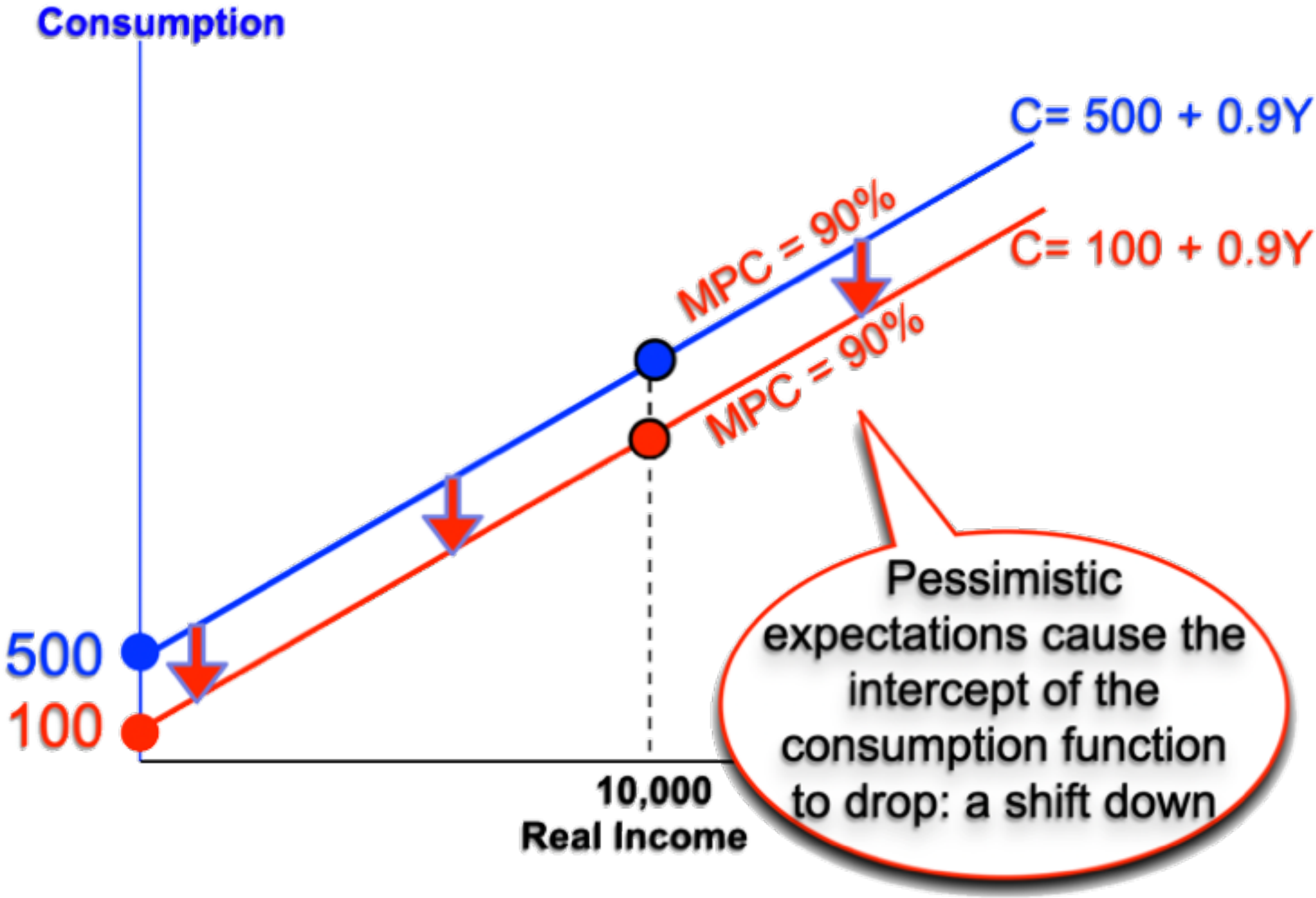
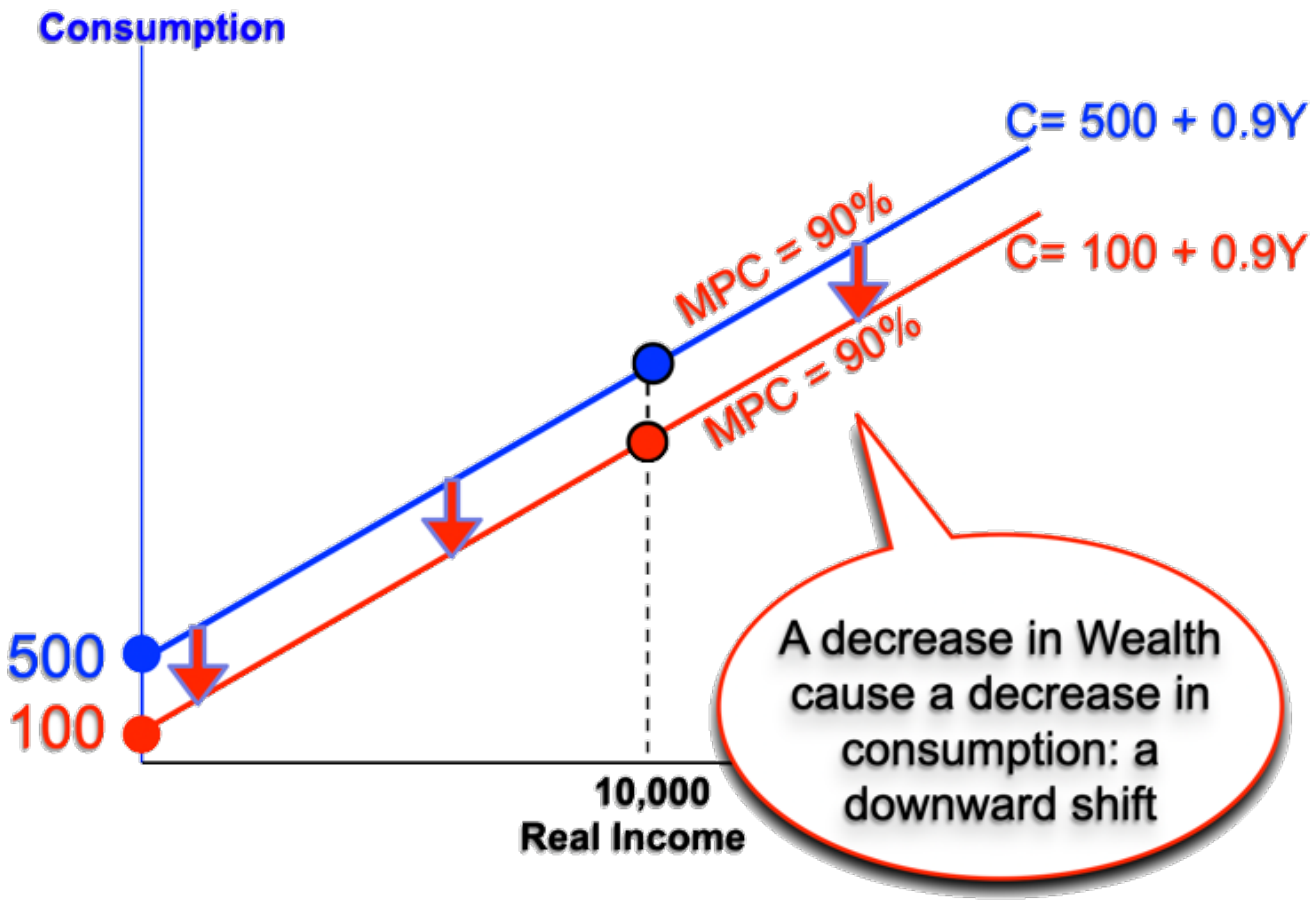
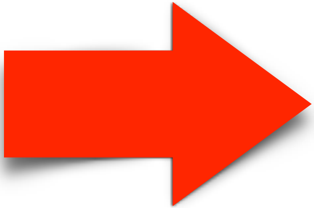
23

