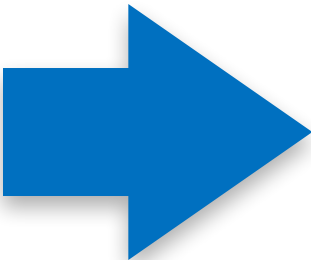
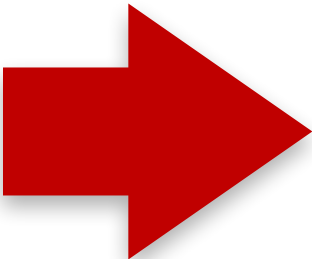


Shifts in Consumption



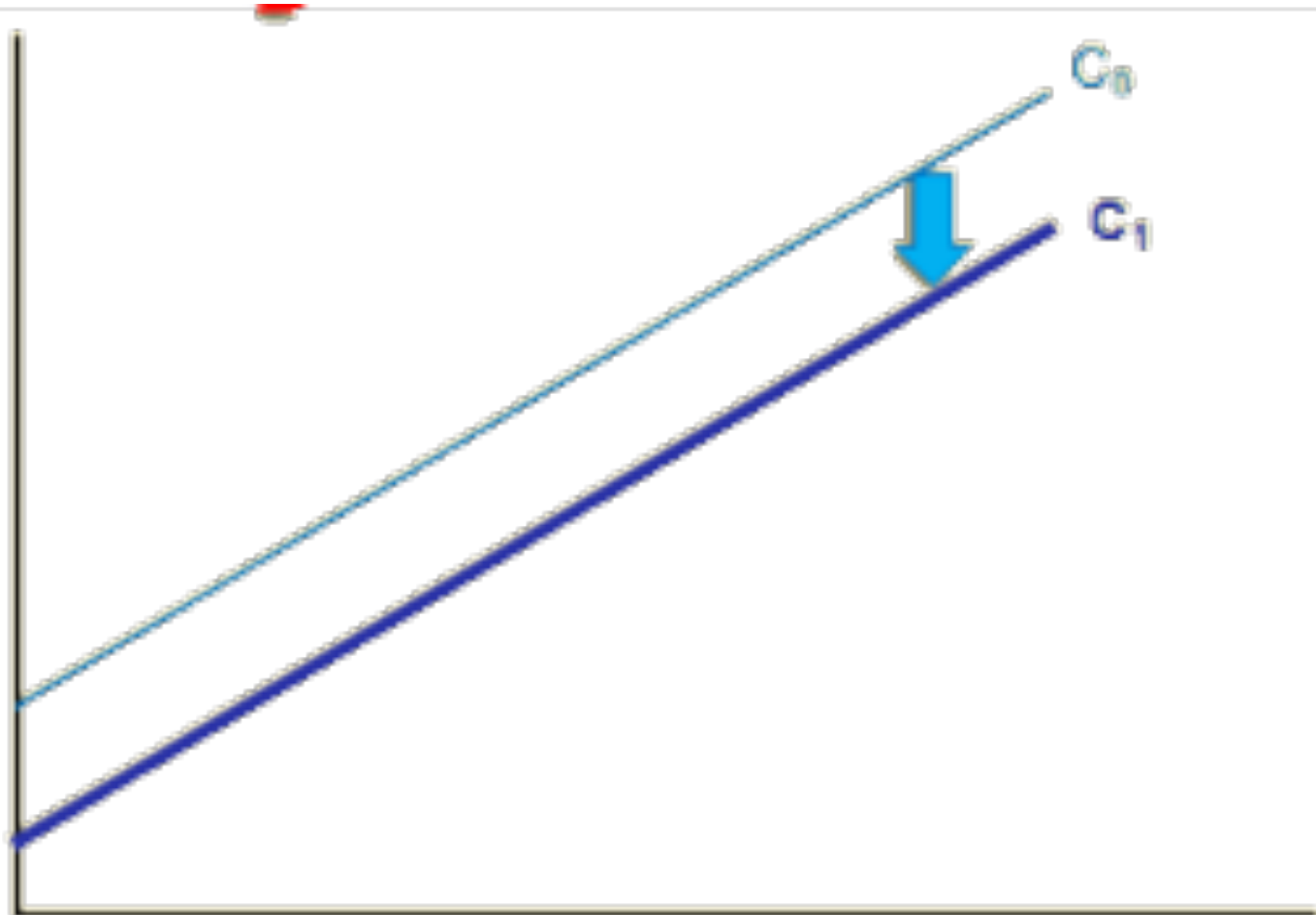
A downward shift in the
Consumption Line: a smaller
intercept




