

Smaller intercept



Higher intercept

C1

Co

S1



S

o

Intercept = 500

-Intercept = -500



Intercept = 400

-Intercept = -400



13,000



13,000







Consumables

Income did not change

Save more

Simultaneous  
opposite shifts in  
C and S



W

h

e

**n**





e

a





W

e

a





h

d





c





a

**S**











**n**



u

m



**S**



S

p



n

d



e

S



S

a

**n**

d



a







m





e







h



e



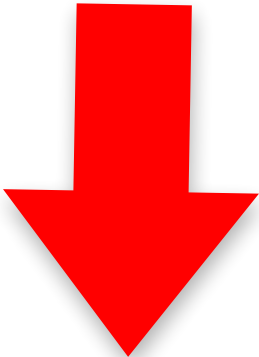






m







C

h

a

**n**

g

e







n

P

**r**



C

e

**S**





$$\text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI}}$$

When prices increase





decrease

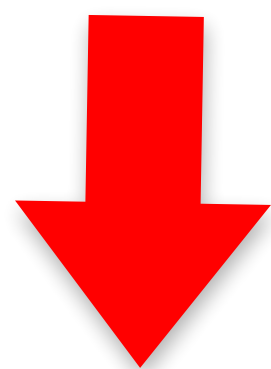
Change in Prices:

When **real** wealth  
decrease, Consumers  
**spend less** and **save**  
**more** of their income

## Change in Prices:

$\downarrow \text{Real Wealth} = \frac{\text{Nominal Wealth}}{\text{CPI} \uparrow}$   
decrease      When prices increase

