

1

5

$$C = 500 + 0.9(10,000)$$

C = a + MP CY

$$C = 500 + 0.9(10,000)$$

C

=

5000

+

9,0000

$$C = 1000 + 9,000$$

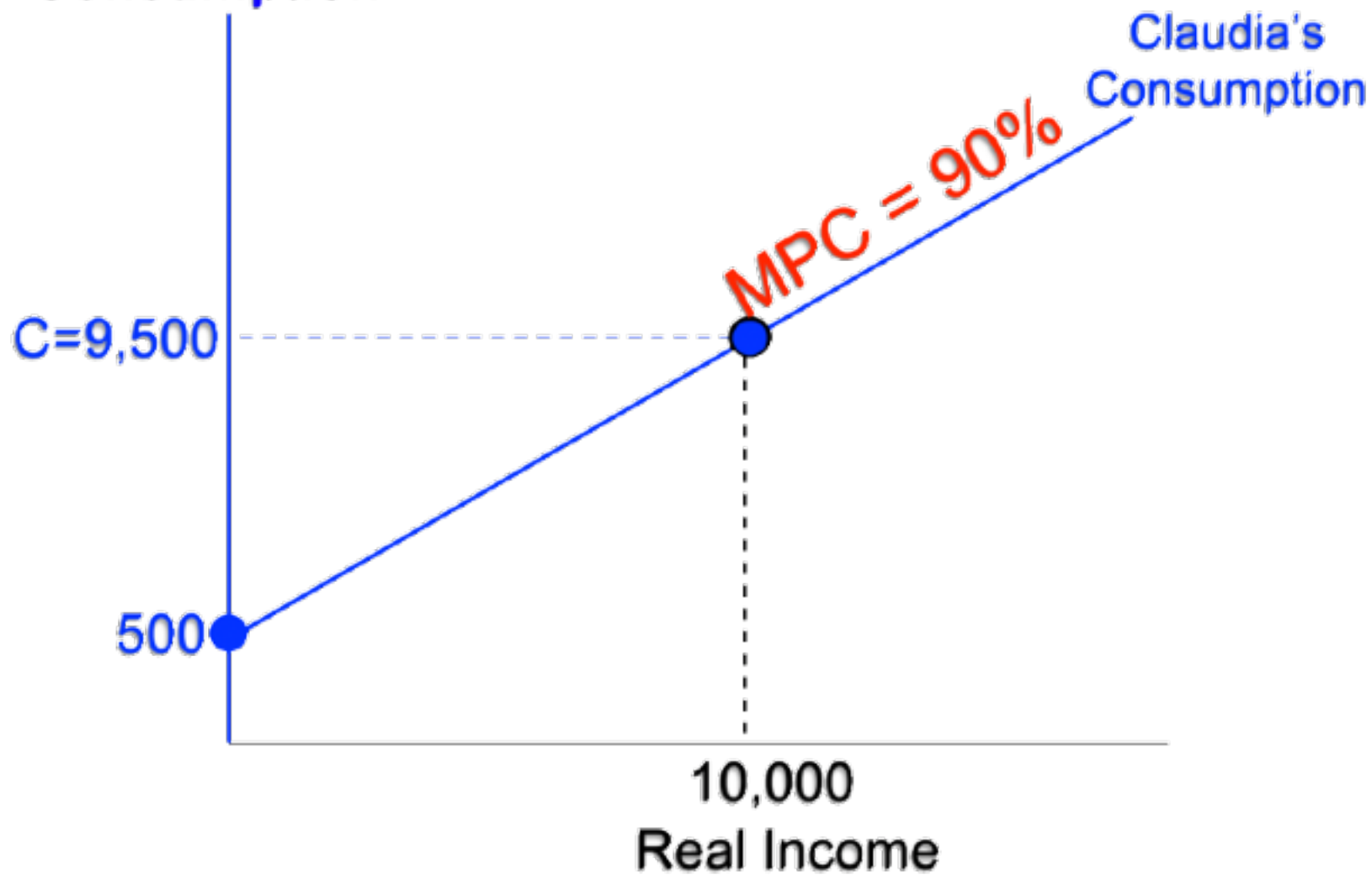
C = 9,500

C = 9,100

Claudia's old consumption

Claudia's income is still \$10,000/month, pessimistic expectations do not change her MPC but decrease the intercept:

Consumption

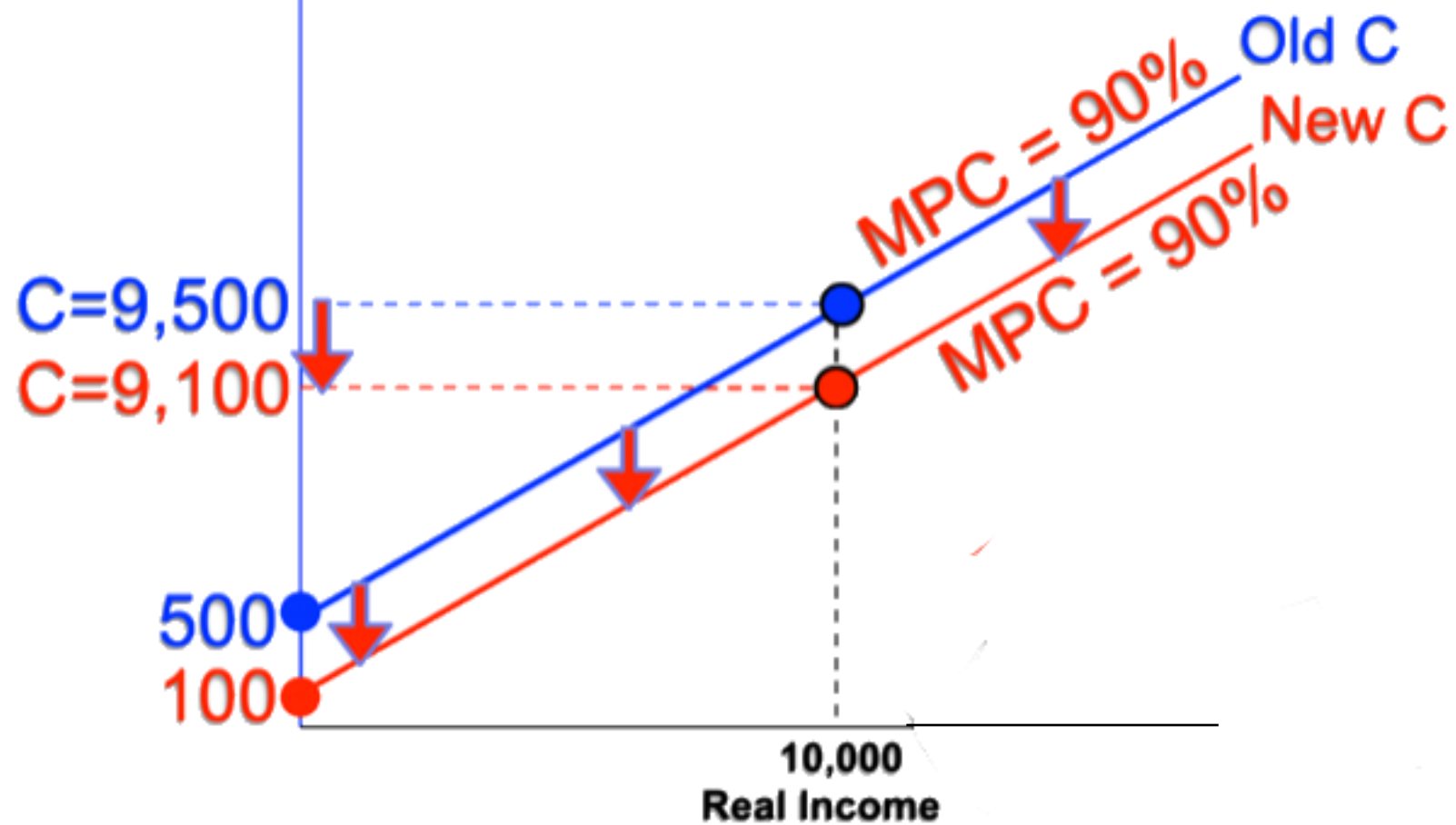


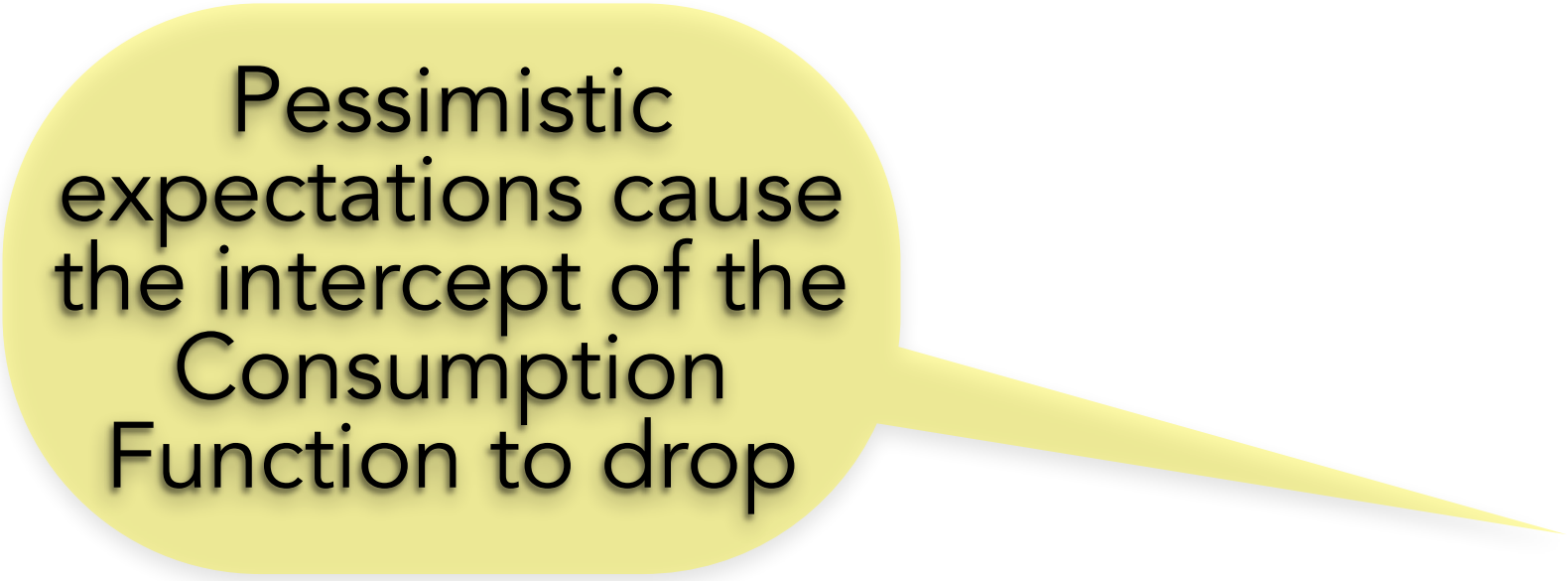
100

Claudia
buys less



Consumption





Pessimistic
expectations cause
