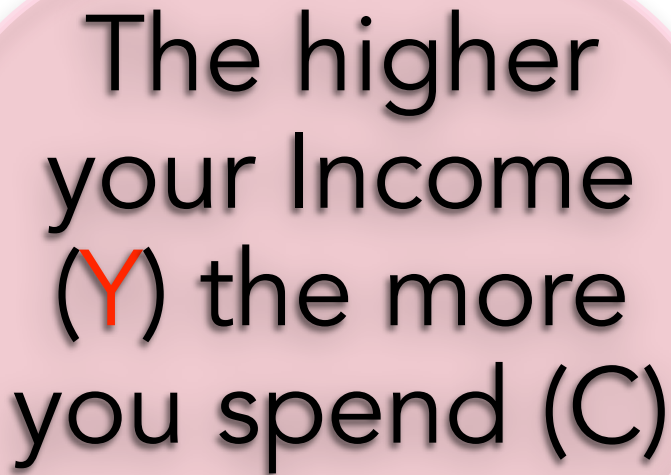




# Consumption Depends on:

A pink speech bubble with a white outline and a drop shadow, containing text.

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

=

a

+

b

Y

C = MPRCXY

Real Income

Real Wealth

Expectations

# The Consumption Function

a

b

C = intercept + MPRCY

Consumption Depends on:

Real Income

Real Wealth

Expectations

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

Wealthier/  
optimistic  
individuals spend more: higher intercept

The Consumption Function

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

$$C = a + bY$$

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



The Consumption Function:  $C = a + MPCY$