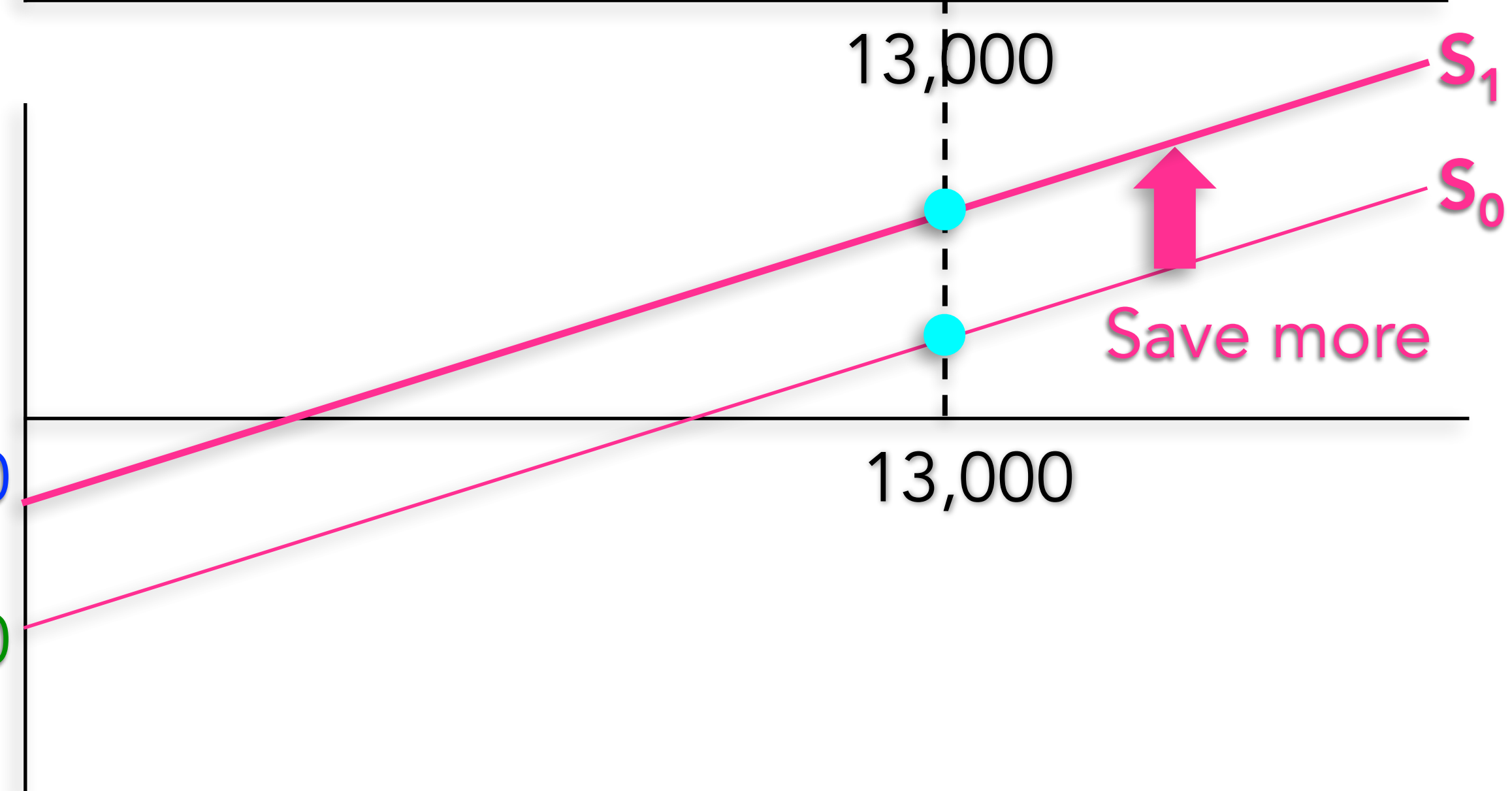
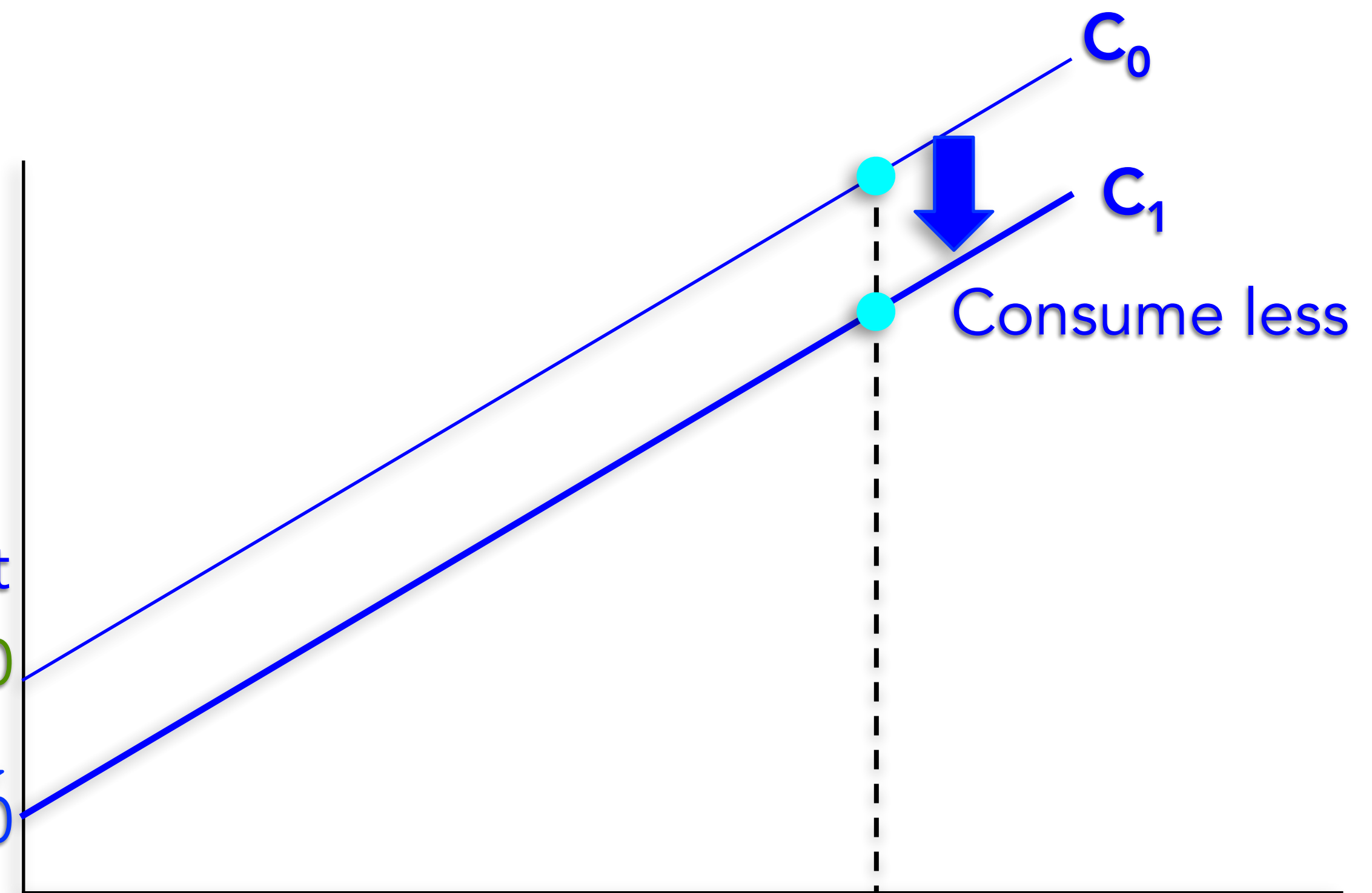
When **real** wealth decrease, Consumers **spend less** and **save more** of their income



Simultaneous **opposite** shifts in **C** and **S**

Smaller intercept  
Intercept = 500  
Intercept = 400

Higher intercept  
-Intercept = -400  
-Intercept = -500



What determines Consumer Spending?