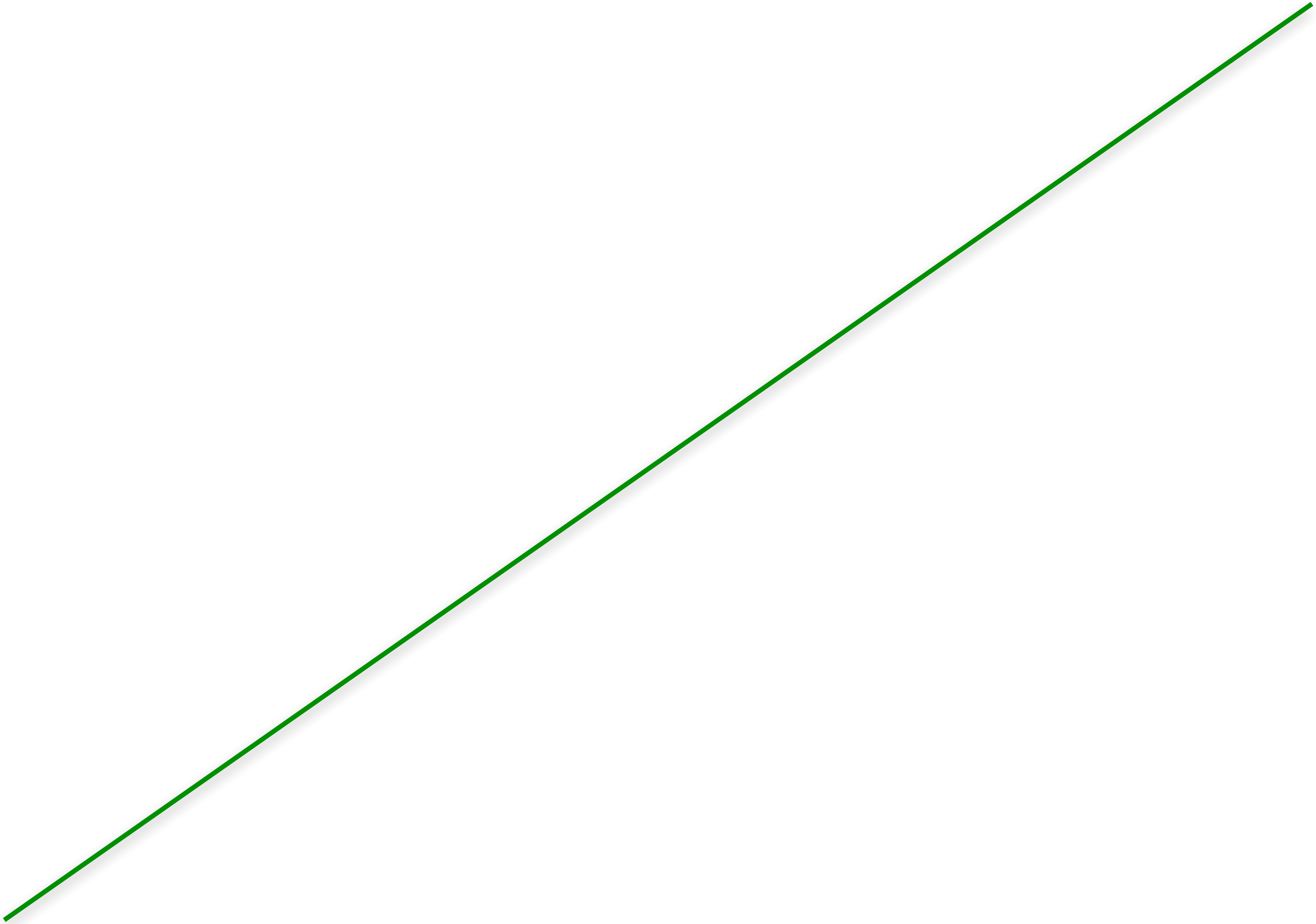
Real Income: Y

Consumption Expenditures

$Y=10,000$

$Y=20,000$



8,000

9,000

16,000

Claudia's Consumption

Mary’s Consumption

Bob’s Consumption

18,000

Income increase by: 10,000

% of the extra income spent is called the Marginal Propensity to Consume: MPC

14,000

10,000

60%

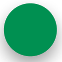
70%

80%

MPC = 60%

MPC = 70%

MPC = 80%