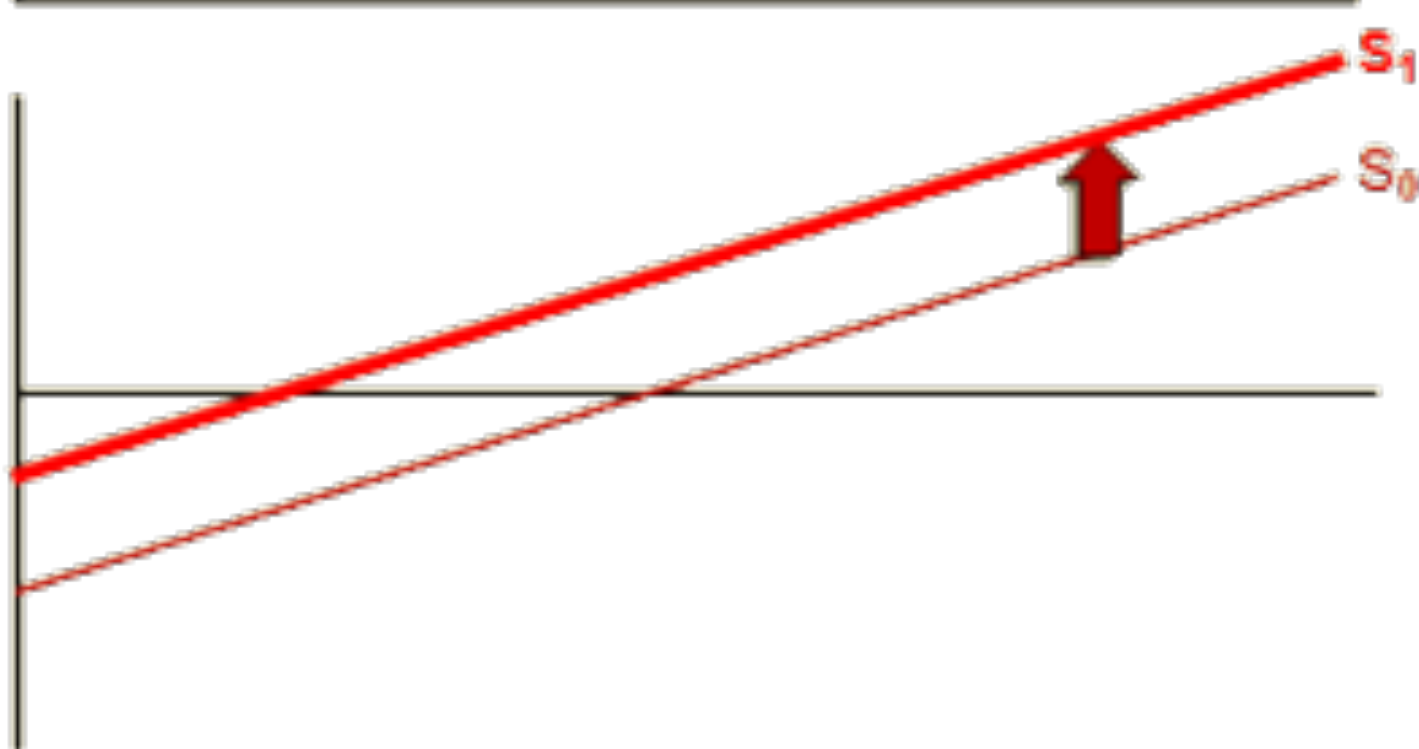
An upward shift in the Savings Line:

a larger intercept

 $a = 300$
Smaller
Intercept
 $a = 200$



 $-a = -200$
Higher
Intercept
 $-a = -300$



$$\text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI}}$$

Real Wealth Decrease: Poorer consumers buy

less and save more

3. Changes in Prices of goods and services

CPI increase

When prices increase





decrease

Shifts in Consumption

3. Changes in Prices of goods and services

CPI increase

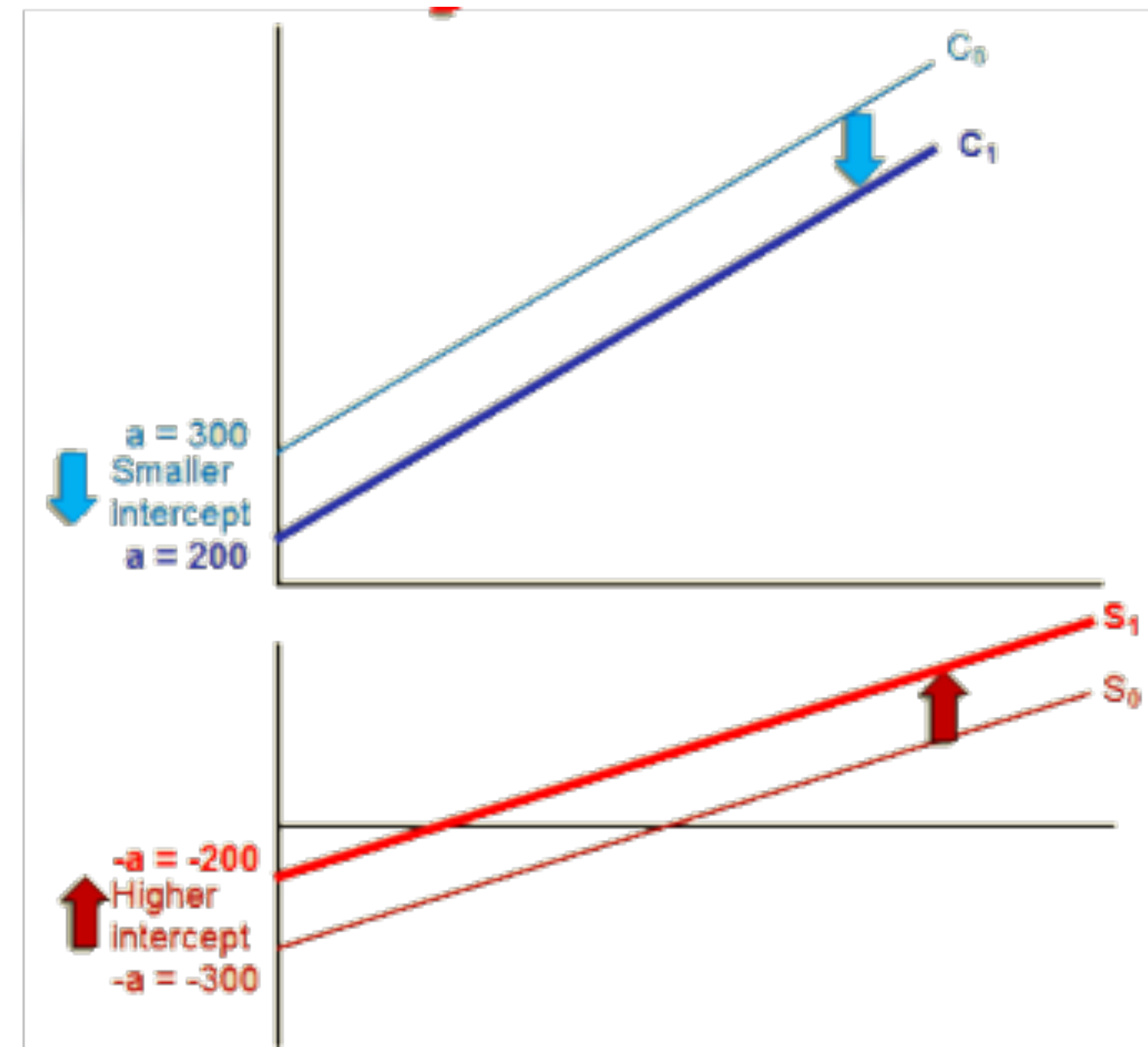
$$\downarrow \text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI} \uparrow}$$

decrease When prices increase

Real Wealth Decrease: Poorer consumers buy less and save more

➡ A downward shift in the Consumption Line: a smaller intercept

➡ An upward shift in the Savings Line: a larger intercept



What determines Consumer Spending?