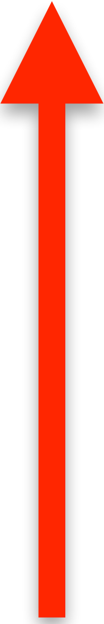
Real Income: Y

Consumption Expenditures

$Y=10{,}000$

$$Y = 20{,}000$$



8,000

9,000

16,000

Claudia's Consumption

Mary's Consumption

Bob's Consumption

18,000

6,000

7,000

8,000

%

O

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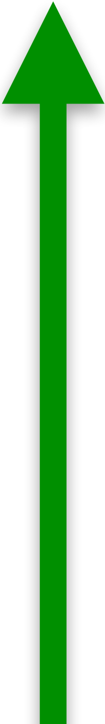

Income increase by: 10,000

%

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m

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:

M

P

C

14,000

10,000

MPC = 60%

M

P

7

0

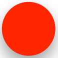
%

MPC = 80%

Claudia spends 60% of the extra income

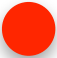
Mary spends 70% of the extra income

Bob spends 80% of the extra income



Increase in Income is the same for all

Consumers react differently to changes in income



Consumption Expenditures

MPC =

$$\frac{\Delta C}{\Delta Y}$$

%

O

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i

n

C

O

m

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$$MPS = \frac{\Delta S}{\Delta Y}$$

60%


70%

↑ 80%

Claudia saves 40% of the extra income


Mary saves 30% of the extra income

Bob saves 20% of the extra income

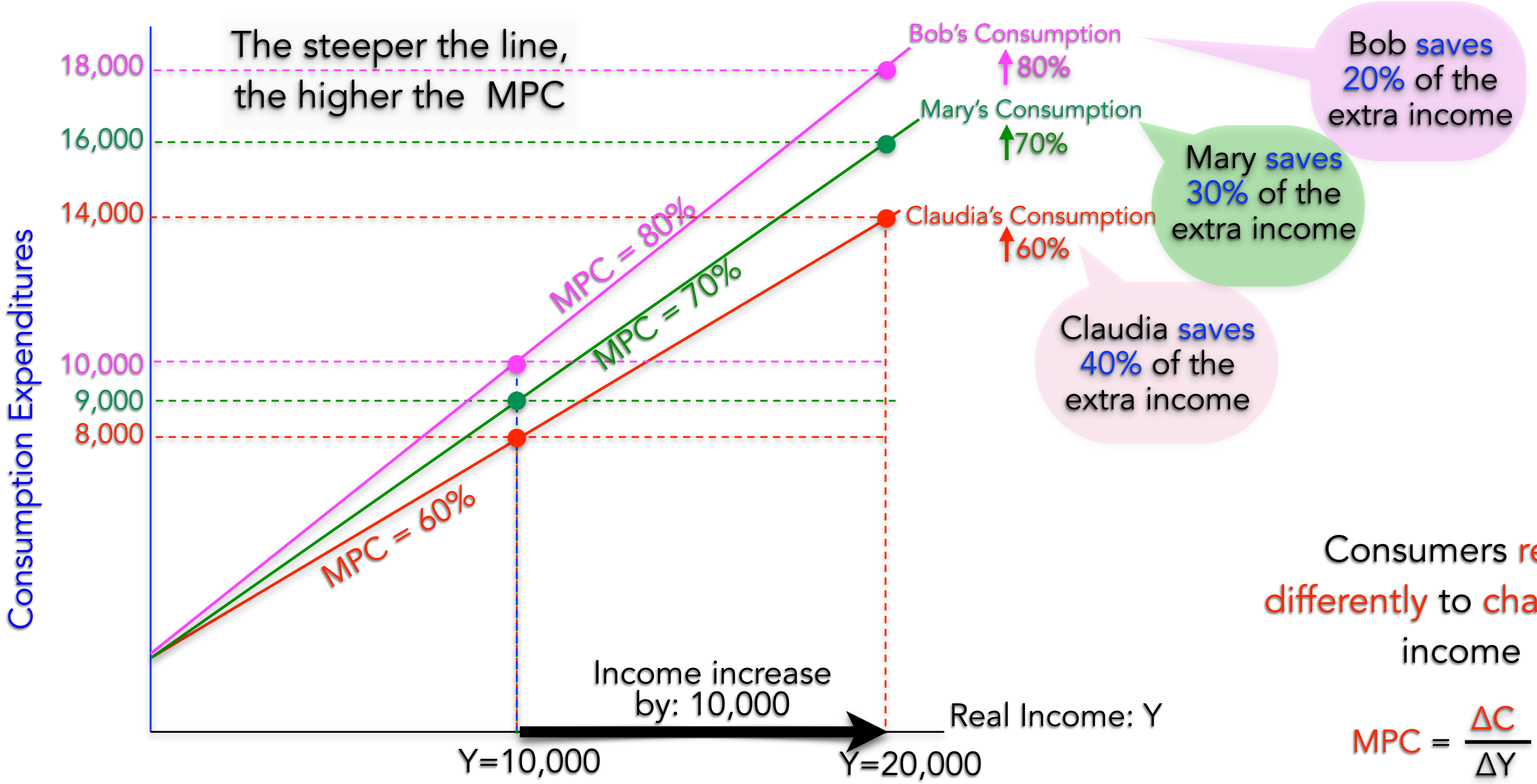
The steeper the line, the higher the MPC

% of the extra income spent is different

% of the extra income spent is called the Marginal Propensity to Consume: MPC

MPC = 70%

% of the extra income saved is called the Marginal Propensity to Save: MPS



Consumers react differently to changes in income

$$MPC = \frac{\Delta C}{\Delta Y}$$

$$MPS = \frac{\Delta S}{\Delta Y}$$

% of the extra income spent is called the Marginal Propensity to Consume: MPC

% of the extra income saved is called the Marginal Propensity to Save: MPS

What determines consumer spending?