



$$\text{Disposable Income} = \text{Income} - \text{Taxes} + \text{Transfers}$$

**Disposable Income:** Income left for consumption and saving after  
paying **Taxes** and receiving **Transfers**

Without Government: CC = a + MPCY

We need to change the consumption function to reflect this change:

With Government:  $CC = a + MPC(Y - Tx + Tr)$

$$Yd = Y - Tx + Tr$$

Disposable Income = Income - Taxes + Transfers

$$Y^d = Y - T_x + T_r$$

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With Government: