What determines Consumer Spending?

Real Income

Wealth

Expectations

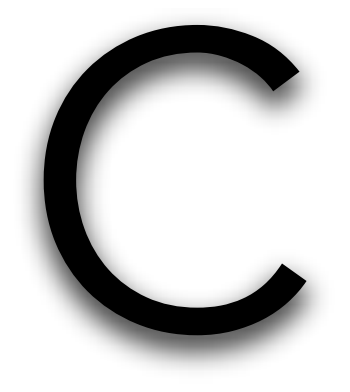
Prices

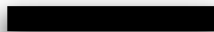
The higher Incomes are, the more consumers spend

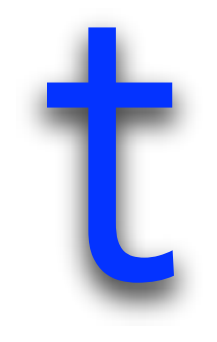
Optimistic consumers spend more: higher intercept

Lower prices, increase the real value of wealth consumers spend more: higher intercept

Wealthier individuals spend more: higher intercept



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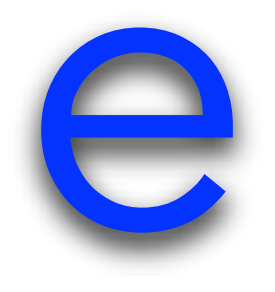
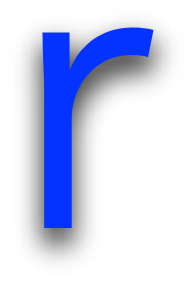
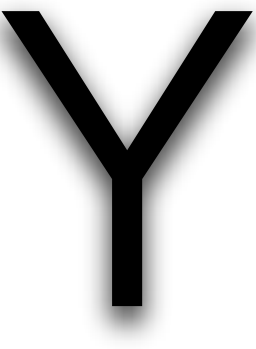
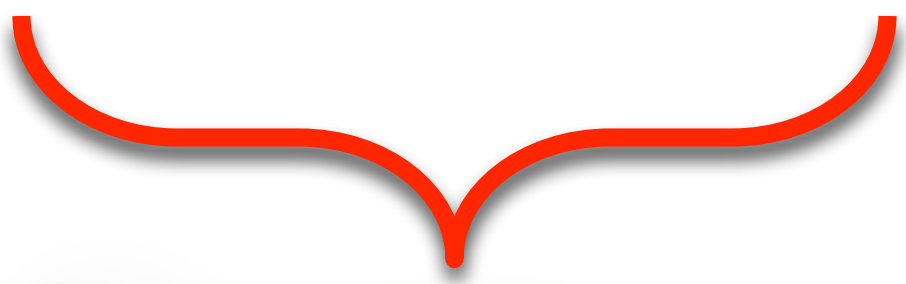
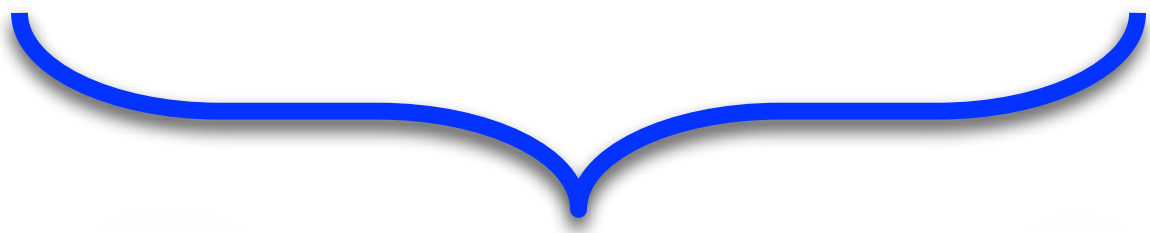








