Day-25

→ Consumption theory:

Basic assumption → whatever is not consumed is saved.

→ Some amount of inflation required for economic growth

→ The GDP aspired keeps on changing with time due to factors like new technology, fresh graduates, etc.

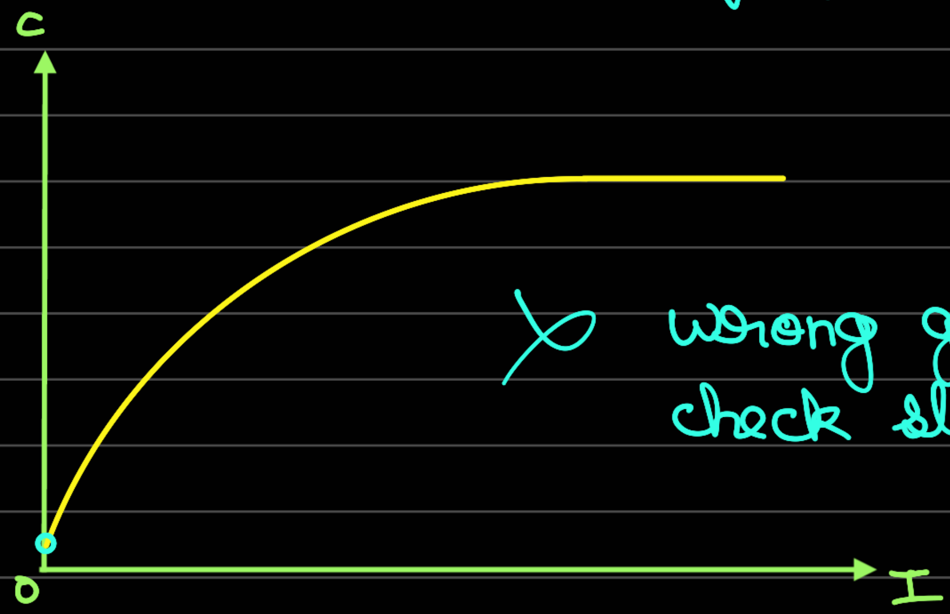
→ GDP growing indefinitely exhausts resources

→ If GDP reaches a maximum, after that it starts reducing (accelerator principle) due to fall in amount of resources and increases in consumption and reduction in investm--ents.

→ If income increases, consumption on basic necessities (eg: food) will increase initially. It may reduce or remain constant after that.

→ Savings is the greatest luxury.

→ Income vs consumption graph-

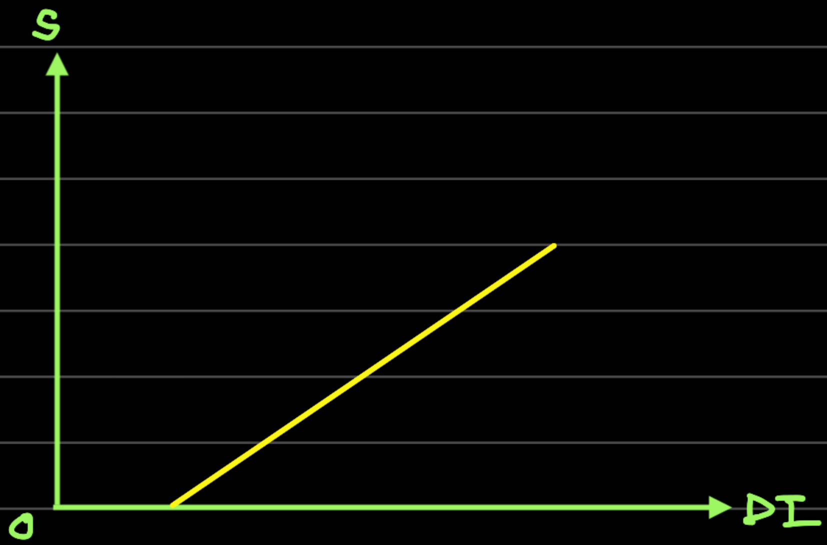


✗ wrong graph, check slides.

→ zero savings – Breakeven point.

→ Economic axes is different from mathematical axes.

→ Plot S vs DI –



$$C = \alpha + \beta \, DI \qquad (\alpha, \beta > 0)$$

$$S = DI - C = (1-\beta)DI - \alpha$$

The graph above is for $0 < \beta < 1$