the intercept of the
Consumption
Function to drop

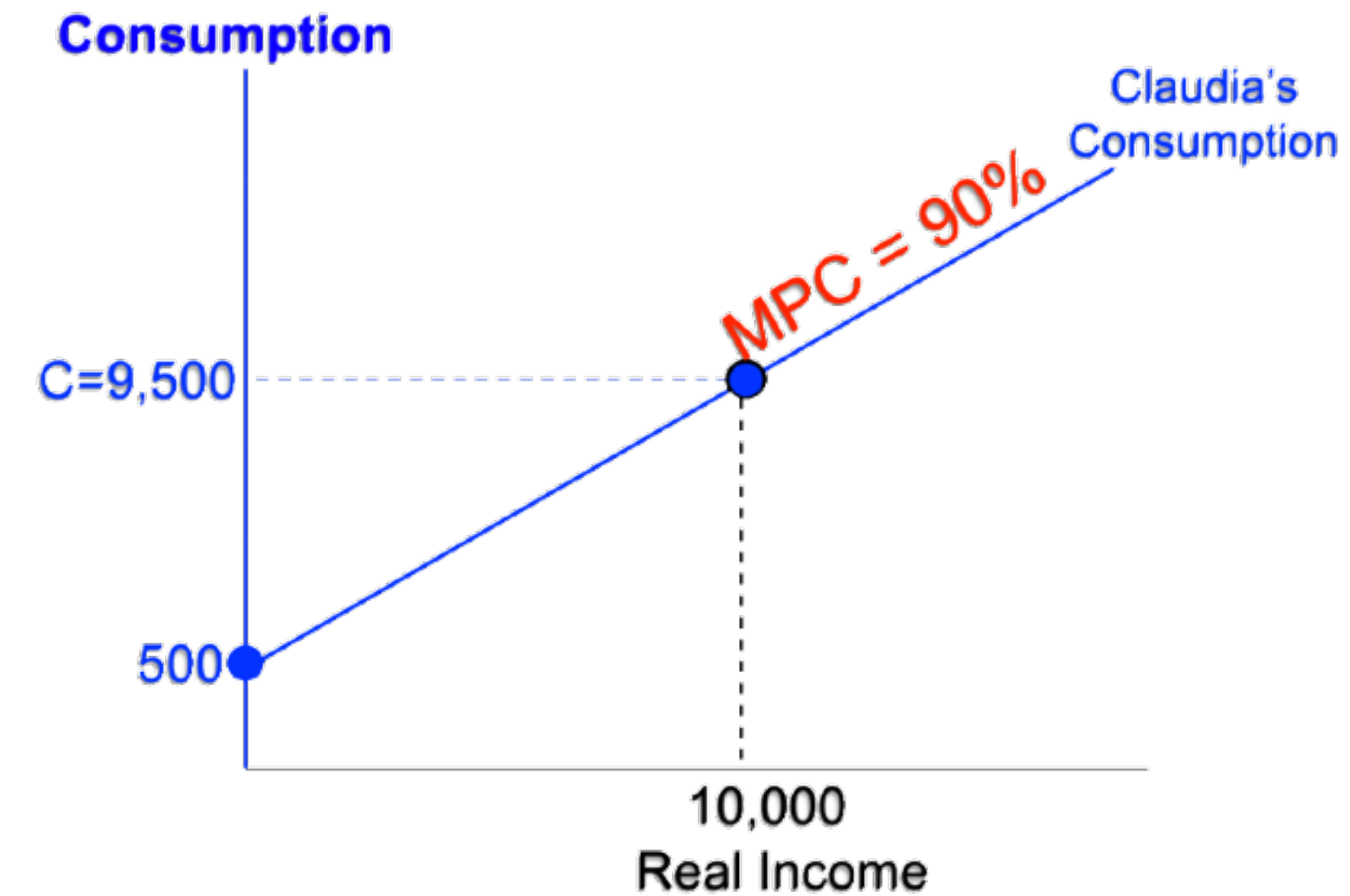
$$C = a + MPCY$$

Claudia's old consumption

$$C = 500 + 0.9(10,000)$$

$$C = 500 + 9,000$$

$$C = 9,500$$



Claudia's income is still \$10,000/month, pessimistic expectations do not change her MPC but decrease the intercept:

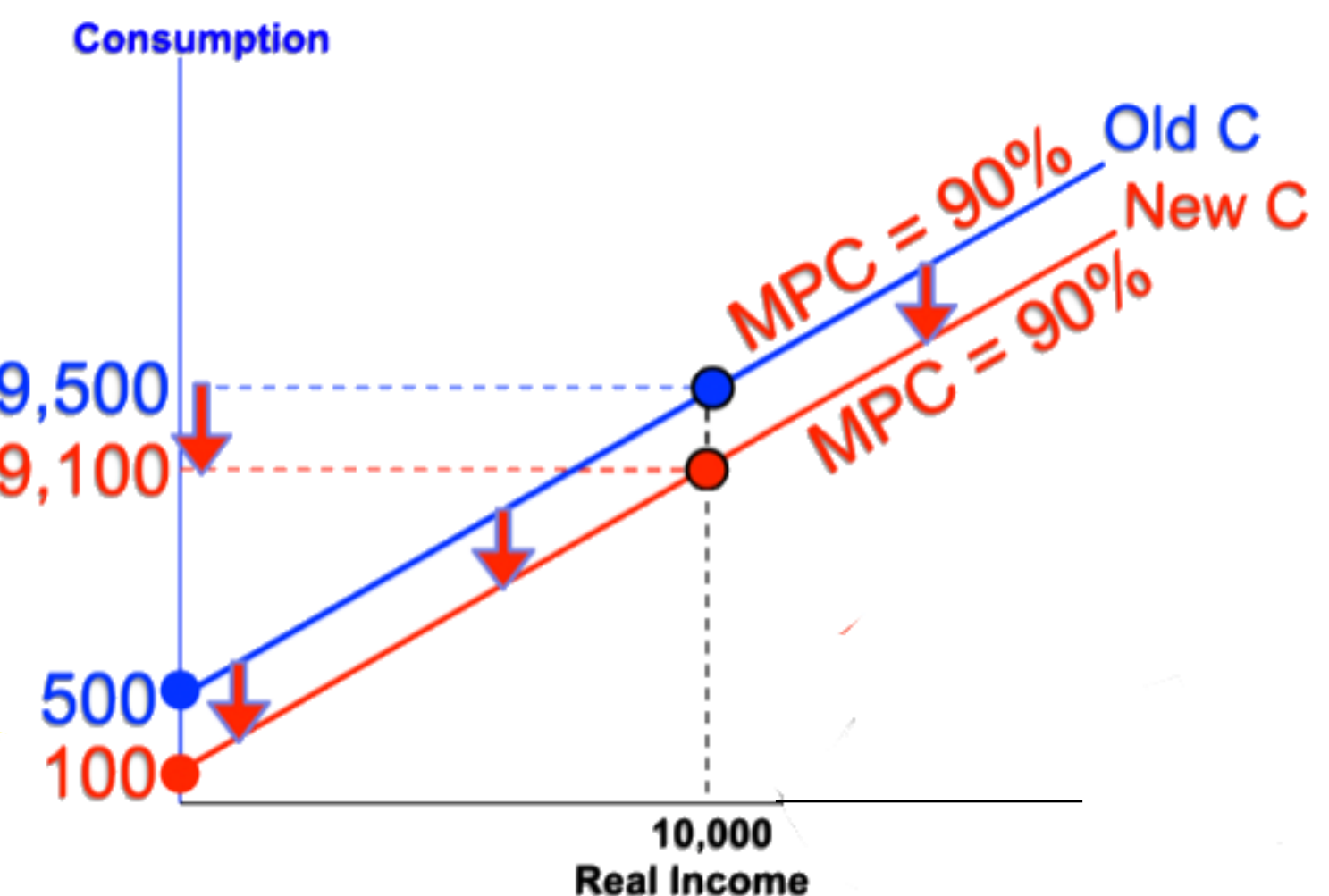
$$C = 100 + 0.9(10,000)$$

$$C = 100 + 9,000$$

$$C = 9,100$$

Pessimistic expectations cause the intercept of the Consumption Function to drop

Claudia buys less



$$C = a + MPCY$$

Claudia's income is \$10,000/month autonomous consumption = \$500
and her $MPC = 90\%$

$$C = 500 + 0.9(10,000)$$

$$C = 500 + 9,000$$

$$C = 9,500$$