Consumers react differently when their income increase

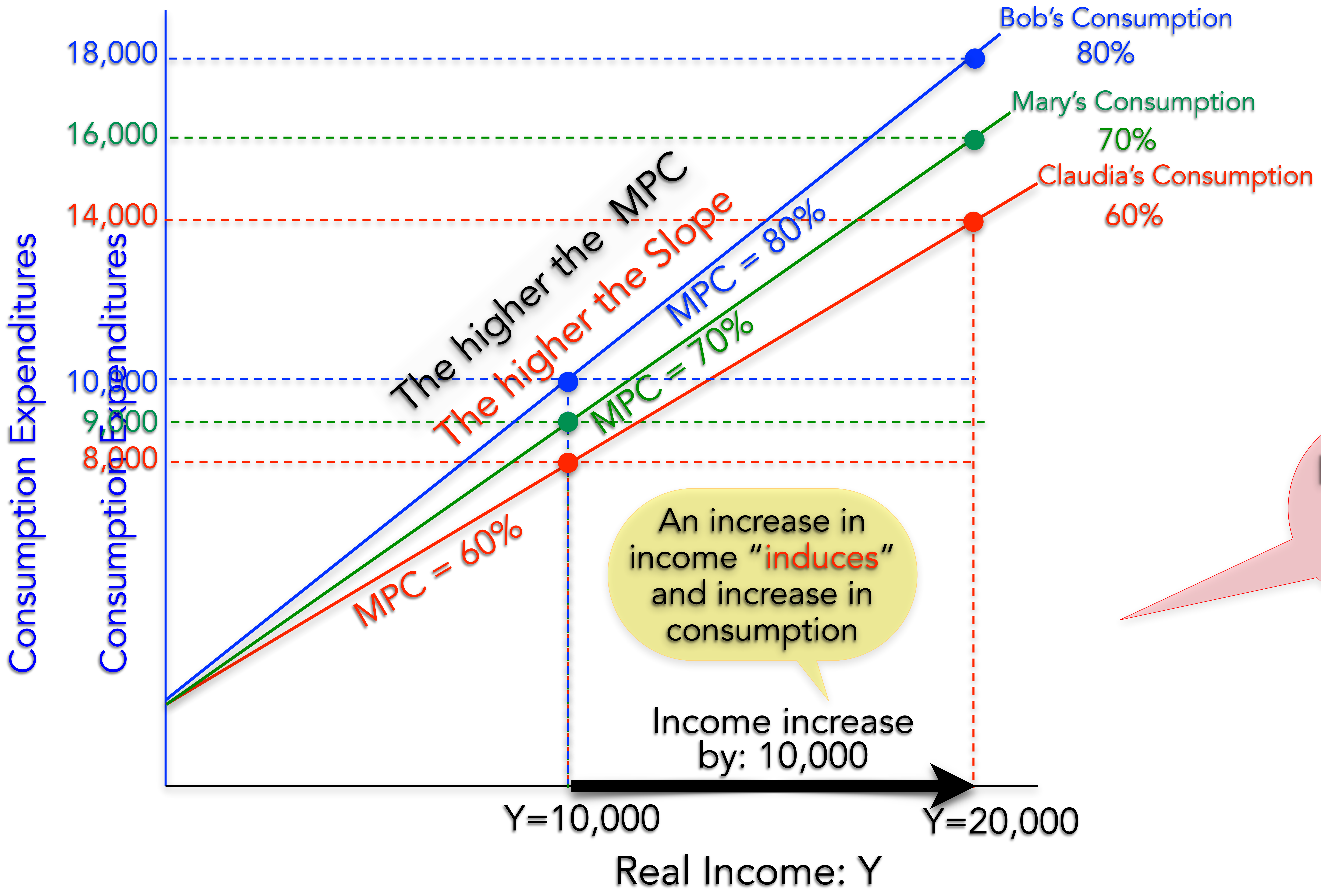
Consumption Expenditures

An increase in income "induces" and increase in consumption

MPC measures **Induced** Consumption

The higher the Slope

The higher the MPC



Consumers react differently when their income increase

MPC measures **Induced** Consumption

% of the extra income spent is called the Marginal Propensity to Consume: MPC

Wealth