The Nation’s Marginal Propensity to Consume

The Marginal Propensity to Consume Remains Constant

The Consumption Function

The Consumption Equation?

C = a + bY

What is Saving?

That part of national income not spent on consumption

If, Y = C + S

then, S = Y – C

<table>
<thead>
<tr>
<th>Y</th>
<th>C_a</th>
<th>MPC</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>50</td>
<td>0.50</td>
<td>100</td>
</tr>
<tr>
<td>200</td>
<td>60</td>
<td>0.60</td>
<td>180</td>
</tr>
<tr>
<td>300</td>
<td>70</td>
<td>0.70</td>
<td>280</td>
</tr>
<tr>
<td>400</td>
<td>80</td>
<td>0.80</td>
<td>400</td>
</tr>
<tr>
<td>500</td>
<td>90</td>
<td>0.90</td>
<td>540</td>
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</tbody>
</table>

C = a + bY = 90 + .90 (500) = 540
What is the Marginal Propensity to Save (MPS)?

The Ratio of the change in saving to the change in income, which induced it.

\[ MPS = \frac{\Delta S}{\Delta Y} \]

Let's assume that your income increases by $100. We observe that you increase your consumption by $80. What is your MPC?

\[ MPC = \frac{\Delta C}{\Delta Y} = \frac{60}{100} = 0.60 \]

\[ MPS = \frac{\Delta S}{\Delta Y} = \frac{40}{100} = 0.40 \]

At each Y level, calculate the MPC, MPS and the S.

<table>
<thead>
<tr>
<th>Y</th>
<th>C</th>
<th>MPC</th>
<th>MPS</th>
<th>S</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>60</td>
<td></td>
<td></td>
<td>−60</td>
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<tr>
<td>100</td>
<td>140</td>
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<td>40</td>
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<tr>
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<tr>
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<td>0.80</td>
<td>0.20</td>
<td>0</td>
</tr>
<tr>
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<td>0.20</td>
<td>20</td>
</tr>
<tr>
<td>500</td>
<td>460</td>
<td>0.80</td>
<td>0.20</td>
<td>40</td>
</tr>
</tbody>
</table>

\[ MPC + MPS = 1 \]

\[ MPC = 1 - MPS \]

\[ MPS = 1 - MPC \]

\[ Y = C + S \]
What is Intended Investment?

Investment spending that producers intend to undertake

Why do you say that investment is Autonomous?

Because generally, Investment is considered to be independent of the level of income. When we say that Investment is autonomous, we mean that it is autonomous to income.

What determines Autonomous Investment?

- Level of technology

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- Level of technology
- Interest rate
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- Level of technology
- Interest rate
- Expectations of growth
- Rate of capacity utilization

Why is investment volatile?

Because factors that influence investment sometimes change in unison to create dramatic increases or decreases in investment

The Effect of Changes in the Rate of Interest on the Level of Investment