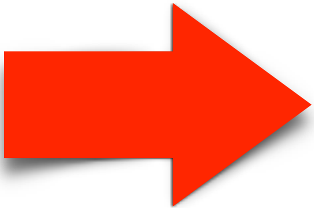

Consumption
C= 500 + 0.9Y
C= 100 + 0.9Y
MPC = 90%
MPC = 90%
500
100
10,000
Real Income
Pessimistic expectations cause the intercept of the consumption function to drop: a shift down

Changes in the value of Wealth

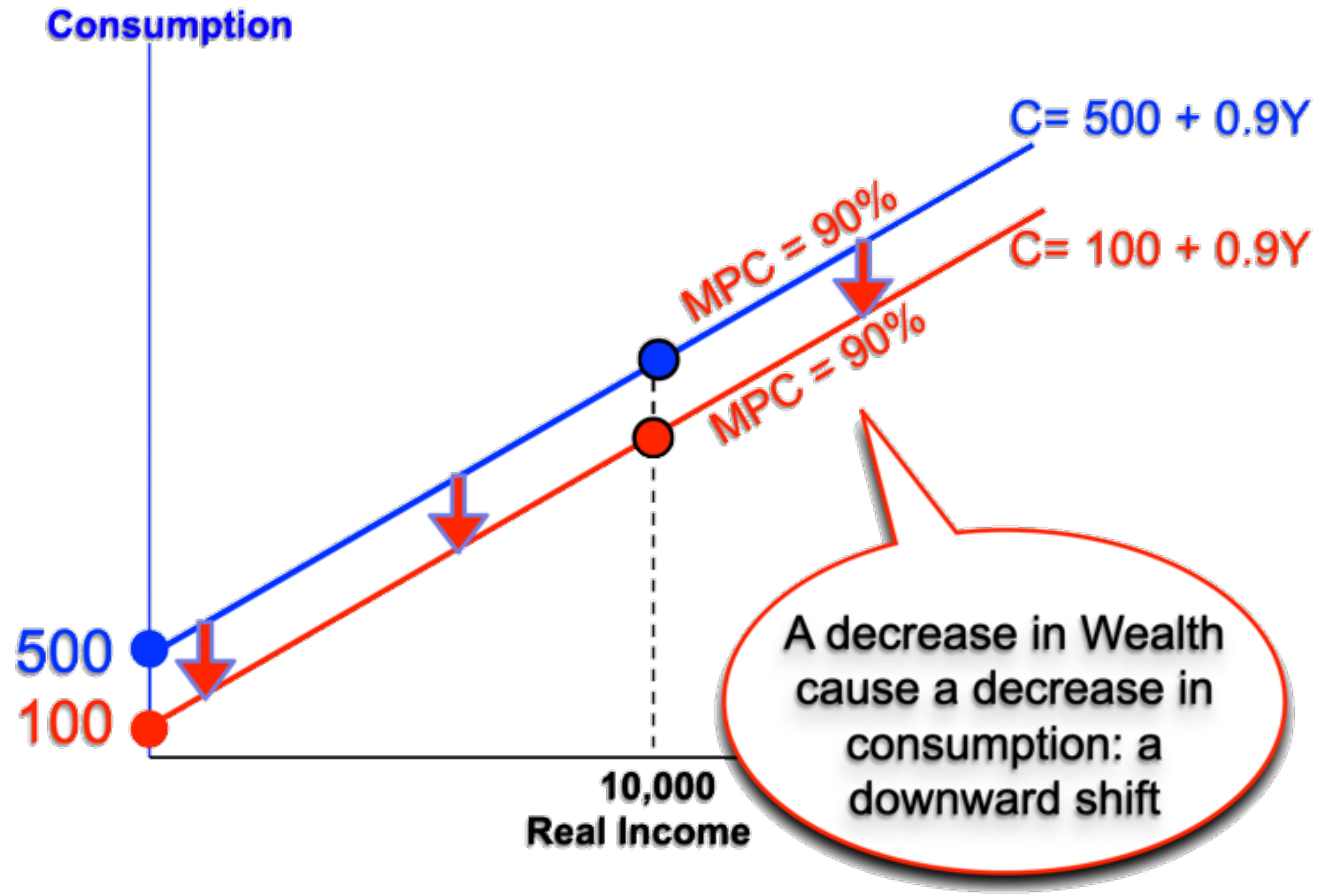
Changes in Expectations


Consumption
C= 500 + 0.9Y
C= 100 + 0.9Y
MPC = 90%
MPC = 90%
500
100
10,000
Real Income
A decrease in Wealth cause a decrease in consumption: a downward shift

