Day - 26

→ Savings function cannot intersect y-axis, -ve savings is not economically possible.

→ $\frac{dC}{dDI}$: marginal propensity to consume. = MPC

→ $0 < MPC < 1$

Derivation: $S + C = DI$

$$\Rightarrow \frac{dS}{dDI} + \frac{dC}{dDI} = 1$$

$$\Rightarrow MPS + MPC = 1$$

→

DI	MPS	MPC
Low	Low	High
High	High	low

⟶ Simplified model

→ Assuming Household can only consume or save

→ $MPC > 1$ ⟶ Imports (on macro level), Borrowing loan (micro level)

→ $MPC \nless 0$

→ $MPC + MPS > 1$ ⇒ consumption is driven by borrowing.

→ $MPC + MPS < 1$ ⇒ Some amount investment, or repaying loans, financial markets, RnD

→ Permanent income - Accounting for temporary shocks. level of income which households receive after removing or accounting for transient/temporary impacts and influences.

→ Diwali Bonus : Permanent shock (repeated occurrence per year