$$C = a + b(Y - T)$$

$$C = a + bY - bT$$

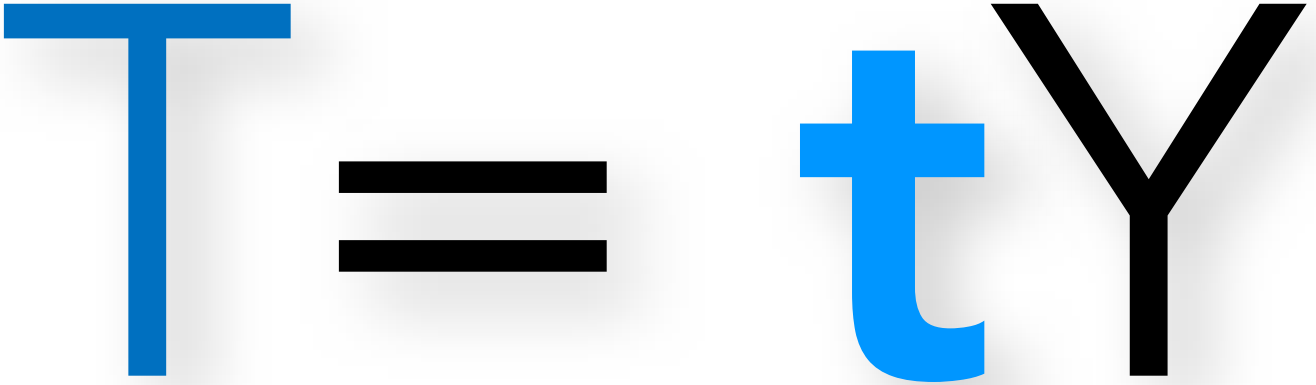
$$C = (a - bT) + bY$$

Example: T=700 MPC = 0.9

$$C = (1000 - 0.9*700) + 0.9*Y$$

$$C = (1000 - 630) + 0.9Y$$

$$C = 370 + 0.9Y$$


T=tY

$$C = a + b(Y - tY)$$

$$C = a + bY - btY$$

$$C = a + (b - bt) Y$$

Example: t = 0.25 MPC = 0.9

$$C = 1000+(0.9 - 0.9*0.25)Y$$

$$C = 1000 + (0.9 - 0.225)Y$$

$$C = 1000 + 0.675Y$$

Slope

C and AE

= b

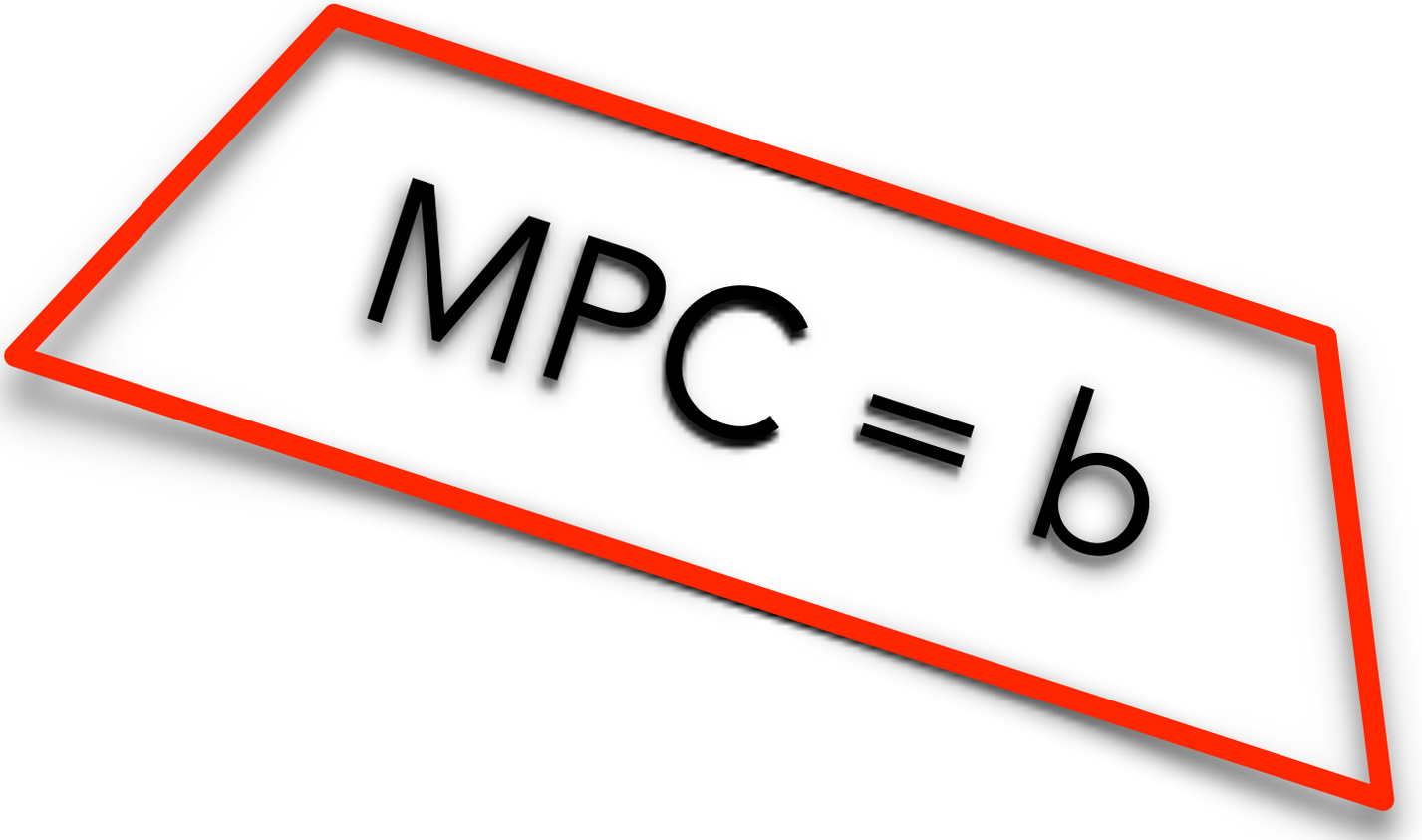
Slope

C and AE

= b-bt

Variable taxes $T = tY$

Lump Sum taxes T


MPC = b

Slope

C and AE

= 0.9

Slope

C and AE

= 0.675

Lump Sum taxes T

$C = a + b(Y-T)$

$C = a + bY - bT$

$C = (a - bT) + bY$ ⟶ Slope C and AE $= b$

Example: **T=700** MPC = 0.9

$C = (1000 - 0.9*700) + 0.9*Y$

$C = (1000 - 630) + 0.9Y$

$C = 370 + 0.9Y$ ⟶ Slope C and AE $= 0.9$

Variable taxes T= tY

$T = tY$

$C = a + b(Y - tY)$

$C = a + bY - btY$

$C = a + (b - bt)Y$ ⟶ Slope C and AE $= b-bt$

Example: **t = 0.25** MPC = 0.9

$C = 1000+(0.9 - 0.9*0.25)Y$

$C = 1000 + (0.9 - 0.225)Y$

$C = 1000 + 0.675Y$ ⟶ Slope C and AE $= 0.675$

Variable Taxes make C and AE **Flatter**