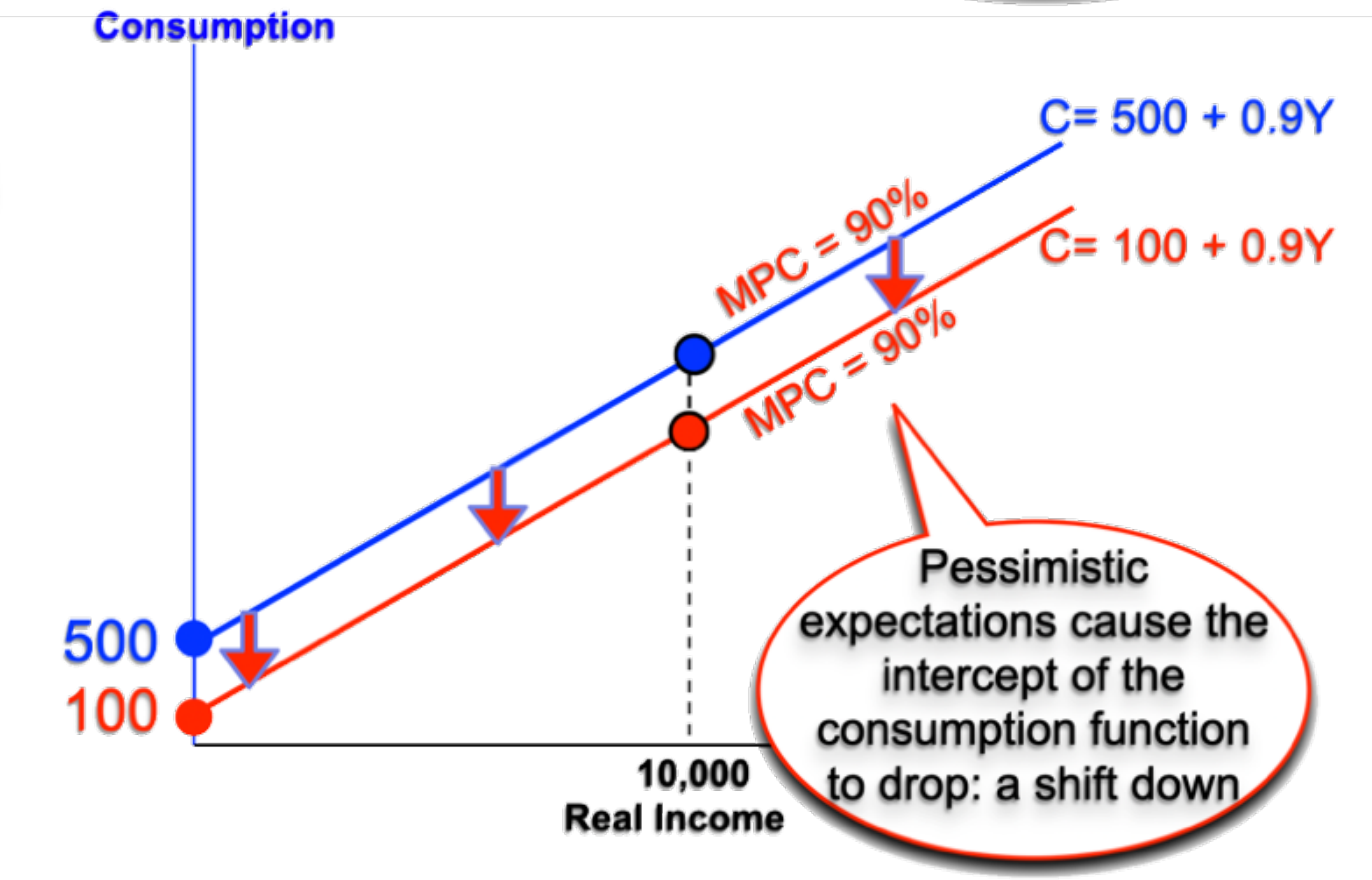




Changes in the value of Wealth



Changes in Expectations



In this exercise, you are given a set of observations collected on consumption expenditures for different income values