Portion of consumption induced by income

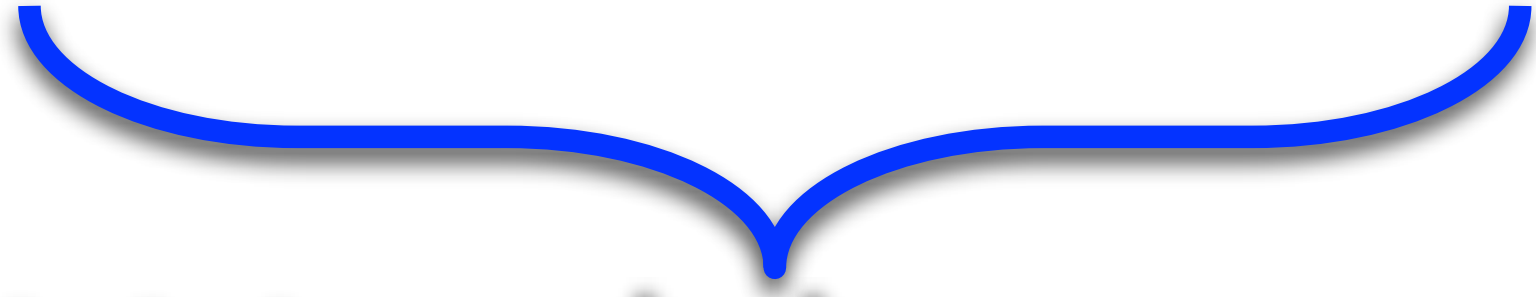


Portion of consumption independent from income

Induced consumption

Autonomous consumption

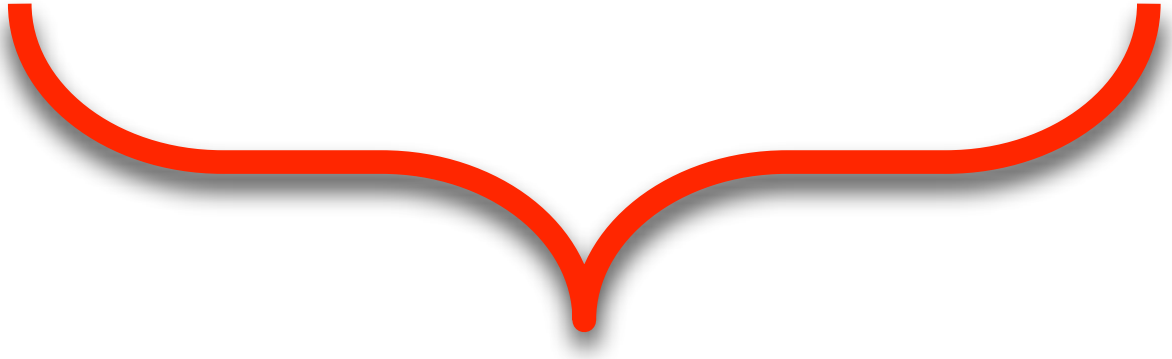
C =MPCY



Wealth

Expectations

Prices



Real Income

$$C = \text{intercept} + MPC Y$$

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$$C = \underbrace{\text{intercept}}_{\text{Autonomous consumption}} + \underbrace{MPC \cdot Y}_{\text{Induced consumption}}$$

Wealth

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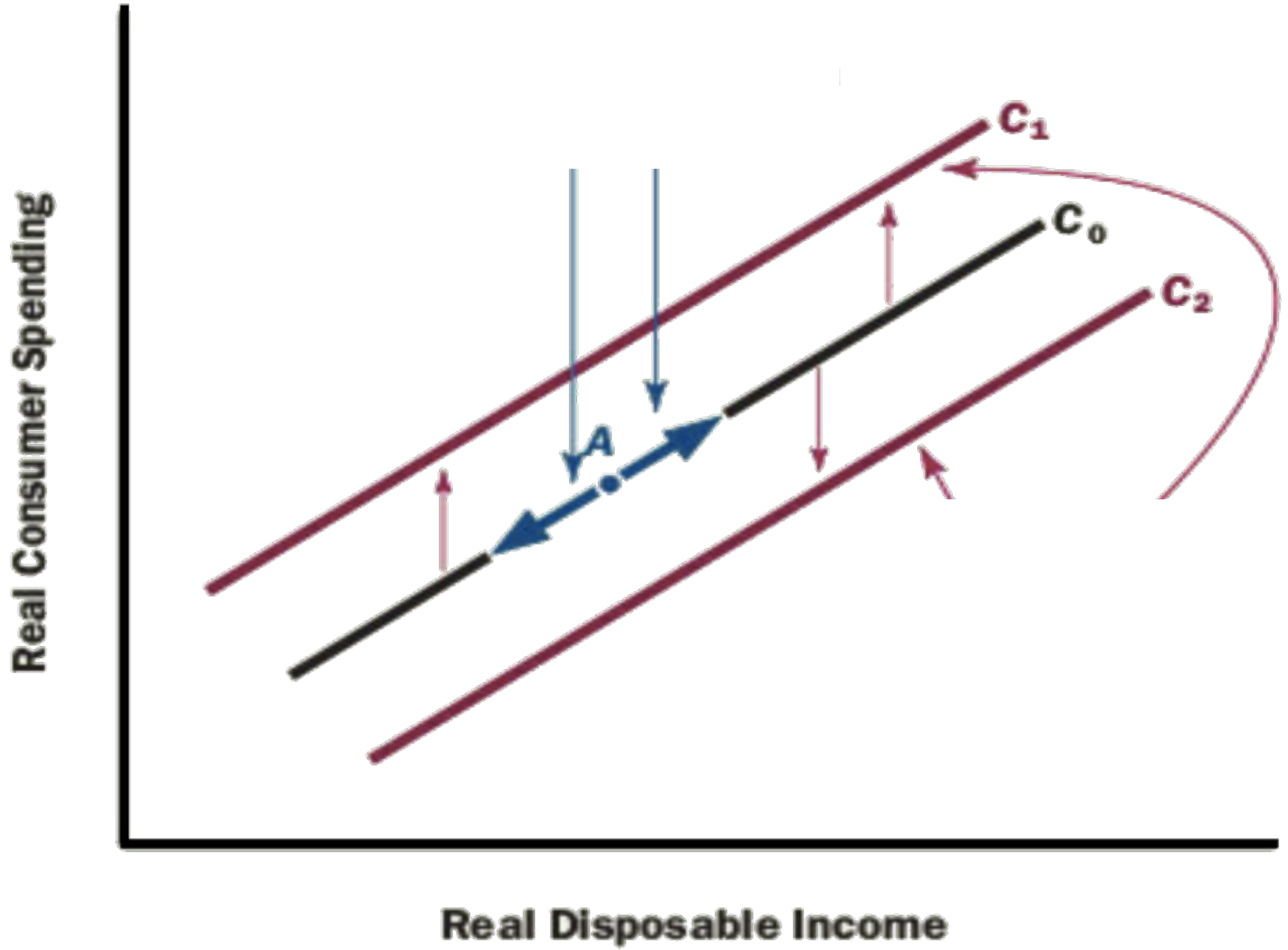
Prices

Real Income


Real Consumer Spending
C_1
C_0
C_2
A
Real Disposable Income