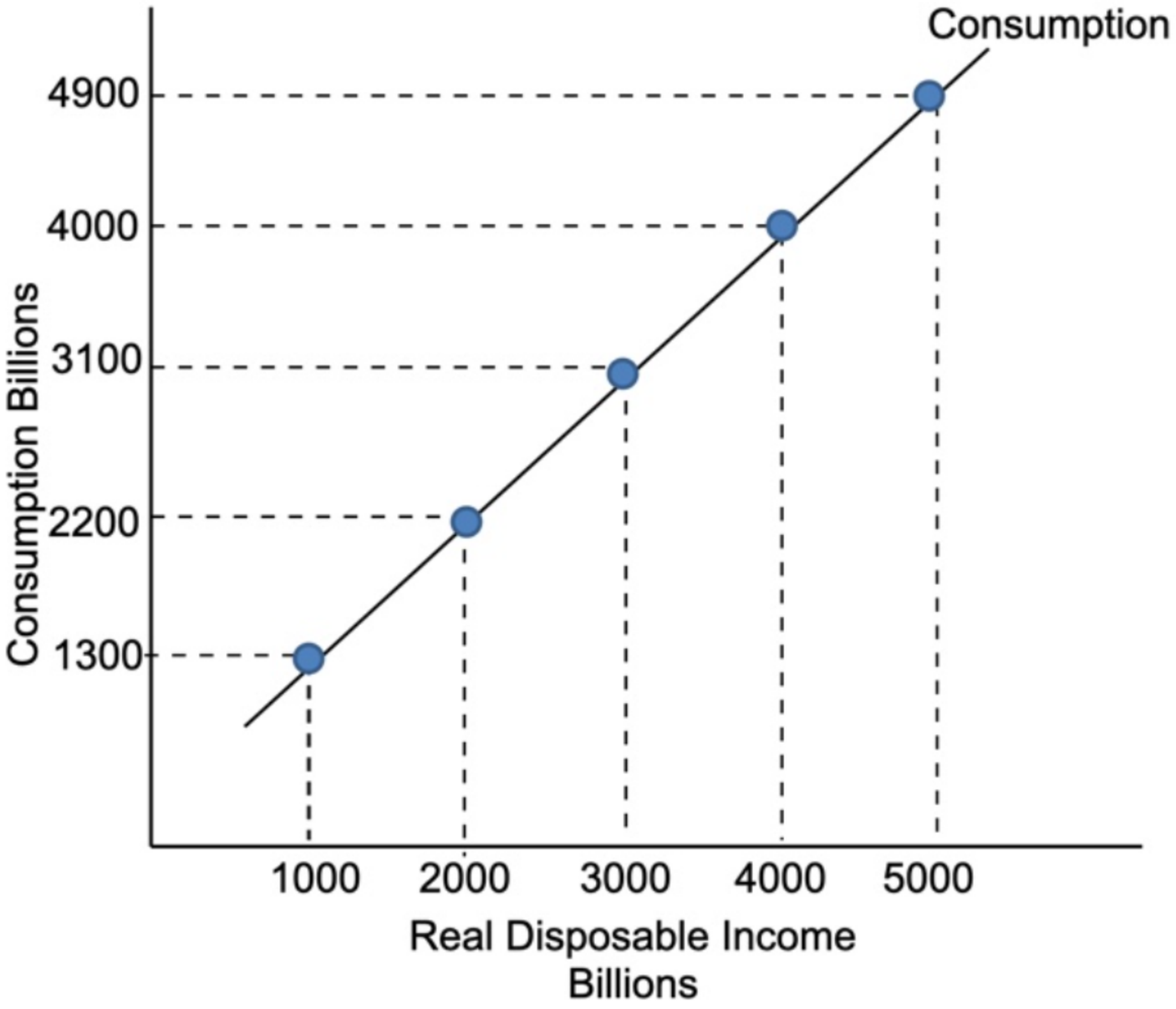
$$C = \underbrace{\text{intercept}}_{a} + \underbrace{MPC_x Y}_{b}$$

a	b
Portion of consumption independent from income	Portion of consumption induced by income
Autonomous consumption	induced consumption



1. Calculate MPC and the MPS
2. Calculate the intercepts of the Consumption and Savings Functions
3. For what value of Y is C = Y?
4. For what value of Y is S = 0?
5. If Income **increase** by 500 calculate the change in Consumption
6. If Income **increase** by 500 calculate the change in Savings
7. If Income **decrease** by 200 calculate the change in Consumption
8. If Income **decrease** by 200 calculate the change in Savings
9. C=4000+0.9*Y. Consumers become pessimistic as a result of the pandemic and decrease their autonomous consumption by 500. The new Consumption function is: